SIMMONS FIRST NATIONAL CORP
Form 10-K
March 04, 2011

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

FORM 10-K
(Mark One)
T Annual Report Pursuant to Section 13 or 15(d) of the Exchange Act of 1934
For the fiscal year ended: December 31, 2010
or
£ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 0-6253

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

Arkansas	71-0407808
(State or other jurisdiction of 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)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. £ Yes S No

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

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

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

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

Large accelerated filer o Accelerated filer x

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

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

The aggregate market value of the Registrant’s Common Stock, par value $0.01 per share, held by non-affiliates on June 30, 2010, was $414,083,357 based upon the last trade price as reported on the NASDAQ Global Select Market® of $26.26.

The number of shares outstanding of the Registrant's Common Stock as of February 4, 2011, was 17,281,099.

Part III is incorporated by reference from the Registrant's Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 19, 2011.

Introduction

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

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

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

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

PART I

ITEM 1. BUSINESS

Company Overview

Simmons First National Corporation (the "Company) is a multi-bank financial holding company registered under the Bank Holding Company Act of 1956, as amended. The Company is headquartered in Arkansas with total assets of $3.3 billion, loans of $1.7 billion, deposits of $2.6 billion and equity capital of $397 million as of December 31, 2010. We own eight community banks that are strategically located throughout Arkansas and conduct our operations through 89 offices, of which 85 are branches, or "financial centers," located in 47 communities in Arkansas, Missouri and Kansas.

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

Community Bank Strategy

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

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

Growth Strategy

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

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

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

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

On August 26, 2009, we filed a shelf registration statement with the Securities and Exchange Commission ("SEC"). The shelf registration statement will allow us to raise capital from time to time, up to an aggregate of $175 million, through the sale of common stock, preferred stock, or a combination thereof, subject to market conditions. Specific terms and prices will be determined at the time of any offering under a separate prospectus supplement that we will be required to file with the SEC at the time of the specific offering.

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

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

Acquisition Strategy

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

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

With respect to FDIC-assisted transactions:

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

With respect to negotiated community bank acquisitions:

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

Efficiency Initiatives

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

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

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

Subsidiary Banks

Our lead bank, SFNB, is a national bank which has been in operation since 1903. As of December 31, 2010, SFNB had total assets of $1.9 billion, total loans of $1.0 billion and total deposits of $1.5 billion. Simmons First Trust Company N.A., a wholly owned subsidiary of SFNB, performs the trust and fiduciary business operations for SFNB and for us. Simmons First Investment Group, Inc., a wholly owned subsidiary of SFNB, is a broker-dealer registered with the SEC and a member of the Financial Industry Regulatory Authority and performs the broker-dealer operations for SFNB.

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

Subsidiary	Year Acquired	Primary Market	As of December 31, 2010 Assets	Loans (In thousands)	Deposits
Simmons First Bank of Northeast Arkansas	1984	Northeast Arkansas	$ 328,465	$ 262,880	$ 276,912
Simmons First Bank of South Arkansas	1984	Southeast Arkansas	176,642	85,434	150,353
Simmons First Bank of Northwest Arkansas	1995	Northwest Arkansas	269,697	149,575	213,820
Simmons First Bank of Russellville	1997	Russellville, Arkansas	182,434	102,138	129,869
Simmons First Bank of Searcy	1997	Searcy, Arkansas	151,880	105,759	118,985
Simmons First Bank of El Dorado	1999	South central Arkansas	244,342	96,215	207,058
Simmons First Bank of Hot Springs	2004	Hot Springs, Arkansas	168,913	70,820	123,074

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

Loan Risk Assessment

As part of our ongoing risk assessment, the Company has an Asset Quality Review Committee of management that meets quarterly to review the adequacy of the allowance for loan losses. The Committee reviews the status of past due, non-performing and other impaired loans, reserve ratios, and additional performance indicators for all of its subsidiary banks. The allowance for loan losses is determined based upon the aforementioned performance factors, and adjustments are made accordingly. Also, an unallocated reserve is established to compensate for the uncertainty in estimating loan losses, including the possibility of improper risk ratings and specific reserve allocations.

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

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

Competition

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

Principal Offices and Available Information

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

Employees

As of February 4, 2011, the Company and its subsidiaries had approximately 1,108 full time equivalent employees. None of the employees is represented by any union or similar groups, and we have not experienced any labor disputes or strikes arising from any such organized labor groups. We consider our relationship with our employees to be good.

Executive Officers of the Company

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

NAME	AGE	POSITION	YEARS SERVED
J. Thomas May	64	Chairman and Chief Executive Officer	24
David L. Bartlett	59	President and Chief Operating Officer	14
Robert A. Fehlman	46	Executive Vice President and Chief Financial Officer	22
Marty D. Casteel	59	Executive Vice President and Secretary	22
Robert C. Dill	67	Executive Vice President, Marketing	44
David W. Garner	41	Senior Vice President and Controller	13
Kevin J. Archer	47	Senior Vice President/Credit Policy and Risk Assessment	15
Sharon K. Burdine	45	Senior Vice President and Human Resources Director	13
Tina M. Groves	41	Senior Vice President/Manager, Audit/Compliance	5

Board of Directors of the Company

The following is a list of the Board of Directors of the Company as of December 31, 2010, along with their principal occupation.

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

SUPERVISION AND REGULATION

The Company

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

The federal law generally prohibits a bank holding company from directly or indirectly engaging in non-banking activities. This prohibition does not include loan servicing, liquidating activities or other activities so closely related

to banking as to be a proper incident thereto. Bank holding companies, including Simmons First National Corporation, which have elected to qualify as financial holding companies, are authorized to engage in financial activities. Financial activities include any activity that is financial in nature or any activity that is incidental or complimentary to a financial activity.

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

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

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

Subsidiary Banks

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

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

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

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

Potential Enforcement Action for Bank Holding Companies and Banks

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

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

Since 1993, banking organizations (including financial holding companies, bank holding companies and banks) were required to meet a minimum ratio of Total Capital to Total Risk-Weighted Assets of 8%, of which at least 4% must be in the form of Tier 1 Capital. A well-capitalized institution is one that has at least a 10% "total risk-based capital" ratio. For a tabular summary of our risk-weighted capital ratios, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital" and Note 20, Stockholders’ Equity, of the Notes to Consolidated Financial Statements.

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

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

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

Federal Deposit Insurance Corporation Improvement Act

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

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

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

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

FDIC Deposit Insurance Assessments

On October 16, 2008, in response to the problems facing the financial markets and the economy, the FDIC published a restoration plan (“Restoration Plan”) designed to replenish the Deposit Insurance Fund (“DIF”) such that the reserve ratio would return to 1.15 percent within five years. On December 16, 2008, the FDIC adopted a final rule increasing risk-based assessment rates uniformly by seven basis points, on an annual basis, for the first quarter 2009.

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

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

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

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

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

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

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

Temporary Liquidity Guarantee Program

On November 21, 2008, the FDIC Board of Directors adopted a final rule implementing the Temporary Liquidity Guarantee Program ("TLGP"). The TLGP consists of two basic components: a guarantee of newly issued senior unsecured debt of banks, thrifts, and certain holding companies (the debt guarantee program) and full guarantee of non-interest bearing deposit transaction accounts, such as business payroll accounts, regardless of dollar amount (the transaction account guarantee program). The purpose of the guarantee of transaction accounts and the debt guarantee

was to reduce funding costs and allow banks and thrifts to increase lending to consumers and businesses. All insured depository institutions were automatically enrolled in both programs unless they elected to opt out by a specified date. Our subsidiary banks did not elect to opt out and thus participated in both programs.

As originally adopted, the transaction account guarantee program was to terminate on December 31, 2009, although the FDIC subsequently extended the program through December 31, 2010. The Dodd-Frank Act, which was adopted on July 21, 2010, included a provision that effectively replaced the transaction account guarantee program and extended the unlimited FDIC guarantee of noninterest bearing transaction accounts through December 31, 2012 for all insured depository institutions, not just those that elect to participate. Also, the Dodd-Frank Act provision, unlike the transaction account guarantee program, does not include low-interest NOW accounts within the definition of noninterest bearing transaction accounts, and such accounts are therefore not covered by unlimited deposit insurance coverage. A subsequent amendment to the Dodd-Frank Act that became effective on December 31, 2010 extended unlimited deposit insurance coverage for "Interest on Lawyers Trust Accounts" through December 31, 2012.

The debt guarantee program under the TLGP initially permitted participating entities to issue FDIC-guaranteed senior unsecured debt until June 30, 2009, with the FDIC's guarantee for such debt to expire on the earlier of the maturity of the debt (or the conversion date, for mandatory convertible debt) or June 30, 2012. On March 17, 2009, the FDIC extended the debt guarantee portion of the TLGP from June 30, 2009 to October 31, 2009 and imposed a surcharge on debt issued with a maturity of one year or more beginning in the second quarter to gradually phase out the program. There were no further extensions of the debt guarantee program, and the program concluded on October 31, 2009. The FDIC's guarantee of debt issued before that date will expire no later than December 31, 2012.

Dodd-Frank Wall Street Reform and Consumer Protection Act

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

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

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

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

Pending Legislation

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

ITEM 1A. RISK FACTORS

Risks Related to Our Industry

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

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

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

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

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

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

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

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

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

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

Difficult market conditions have adversely affected our industry.

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

Risks Related to Our Business

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

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

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

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

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

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

We have a significant consumer credit card portfolio. Although we experienced a decreased amount of net charge-offs in our credit card portfolio in 2010, the amount of net charge-offs could worsen. While we continue to experience a better performance with respect to net charge-offs than the national average in our credit card portfolio, our net charge-offs were 2.37% of our average outstanding credit card balances for the year ended December 31, 2010, compared to 2.61% of the average outstanding balances for the year ended on December 31, 2009. The current economic downturn could adversely affect consumers in a more delayed fashion compared to commercial businesses in general. Increasing unemployment and diminished asset values may prevent our credit card customers from repaying their credit card balances which could result in an increased amount of our net charge-offs that could have a material adverse effect on our unsecured credit card portfolio.

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

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

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

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

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

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

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

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

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

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

- the inability to obtain all required regulatory approvals;
- the significant costs and potential operating losses associated with establishing a de novo branch or a new bank;
- the inability to secure the services of qualified senior management;

- the local market may not accept the services of a new bank owned and managed by a bank holding company headquartered outside of the market area of the new bank;
- the risk of encountering an economic downturn in the new market;
- the inability to obtain attractive locations within a new market at a reasonable cost; and
- the additional strain on management resources and internal systems and controls.

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

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

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

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

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

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

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

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

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

- faster than anticipated growth;
- reduced earning levels;
- operating losses;
- changes in economic conditions;

- revisions in regulatory requirements; or
- additional acquisition opportunities.

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Owning Our Stock

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

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

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

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

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

If we fail to pay dividends, capital appreciation, if any, of our common stock may be the sole opportunity for gains on an investment in our common stock. In addition, in the event our subsidiary banks become unable to pay dividends to us, we may not be able to service our debt or pay our other obligations or pay dividends on our common stock. Accordingly, our inability to receive dividends from our subsidiary banks could also have a material adverse effect on our business, financial condition and results of operations and the value of your investment in our common stock.

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

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

Anti-takeover provisions could negatively impact our shareholders.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are currently no unresolved Commission staff comments.

ITEM 2. PROPERTIES

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

The Company and its subsidiaries own or lease additional offices throughout the state of Arkansas, Missouri and Kansas. The Company and its eight banks conduct financial operations from 89 offices, of which 85 are financial centers, in 47 communities throughout Arkansas, Missouri and Kansas.

ITEM 3. LEGAL PROCEEDINGS

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

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

Plaintiffs subsequently filed their Notice of Appeal to the appellate court, lodged the transcript with the Arkansas Supreme Court Clerk, and filed their initial Brief. The Company and South Arkansas timely filed their Brief in response. On September 8, 2010, the Arkansas Court of Appeals dismissed the Plaintiffs’ appeal without prejudice, finding that the Trial Court had not entered a final Order, which may allow the Plaintiffs to re-file the appeal at a later date. At this time, no basis for any material liability has been identified.

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

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

PART II

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

Our common stock is listed on the NASDAQ Global Select Market under the symbol "SFNC." Set forth below are the high and low sales prices for our common stock as reported by the NASDAQ Global Select Market for each quarter of the fiscal years ended December 31, 2010 and 2009. Also set forth below are dividends declared per share in each of these periods:

	Price Per Common Share		Quarterly Dividends Per Common Share
	High	Low	
2010			
1st quarter	$ 28.42	$ 24.99	$ 0.19
2nd quarter	29.50	25.46	0.19
3rd quarter	28.99	24.18	0.19
4th quarter	30.13	26.44	0.19
2009			
1st quarter	$ 29.54	$ 20.30	$ 0.19
2nd quarter	30.02	23.90	0.19
3rd quarter	30.84	26.15	0.19
4th quarter	30.00	24.50	0.19

On February 4, 2011, the closing price for our common stock as reported on the NASDAQ was $28.03. As of February 4, 2011, there were 1,310 shareholders of record of our common stock.

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

Our principal source of funds for dividend payments to our stockholders is distributions, including dividends, from our subsidiary banks, which are subject to restrictions tied to such institution's earnings. Under applicable banking laws, the declaration of dividends by SFNB in any year, in excess of its net profits, as defined, for that year, combined with its retained net profits of the preceding two years, must be approved by the Office of the Comptroller of the Currency. Further, as to Simmons First Bank of Northeast Arkansas, Simmons First Bank of El Dorado, Simmons First Bank of Northwest Arkansas, Simmons First Bank of South Arkansas, Simmons First Bank of Hot Springs, Simmons First Bank of Russellville and Simmons First Bank of Searcy, regulators have specified that the maximum dividends state banks may pay to the parent company without prior approval is 75% of the current year earnings plus 75% of the retained net earnings of the preceding year. At December 31, 2010, approximately $17.5 million was available for the payment of dividends by the subsidiary banks without regulatory approval. For further discussion of restrictions on the payment of dividends, see "Quantitative and Qualitative Disclosures About Market Risk – Liquidity and Market Risk Management," and Note 20, Stockholders' Equity, of Notes to Consolidated Financial Statements.

Stock Repurchase

On November 28, 2007, we announced the substantial completion of the existing stock repurchase program and the adoption by the Board of Directors of a new stock repurchase program. The program authorizes the repurchase of up to 700,000 shares of Class A common stock, or approximately 5% of the outstanding common stock. Under the repurchase program, there is no time limit for the stock repurchases, nor is there a minimum number of shares we intend to repurchase. The shares are to be purchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending upon market conditions. We intend to use the repurchased shares to satisfy stock option exercise, payment of future stock dividends and general corporate purposes. We may discontinue purchases at any time that management determines additional purchases are not warranted. As part of our strategic focus on building capital, we suspended our stock repurchase program in July 2008. We made no purchases of our common stock during the three months or year ended December 31, 2010. Because of the recently completed stock offering and based on our strategy to retain capital, we do not anticipate resuming our stock repurchase during 2011.

Performance Graph

The performance graph below compares the cumulative total shareholder return on the Company's Common Stock with the cumulative total return on the equity securities of companies included in the NASDAQ Bank Stock Index and the S&P 500 Stock Index. The graph assumes an investment of $100 on December 31, 2005 and reinvestment of dividends on the date of payment without commissions. The performance graph represents past performance and should not be considered to be an indication of future performance.

	Period Ending					
Index	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
Simmons First National Corporation	100.00	116.03	100.63	114.82	111.48	117.47
NASDAQ Bank Index	100.00	113.82	91.16	71.52	59.87	68.34
S&P 500 Index	100.00	115.79	122.16	76.96	97.33	111.99

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial data concerning the Company and is qualified in its entirety by the detailed information and consolidated financial statements, including notes thereto, included elsewhere in this report. The income statement, balance sheet and per common share data as of and for the years ended December 31, 2010, 2009, 2008, 2007 and 2006, were derived from consolidated financial statements of the Company, which were audited by BKD, LLP. Results from past periods are not necessarily indicative of results that may be expected for any future period.

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

	Years Ended December 31				
(In thousands, except per share & other data)	2010	2009	2008	2007	2006
Income statement data:					
Net interest income	$101,949	$97,727	$94,017	$92,116	$88,804
Provision for loan losses	14,129	10,316	8,646	4,181	3,762
Net interest income after provision for loan losses	87,820	87,411	85,371	87,935	85,042
Non-interest income	77,931	52,711	49,326	46,003	43,947
Non-interest expense	111,320	104,722	96,360	94,197	89,068
Income before taxes	54,431	35,400	38,337	39,741	39,921
Provision for income taxes	17,314	10,190	11,427	12,381	12,440
Net income	$37,117	$25,210	$26,910	$27,360	$27,481
Per share data:					
Basic earnings	2.16	1.75	1.93	1.95	1.93
Diluted earnings	2.15	1.74	1.91	1.92	1.90
Diluted core earnings (non-GAAP) (1)	1.51	1.74	1.73	1.97	1.90
Book value	23.01	21.72	20.69	19.57	18.24
Tangible book value (non-GAAP) (2)	19.36	18.07	16.16	14.97	13.68
Dividends	0.76	0.76	0.76	0.73	0.68
Basic average common shares outstanding	17,204,200	14,375,323	13,945,249	14,043,626	14,226,481
Diluted average common shares outstanding	17,264,900	14,465,718	14,107,943	14,241,182	14,474,812
Balance sheet data at period end:					
Assets	3,316,432	3,093,322	2,923,109	2,692,447	2,651,413
Investment securities	613,662	646,915	646,134	530,930	527,126
Total loans	1,683,464	1,874,989	1,933,074	1,850,454	1,783,495

Allowance for loan losses	26,416		25,016		25,841		25,303		25,385	
Goodwill & other intangible assets	63,068		62,374		63,180		63,987		64,804	
Non interest bearing deposits	428,750		363,154		334,998		310,181		305,327	
Deposits	2,608,769		2,432,172		2,336,333		2,182,857		2,175,531	
Long-term debt	133,394		128,894		127,741		51,355		52,381	
Subordinated debt & trust preferred	30,930		30,930		30,930		30,930		30,930	
Stockholders' equity	397,371		371,247		288,792		272,406		259,016	
Tangible stockholders' equity (non GAAP) (2)	334,303		308,873		225,612		208,419		194,212	
Capital ratios at period end:										
Stockholders' equity to total assets	11.98	%	12.00	%	9.88	%	10.12	%	9.77	%
Tangible common equity to tangible assets (non-GAAP) (3)	10.28	%	10.19	%	7.89	%	7.93	%	7.51	%
Tier 1 leverage ratio	11.33	%	11.64	%	9.15	%	9.06	%	8.83	%
Tier 1 risk-based ratio	20.05	%	17.91	%	13.24	%	12.43	%	12.38	%
Total risk-based capital ratio	21.30	%	19.17	%	14.50	%	13.69	%	13.64	%
Dividend payout	35.35	%	43.68	%	39.79	%	38.02	%	35.79	%

Annualized performance ratios:										
Return on average assets	1.19	%	0.85	%	0.94	%	1.03	%	1.07	%
Return on average equity	9.69	%	8.26	%	9.54	%	10.26	%	10.93	%
Return on average tangible equity (non-GAAP) (2) (4)	11.71	%	10.61	%	12.54	%	13.78	%	15.03	%
Net interest margin (5)	3.78	%	3.78	%	3.75	%	3.96	%	3.96	%
Efficiency ratio (6)	65.28	%	65.69	%	66.84	%	64.94	%	64.81	%
Balance sheet ratios: (7)										
Nonperforming assets as a percentage of period-end assets	1.12	%	1.12	%	0.64	%	0.51	%	0.45	%
Nonperforming loans as a percentage of period-end loans	0.83	%	1.35	%	0.81	%	0.60	%	0.56	%
Nonperforming assets as a percentage of period-end loans & OREO	2.18	%	1.83	%	0.96	%	0.75	%	0.67	%
Allowance/to nonperforming loans	190.17	%	98.81	%	165.12	%	226.10	%	252.46	%
Allowance for loan losses as a percentage of period-end loans	1.57	%	1.33	%	1.34	%	1.37	%	1.42	%
Net (recoveries) charge-offs as a percentage of average loans	0.71	%	0.58	%	0.43	%	0.23	%	0.22	%
Other data										
Number of financial centers	85		84		84		83		81	
Number of full time equivalent employees	1,075		1,091		1,123		1,128		1,134	

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

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

	Years Ended December 31									
(In thousands, except per share & other data)		2010		2009		2008		2007		2006
Stockholders' equity	$	397,371	$	371,247	$	288,792	$	272,406	$	259,016

Less: Intangible assets					
Goodwill	60,605	60,605	60,605	60,605	60,605
Other intangibles	2,463	1,769	2,575	3,382	4,199
Tangible stockholders' equity (non-GAAP)	$ 334,303	$ 308,873	$ 225,612	$ 208,419	$ 194,212
Book value per share	$ 23.01	$ 21.72	$ 20.69	$ 19.57	$ 18.24
Tangible book value per share (non-GAAP)	$ 19.36	$ 18.07	$ 16.16	$ 14.97	$ 13.68
Shares outstanding	17,271,594	17,093,931	13,960,680	13,918,368	14,196,855

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

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

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

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

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

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

Critical Accounting Policies

Overview

As discussed in Note 18, New Accounting Standards, in the accompanying Notes to Consolidated Financial Statements included elsewhere in this report, on July 1, 2009, the Accounting Standards Codification ("ASC") became the Financial Accounting Standards Board's ("FASB") officially recognized source of authoritative U.S. generally accepted accounting principles ("GAAP") for all nongovernmental entities, with the exception of guidance issued by the SEC and its staff. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure. We adopted this accounting standard in preparing the Consolidated Financial Statements beginning with the year ended December 31, 2009.

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

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

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

Allowance for Loan Losses on Loans Not Covered by Loss Share

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

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

possibility of changes in risk ratings and specific reserve allocations in the loan portfolio as a result of our ongoing risk management system.

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

Acquisition Accounting, Covered Loans and Related Indemnification Asset

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

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

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

The shared-loss agreements continue to be measured on the same basis as the related indemnified loans. Because the acquired loans are subject to the accounting prescribed by ASC Topic 310, subsequent changes to the basis of the shared-loss agreements also follow that model.

Deterioration in the credit quality of the loans (immediately recorded as an adjustment to the allowance for loan losses) would immediately increase the basis of the shared-loss agreements, with the offset recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the shared-loss agreements, with such decrease being accreted into income over 1) the same period or 2) the life of the shared-loss agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the shared-loss agreements.

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

Goodwill and Intangible Assets

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

impairment annually, or more frequently if certain conditions occur. Impairment losses on recorded goodwill, if any, will be recorded as operating expenses.

Employee Benefit Plans

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

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

Income Taxes

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

2010 Overview

Our net income for the year ended December 31, 2010, was $37.1 million, a 47.2% increase from net income of $25.2 million in 2009. Net income in 2008 was $26.9 million. Diluted earnings per share increased $0.41, or 23.6%, to $2.15 in 2010 compared to $1.74 in 2009. Diluted earnings per share in 2008 were $1.91.

On October 15, 2010, we announced that our wholly-owned bank subsidiary, Simmons First National Bank ("SFNB" or the "lead bank"), entered into a purchase and assumption agreement with loss share arrangements with the FDIC to purchase substantially all of the assets and to assume substantially all of the deposits and certain other liabilities of Security Savings Bank, FSB ("SSB") in Olathe, Kansas. The Company recognized a pre-tax bargain purchase gain of $18.3 million on this transaction and incurred pre-tax merger related costs of $2.0 million. As part of our acquisition strategy, the investment portfolio was liquidated resulting in a pre-tax gain of $317,000. Additionally, in order to utilize some of the Company's excess liquidity, $58.4 million in FHLB advances were paid off, which resulted in a one-time pre-payment expense of $594,000. After taxes, the combined fourth quarter 2010 nonrecurring items contributed $9.7 million to net income, or $0.56 to diluted earnings per share, for the year ended December 31, 2010.

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

Excluding all nonrecurring items for the year ended December 31, 2010, core earnings were $26.0 million, or $1.51 diluted core earnings per share. See Reconciliation of Non-GAAP Measures and Table 21 – Reconciliation of Core Earnings (non-GAAP) for additional discussion of non-GAAP measures.

Total loans, excluding those covered by FDIC loss share agreements, were $1.7 billion at December 31, 2010, a decrease of 10.2% from the same period in 2009. As expected, we saw a $53.0 million decrease in our Student Loan Portfolio as a result of the decision by the administration and Congress to eliminate the private sector from providing student loans. Our real estate loan portfolio decreased by $102.9 million. Additionally, like the rest of the industry, we continue to experience weak loan demand as a result of the recession. We believe loan demand is likely to remain soft throughout 2011, but we are committed and positioned to meet the borrowing needs of our consumer and business customers.

Although the general state of the national economy remains somewhat unsettled, and despite the challenges in the Northwest Arkansas region, we continue to maintain good asset quality, compared to the industry. The allowance for loan losses as a percent of total loans was 1.57% at December 31, 2010. Non-performing loans equaled 0.83% of total loans, down 52 basis points from 2009. Non-performing assets were 1.12% of total assets, unchanged from 2009. The allowance for loan losses was 190.17% of non-performing loans. The Company's annualized net charge-offs for 2010 were 0.70% of total loans. Excluding credit cards, annualized net charge-offs for 2010 were 0.52% of total loans. Net credit card charge-offs for 2010 were 2.37%, more than 550 basis points below the most recently published credit card charge-off industry average. We do not own any securities backed by subprime mortgage assets and we have no mortgage loan products that target subprime borrowers.

Total assets at December 31, 2010, were $3.3 billion, an increase of $223 million, or 7.21%, over the period ended December 31, 2009. Stockholders' equity as of December 31, 2010, was $397.4 million, an increase of $26.1 million, or approximately 7.04%, from December 31, 2009.

Simmons First National Corporation is an Arkansas based financial holding company with $3.3 billion in assets and eight community banks in Pine Bluff, Lake Village, Jonesboro, Rogers, Searcy, Russellville, El Dorado and Hot Springs, Arkansas. Including one office in Missouri and nine offices in Kansas acquired in 2010 through FDIC-assisted transactions, our eight subsidiary banks conduct financial operations from 89 offices, of which 85 are financial centers, in 47 communities in Arkansas, Missouri and Kansas.

Efficiency Initiatives

We previously reported that we hired a consultant to help us identify and implement revenue enhancements, process improvements and branch staff level adjustments. The identification phase of the project is complete and we have begun to implement the recommendations. We currently estimate a total annual benefit from the efficiency initiative of approximately $5 million before tax. Approximately one-third of the benefit is projected from revenue enhancements with the remainder from non-interest expense savings. We have assured our associates that no one will lose their job as a result of this initiative, as all positions impacted will be eliminated through attrition. Therefore, we will not recognize the full annual benefit immediately. For 2011, we estimate a $1.5 million to $2.0 million improvement compared to 2010 with the remaining benefit to be achieved in 2012 and 2013.

During June 2010, as scheduled as part of our branch right sizing initiative, and after much deliberation and analysis, we closed or consolidated nine financial centers, primarily smaller branches in rural areas. We believe most of the customers have been absorbed into other Simmons locations in close proximity to the closed branches. After the closings, we now have 75 financial centers in Arkansas, still one of the best footprints in the state. As a result of these closings, we recorded a one-time, nonrecurring pre-tax charge of $372,000, or $0.01 to diluted earnings per share in 2010. Again, staff reductions will be realized through attrition and associates at the affected branches will be reassigned to other locations. We project annual non-interest expense savings of approximately $900,000 before tax, and estimate we achieved 40% of that benefit in 2010, beginning in the third quarter. Our branch right sizing initiative has been under way for some time. Over the last several years we have added numerous new financial centers, closed several and relocated others. We will continue our efforts to manage our product delivery system in the most efficient manner possible.

Net Interest Income

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors that determine the level of net interest income include the volume of earning assets and interest bearing liabilities, yields earned and rates paid, the level of non-performing loans and the amount of non-interest bearing liabilities supporting

earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate of 39.225%.

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. Our loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit, began 2007 at 8.25% and decreased 50 basis points in the third quarter and 50 basis points in the fourth quarter to end the year at 7.25%. During 2008, the prime interest rate decreased 200 basis points in the first quarter, 25 basis points in the second quarter and another 175 basis points in the fourth quarter to end the year at 3.25%. The prime interest rate has remained unchanged at 3.25% throughout 2009 and 2010.

The Federal Funds rate, which is the cost to banks of immediately available overnight funds, began 2007 at 5.25%. During 2007, the Federal Funds rate decreased 50 basis points in the third quarter and 50 basis points in the fourth quarter to end the year at 4.25%. During 2008, the Federal Funds rate decreased 200 basis points in the first quarter, 25 basis points in the second quarter and another 175-200 basis points in the fourth quarter to end the year at 0.00% - 0.25%. The Federal Funds rate has remained unchanged throughout 2009 and 2010.

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

For the year ended December 31, 2010, net interest income on a fully taxable equivalent basis was $107.0 million, an increase of $4.3 million, or 4.2%, from the same period in 2009. The increase in net interest income was the result of an $11.8 million decrease in interest expense offset by a $7.5 million decrease in interest income.

The $11.8 million decrease in interest expense for 2010 is primarily the result of a 54 basis point decrease in cost of funds due to competitive repricing during a falling interest rate environment, coupled with a shift in our mix of interest bearing deposits. The lower interest rates accounted for an $11.0 million decrease in interest expense. The most significant component of this decrease was the $7.7 million decrease associated with the repricing of our time deposits that resulted from time deposits that matured during the period or were tied to a rate that fluctuated with changes in market rates. Historically, approximately 80% of our time deposits reprice in one year or less. As a result, the average rate paid on time deposits decreased 85 basis points from 2.43% to 1.58%. Lower rates on interest bearing transaction and savings accounts resulted in an additional $3.7 million decrease in interest expense, with the average rate decreasing by 32 basis points from 0.76% to 0.44%. Although the level of average total interest bearing liabilities increased slightly, interest expense due to volume decreased by $0.8 million as a result of a change in deposit mix (higher costing time deposits declined while lower costing transaction accounts increased) and a reduction in average long-term debt. Also included in 2010 interest expense is a $594,000 one-time pre-payment expense from the pay-off of $58.4 million in FHLB advances related to the SSB FDIC-assisted transaction. As part of our acquisition strategy, we decided to pay-off these advances in order to utilize some of the Company’s excess liquidity.

The $7.5 million decrease in interest income for 2010 is primarily the result of a 47 basis point decrease in yield on earning assets associated with the repricing to a lower interest rate during a low rate environment coupled with a shift in our mix of interest earning assets. The lower interest rates accounted for a $5.4 million decrease in interest income. The most significant component of this decrease was the $4.6 million decrease associated with the repricing of our investment securities portfolio. As a result, the average rate earned on the securities portfolio decreased 69 basis points from 4.11% to 3.42%. Although the level of average interest earning assets increased by $113.4 million, interest income due to volume decreased by $2.1 million as a result of a change in asset mix (higher yielding loans declined while lower yielding balances due from banks increased). The decrease in average loans, net of covered loans, accounted for a $3.1 million decrease in interest income, offset by a $0.8 million increase in interest income from the increase in average investment securities and balances due from banks. The increase in balances due from banks was due to our 2008 and 2009 initiative to increase liquidity, along with our secondary stock offering completed in December 2009 which provided approximately $70.5 million in net proceeds.

Our net interest margin was 3.78% for the year ended December 31, 2010, unchanged from 2009. As discussed above, margin levels for 2010 were negatively impacted from the pre-payment of FHLB advances related to the FDIC-assisted transaction, the decrease in the loan portfolio and a higher level of liquidity than planned. Based on our current interest rate risk pricing model, we anticipate a slight margin expansion in 2011 due to a reduction in our overnight liquidity and the impact of our FDIC-assisted acquisitions.

Our net interest margin increased 3 basis points to 3.78% for the year ended December 31, 2009, when compared to 3.75% for the same period in 2008.

Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the years ended December 31, 2010, 2009 and 2008, respectively, as well as changes in fully taxable equivalent net interest margin for the years 2010 versus 2009 and 2009 versus 2008.

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

	Year Ended December 31		
(In thousands)	2010	2009	2008
Interest income	$ 128,955	$ 136,533	$ 156,141
FTE adjustment	5,012	4,935	4,060
Interest income - FTE	133,967	141,468	160,201
Interest expense	27,006	38,806	62,124
Net interest income - FTE	$ 106,961	$ 102,662	$ 98,077
Yield on earning assets - FTE	4.74 %	5.21 %	6.12 %
Cost of interest bearing liabilities	1.15 %	1.69 %	2.77 %
Net interest spread - FTE	3.59 %	3.52 %	3.35 %
Net interest margin - FTE	3.78 %	3.78 %	3.75 %

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

(In thousands)	2010 vs. 2009	2009 vs. 2008
(Decrease) increase due to change in earning assets	$ (2,062)	$ 5,523
Decrease due to change in earning asset yields	(5,439)	(24,256)
Increase due to change in interest rates paid on interest bearing liabilities	11,013	22,796
Increase due to change in interest bearing liabilities	787	522
Increase in net interest income	$ 4,299	$ 4,585

Table 3 shows, for each major category of earning assets and interest bearing liabilities, the average (computed on a daily basis) amount outstanding, the interest earned or expensed on such amount and the average rate earned or expensed for each of the years in the three-year period ended December 31, 2010. 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

	Years Ended December 31								
	2010			2009			2008		
(In thousands)	Average Balance	Income/ Expense	Yield/ Rate(%)	Average Balance	Income/ Expense	Yield/ Rate(%)	Average Balance	Income/ Expense	Yiel Rat
ASSETS									
Earning Assets									
Interest bearing balances due from banks	$273,001	$721	0.26	$120,763	$439	0.36	$83,547	$1,415	1.69
Federal funds sold	1,686	15	0.89	4,271	27	0.63	34,577	748	2.16
Investment securities - taxable	440,379	8,951	2.03	448,918	13,896	3.10	437,612	21,057	4.81
Investment securities - non-taxable	206,832	13,211	6.39	196,446	12,632	6.43	157,793	10,173	6.45
Mortgage loans held for sale	16,762	715	4.27	12,428	608	4.89	6,909	411	5.95
Assets held in trading accounts	7,278	30	0.41	6,187	20	0.32	5,711	73	1.28
Loans	1,800,868	106,120	5.89	1,924,317	113,846	5.92	1,891,357	126,324	6.68
Covered loans	79,912	4,204	5.26	--	--	--	--	--	--
Total interest earning assets	2,826,718	133,967	4.74	2,713,330	141,468	5.21	2,617,506	160,201	6.12
Non-earning assets	307,143			251,282			250,675		
Total assets	$3,133,861			$2,964,612			$2,868,181		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Liabilities	$1,181,597	$5,227	0.44	$1,091,960	$8,252	0.76	$959,567	$14,924	1.56
Interest bearing liabilities									
Interest bearing transaction									

and savings accounts									
Time deposits	907,146	14,310	1.58	939,358	22,794	2.43	1,021,427	38,226	3.74
Total interest bearing deposits	2,088,743	19,537	0.94	2,031,318	31,046	1.53	1,980,994	53,150	2.68
Federal funds purchased and securities sold under agreement to repurchase	101,918	532	0.52	107,975	769	0.71	113,964	2,110	1.85
Other borrowed funds									
Short-term debt	3,135	58	1.85	2,583	33	1.28	4,333	111	2.56
Long-term debt	147,042	6,879	4.68	160,963	6,958	4.32	146,218	6,753	4.62
Total interest bearing liabilities	2,340,838	27,006	1.15	2,302,839	38,806	1.69	2,245,509	62,124	2.77
Non-interest bearing liabilities									
Non-interest bearing deposits	375,941			332,998			317,772		
Other liabilities	33,941			23,565			22,7 14		
Total liabilities	2,750,720			2,659,402			2,585,995		
Stockholders' equity	383,141			305,210			282,186		
Total liabilities and stockholders' equity	$3,133,861			$2,964,612			$2,868,181		
Net interest spread			3.59			3.52			3.35
Net interest margin		$106,961	3.78		$102,662	3.78		$98,077	3.75

Table 4 shows changes in interest income and interest expense, resulting from changes in volume and changes in interest rates for each of the years ended December 31, 2010 and 2009, as compared to prior years. 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

	Years Ended December 31					
	2010 over 2009			2009 over 2008		
(In thousands, on a fully taxable equivalent basis)	Volume	Yield/ Rate	Total	Volume	Yield/ Rate	Total
Increase (decrease) in						
Interest income						
Interest bearing balances due from banks	$ 429	$ (147)	$ 282	$ 451	$ (1,427)	$ (976)
Federal funds sold	(20)	8	(12)	(399)	(322)	(721)
Investment securities - taxable	(259)	(4,686)	(4,945)	531	(7,692)	(7,161)
Investment securities - non-taxable	664	(85)	579	2,485	(26)	2,459
Mortgage loans held for sale	192	(85)	107	281	(84)	197
Assets held in trading accounts	4	6	10	6	(59)	(53)
Loans	(7,276)	(450)	(7,726)	2,168	(14,646)	(12,478)
Covered loans	4,204	--	4,204	--	--	--
Total	(2,062)	(5,439)	(7,501)	5,523	(24,256)	(18,733)
Interest expense						
Interest bearing transaction and savings accounts	631	(3,656)	(3,025)	1,835	(8,507)	(6,672)
Time deposits	(758)	(7,726)	(8,484)	(2,870)	(12,562)	(15,432)
Federal funds purchased and securities sold under agreements to repurchase	(41)	(196)	(237)	(106)	(1,235)	(1,341)
Other borrowed funds						
Short-term debt	8	17	25	(35)	(43)	(78)
Long-term debt	(627)	548	(79)	654	(449)	205
Total	(787)	(11,013)	(11,800)	(522)	(22,796)	(23,318)

Increase (decrease) in net interest income	$ (1,275)	$ 5,574	$ 4,299	$ 6,045	$ (1,460)	$ 4,585

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

The provision for loan losses for 2010, 2009 and 2008, was $14.1 million, $10.3 million and $8.6 million, respectively. During 2010, we increased our provision by approximately $3.8 million, primarily due to an increase in net loan charge-offs. Management also determined that there are several economic and environmental factors that necessitate the need for a higher level of unallocated reserve, resulting in a higher level of provision. See Allowance for Loan Losses section for additional information.

The $1.7 million provision increase in 2009 was primarily due to increases in net credit card charge-offs, increases in non-performing loans and a continued deterioration of the real estate market in the Northwest Arkansas region.

Non-Interest Income

Total non-interest income was $77.9 million in 2010, compared to $52.7 million in 2009 and $49.3 million in 2008. Non-interest income for 2010 increased $25.2 million, or 47.9%, over 2009, primarily as a result of the $21.3 million gain on the FDIC-assisted transactions. See 2010 Overview section form more discussion of the FDIC-assisted transactions. Non-interest income is principally derived from recurring fee income, which includes service charges, trust fees and credit card fees. Non-interest income also includes income on the sale of mortgage loans, investment banking income, premiums on sale of student loans, income from the increase in cash surrender values of bank owned life insurance and gains (losses) from sales of securities.

Table 5 shows non-interest income for the years ended December 31, 2010, 2009 and 2008, respectively, as well as changes in 2010 from 2009 and in 2009 from 2008.

Table 5: Non-Interest Income

	Years Ended December 31			2010 Change from		2009 Change from	
(In thousands)	2010	2009	2008	2009		2008	
Trust income	$ 5,179	$ 5,227	$ 6,230	$ (48)	-0.92 %	$ (1,003)	-16.10 %
Service charges on deposit accounts	17,700	17,944	15,145	(244)	-1.36	2,799	18.48
Other service charges and fees	2,812	2,668	2,681	144	5.40	(13)	-0.48
Income on sale of mortgage loans, net of commissions	4,810	4,032	2,606	778	19.30	1,426	54.72
Income on investment banking, net of commissions	2,236	2,153	1,025	83	3.86	1,128	110.05
Credit card fees	16,140	14,392	13,579	1,748	12.15	813	5.99
Premiums on sale of student loans	2,524	2,333	1,134	191	8.19	1,199	105.73
Bank owned life insurance income	1,670	1,270	1,547	400	31.50	(277)	-17.91
Gain on mandatory partial redemption of Visa shares	--	--	2,973	--	--	(2,973)	-100.00
Other income	3,229	2,548	2,406	681	26.73	142	5.90
Gain on FDIC-assisted transactions	21,314	--	--	21,314	--	--	--

Gain on sale of securities, net	317	144	--	173	120.14	144	--
Total non-interest income	$ 77,931	$ 52,711	$ 49,326	$ 25,220	47.85 %	$ 3,385	6.86 %

Recurring fee income for 2010 was $41.8 million, an increase of $1.6 million, or 4.0%, when compared with the 2009 amounts. Credit card fees increased $1.8 million, primarily due to a higher volume of credit and debit card transactions, with the credit card volume increase a direct result of the addition of new credit card accounts in 2007 through 2009.

Recurring fee income for 2009 was $40.2 million, an increase of $2.6 million, or 6.9%, when compared with the 2008 amounts. Service charges on deposit accounts increased by $2.8 million, principally due to changes in our fee structure, along with core deposit growth. Credit card fees increased $814, 000, primarily due to a higher volume of credit and debit card transactions. Trust income decreased $1.0 million, primarily due to the sharp decline seen in our money fund shareholder service fees in the corporate trust area as money market rates have gone to near zero. Also, we had some large one-time estate administration fees in 2008 that impacted the decrease in fees in 2009.

Income on sale of mortgage loans increased by $778,000, or 19.3%, in 2010 compared to 2009. The majority of the increase resulted from the sale of mortgage loans in Kansas from our SSB transaction, with the remainder primarily due to lower mortgage rates producing an increase in residential refinancing volume. During 2009, income on sale of mortgage loans increased by $1.4 million, or 54.7%, from 2008. Lower mortgage rates led to a significant increase in residential financing and refinancing volume. Like the rest of the industry, a significant portion of the increase came from refinancing. However, the federal first time buyer program was also a major stimulus for our overall mortgage production in 2009.

Income on investment banking increased only modestly, by 3.9%, in 2010 over 2009. During 2009, income on investment banking increased $1.1 million, or 110%, from 2008, due to additional sales volume driven by the interest rate environment, called securities and customer liquidity.

Premiums on sale of student loans increased by $191,000, or 8.2%, for the year ended December 31, 2010, compared to 2009. The increase was due to a higher volume of loan sales in 2010. U.S. government legislation has eliminated the private sector from providing student loans after the 2009-20 10 school year. During the second and third quarters of 2010, we sold the balance of our loans that were originated for the 2009-2010 school year, approximately $65 million of student loans, to the government, resulting in premiums of approximately $2.5 million.

Premiums on sale of student loans increased by $1.2 million from 2008 to 2009. This fluctuation in income from student loan sales was due to timing of sales and do not reflect historical levels of income. During 2008, the student loan industry began going through major challenges related to secondary market liquidity, leaving the Company with no private market to sell student loans at a premium. In July 2008, the United States Department of Education announced a one-year program to create temporary stability and liquidity in the student loan market. We sold one package of student loans into the government program during the second quarter of 2009, and, during the third quarter of 2009, sold the remaining student loans originated and fully funded during the 2008-2009 school year. The federal government had announced a one-year extension of its program to purchase student loans. Because we had excess liquidity, we were able to continue to fund new loans and hold those loans that normally would have been sold into the secondary market through the 2009-20 10 school year. Those loans were subsequently sold into the government program during the second and third quarters of 2010, as previously mentioned. Under the terms of the government program, the loans were sold at par plus reimbursement of the 1% lender fee and a premium of $75 per loan.

We currently plan to continue servicing the remaining student loans internally until the loans pay off, we find a suitable buyer or the students consolidate their loans. Unless we do find a suitable buyer, we do not expect to receive income from premiums on sale of student loans during 2011 or thereafter. See Loan Portfolio section for additional information on student loans.

During the first quarter of 2008, we recognized a nonrecurring $3.0 million gain from the cash proceeds received on the mandatory partial redemption of our equity interest in Visa, which was the result of Visa's IPO completed in March 2008.

As part of our acquisition strategy related to SSB, we liquidated the acquired investment portfolio, resulting in net realized gain of $317,000 in 2010. We recorded $144,000 of securities gains in 2009 and no gains or losses on sale of securities during 2008.

Non-Interest Expense

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

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

Non-interest expense for 2009 was $104.7 million, an increase of $8.4 million, or 8.7%, from 2008. Included in non-interest expense for 2008 was a $1.2 million nonrecurring item related to the reversal of the Company's portion of Visa's contingent litigation liabilities. We established the liability and recorded a $1.2 million nonrecurring expense item during the fourth quarter of 2007. This liability represented our share of legal judgments and settlements related to Visa's litigation, which was satisfied by the $3 billion escrow account funded by the proceeds from Visa's IPO, which was completed during the quarter ended March 31, 2008. When normalized for the Visa litigation expense reversal, non-interest expense for 2009 increased by 7.3% over 2008.

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

Deposit insurance expense during 2009 increased to $4.6 million from $793,000 in 2008, an increase of $3.8 million, or 485%. The increase in deposit insurance expense was due to increases in the fee assessment rates during 2009, the utilization of available credits to offset assessments during 2008 and a special assessment applied to all insured institutions as of June 30, 2009.

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

In September 2009, the FDIC announced that it would require insured banks to prepay their estimated FDIC assessments for the fourth quarter of 2009 and for the next three years on December 30, 2009. The FDIC also adopted a uniform three basis point increase in assessment rates effective on January 1, 2011. The total amount of our prepaid assessment at December 31, 2009, was approximately $11.2 million.

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

Credit card expense for 2010 increased $788,000, or 15.6%, from 2009, following an increase of $380,000, or 8.1%, in 2009. These increases were primarily due to increased card usage, interchange fees and other related expense resulting from initiatives we have taken to grow our credit card portfolio. See Loan Portfolio section for additional information on our credit card portfolio.

Core deposit premium amortization expense recorded for the years ended December 31, 2010, 2009 and 2008, was $786,000, $805,000 and $807,000, respectively. The Company's estimated amortization expense for each of the following five years is: 2011 – $536,000; 2012 – $469,000; 2013 – $416,000; 2014 – $175,000; and 2015 – $151,000. The estimated amortization expense decreases as core deposit premiums fully amortize in future years.

Table 6 below shows non-interest expense for the years ended December 31, 2010, 2009 and 2008, respectively, as well as changes in 2010 from 2009 and in 2009 from 2008.

Table 6: Non-Interest Expense

(In thousands)	Years Ended December 31 2010	2009	2008	2010 Change from 2009		2009 Change from 2008	
Salaries and employee benefits	$ 60,731	$ 58,317	$ 57,050	$ 2,414	4.14 %	$ 1,267	2.22 %
Occupancy expense, net	7,808	7,457	7,383	351	4.71	74	1.00
Furniture and equipment expense	6,093	6,195	5,967	(102)	-1.65	228	3.82
Other real estate and foreclosure expense	974	453	239	521	115.01	214	89.54
Deposit insurance	3,813	4,642	793	(829)	-17.86	3,849	485.37
Merger related costs	2,611	--	--	2,611	100.00	--	--
Other operating expenses							
Professional services	4,476	3,643	2,824	833	22.87	819	29.00
Postage	2,465	2,409	2,256	56	2.32	153	6.78
Telephone	2,328	2,113	1,868	215	10.18	245	13.12
Credit card expense	5,839	5,051	4,671	788	15.60	380	8.14
Operating supplies	1,403	1,470	1,588	(67)	-4.56	(118)	-7.43
Amortization of core deposits	786	805	807	(19)	-2.36	(2)	-0.25
Visa litigation liability expense	--	--	(1,220)	--	--	1,220	-100.00
Other expense	11,993	12,167	12,134	(174)	-1.43	33	0.27
Total non-interest expense	$ 111,320	$ 104,722	$ 96,360	$ 6,598	6.30 %	$ 8,362	8.68 %

Income Taxes

The provision for income taxes for 2010 was $17.3 million, compared to $10.2 million in 2009 and $11.4 million in 2008. The effective income tax rates for the years ended 2010, 2009 and 2008 were 31.8%, 28.8% and 29.8%, respectively.

Loan Portfolio

Our loan portfolio, excluding loans covered by FDIC loss share arrangements, averaged $1 .801 billion during 2010 and $1 .924 billion during 2009. As of December 31, 2010, total loans, excluding loans covered by FDIC loss share arrangements, were $1 .684 billion, compared to $1 .875 billion on December 31, 2009. The most significant components of the loan portfolio were loans to businesses (commercial loans, commercial real estate loans and agricultural loans) and individuals (consumer loans, credit card loans and single-family residential real estate loans).

We seek to manage our credit risk by diversifying the loan portfolio, determining that borrowers have adequate sources of cash flow for loan repayment without liquidation of collateral, obtaining and monitoring collateral, providing an 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 collectable amount. Loans are regularly reviewed to facilitate the identification and monitoring of deteriorating credits.

Consumer loans consist of credit card loans, student loans and other consumer loans. Consumer loans were $370.2 million at December 31, 2010, or 22.0% of total loans, compared to $443.1 million, or 23.6% of total loans at December 31, 2009. The $72.9 million consumer loan decrease from 2009 to 2010 is primarily due to a $53.0 million decrease in our student loan portfolio, as expected. The balance of our consumer loan portfolio decreased by $19.9 million, with declines in both our direct and indirect lending areas.

The student loan portfolio balance at December 31, 2010 was $61.3 million, a decrease of $53.0 million, or 46.4%, from December 31, 2009. Student loans were 3.6% of total loans at December 31, 2010, compared with 6.1% at December 31, 2009.

The Company has been in the student loan business since 1966, and we believe that the banking industry has been very efficient in serving the students and the schools in Arkansas. However, U.S. government legislation finalized during the first quarter of 2010 has eliminated the private sector from providing student loans after the 2009-20 10 school year. Therefore, as of June 30, 2010, the Company and the banking industry are no longer providers of student loans.

As for our current student loan portfolio, we have sold the loans we originated during the 2009-2010 school year under the program established in 2008 in which the government will purchase the loans at par plus a premium. Sales of these loans during the third quarter of 2010 have left approximately $61.3 million of student loans in our portfolio that will not qualify for the government purchase program. We currently plan to continue servicing the remaining student loans internally until the loans pay off, we find a suitable buyer or the students consolidate their loans.

The significant increase in student loan balances from 2007 to 2008 was due to the lack of a secondary student loan market and our decision to hold loans normally sold in the secondary market until we could sell them at a premium into the government program. See Non-Interest Income section for additional information on student loans.

The credit card portfolio balance at December 31, 2010, increased by $1.2 million, or 0.6%, when compared to the same period in 2009. After several years of significant growth, including a $19.5 million, or 11.5% increase during the previous year, growth in the credit card portfolio stabilized during 2010. For the first time in five years, we did not see a large increase in net new accounts, due primarily to increased competition from the large credit card banks.

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

Real estate loans consist of construction loans, single family residential loans and commercial loans. Real estate loans were $1 .067 billion at December 31, 2010, or 63.4% of total loans, compared to $1 .169 billion, or 62.4% of total loans at December 31, 2009, a decrease of $102.9 million, or 8.8%. Our construction and development ("C&D") loans decreased by $27.0 million, with loans either migrating to our commercial real estate ("CRE") portfolio or being liquidated or refinanced elsewhere. Single family residential loans decreased by $27.8 million and CRE loans decreased by $48.2 million. Considering the continuing challenges in the economy, we believe it is important to note that we have no significant concentrations in our real estate loan portfolio mix. Our C&D loans represent only 9.1% of our loan portfolio and CRE loans (excluding C&D) represent 32.6% of our loan portfolio, both of which compare very favorably to our peers.

Commercial loans consist of commercial loans, agricultural loans and loans to financial institutions. Commercial loans were $236.7 million at December 31, 2010, or 14.1% of total loans, compared to the $257.0 million, or 13.7% of total loans at December 31, 2009. This $20.3 million decrease in commercial loans is primarily due to a decrease in commercial loans and loans to financial institutions.

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

Table 7: Loan Portfolio

(In thousands)	Years Ended December 31 2010	2009	2008	2007	2006
Consumer					
Credit cards	$ 190,329	$ 189,154	$ 169,615	$ 166,044	$ 143,359
Student loans	61,305	114,296	111,584	76,277	84,831
Other consumer	118,581	139,647	138,145	137,624	142,596
Total consumer	370,215	443,097	419,344	379,945	370,786
Real Estate					
Construction	153,772	180,759	224,924	260,924	277,411
Single family residential	364,442	392,208	409,540	382,676	364,450
Other commercial	548,360	596,517	584,843	542,184	512,404
Total real estate	1,066,574	1,169,484	1,219,307	1,185,784	1,154,265
Commercial					
Commercial	150,501	168,206	192,496	193,091	178,028
Agricultural	86,171	84,866	88,233	73,470	62,293
Financial institutions	--	3,885	3,471	7,440	4,766
Total commercial	236,672	256,957	284,200	274,001	245,087
Other	10,003	5,451	10,223	10,724	13,357
Total loans	$ 1,683,464	$ 1,874,989	$ 1,933,074	$ 1,850,454	$ 1,783,495

Table 8 reflects the remaining maturities and interest rate sensitivity of loans, excluding loans covered by FDIC loss share agreements, at December 31, 2010.

Table 8: Maturity and Interest Rate Sensitivity of Loans

(In thousands)	1 year or less	Over 1 year through 5 years	Over 5 years	Total
Consumer	$ 322,161	$ 47,982	$ 72	$ 370,215
Real estate	664,771	370,563	31,240	1,066,574
Commercial	189,402	46,248	1,022	236,672
Other	9,268	521	214	10,003
Total	$ 1,185,602	$ 465,314	$ 32,548	$ 1,683,464
Predetermined rate	$ 590,458	$ 430,775	$ 29,482	$ 1,050,715
Floating rate	595,144	34,539	3,066	632,749
Total	$ 1,185,602	$ 465,314	$ 32,548	$ 1,683,464

Covered Assets

On May 14, 2010, the Company acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of SWCB in an FDIC-assisted transaction that generated a pre-tax bargain-purchase gain of $3.0 million. On October 15, 2010, the Company acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of SSB in an FDIC-assisted transaction that generated a pre-tax bargain-purchase gain of $18.3 million. Loans comprise the majority of the assets acquired and are subject to loss share agreements with the FDIC whereby SFNB is indemnified against 80% of losses. The loans acquired from the former SWCB and the former SSB, as well as the acquired other real estate owned and the related indemnification asset from the FDIC, are presented as covered assets in the accompanying consolidated financial statements.

A summary of the covered assets is as follows.

Table 9: Covered Assets

(In thousands)	December 31, 2010
Loans, net of discount	$ 231,600
Other real estate owned, net of discount	8,717
FDIC indemnification asset	60,235
Total covered assets	$ 300,552

We evaluated loans purchased in conjunction with the acquisitions of SWCB and SSB for impairment in accordance with the provisions of ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. Purchased covered 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. All loans acquired in these two transactions were deemed to be covered impaired loans. These loans were not classified as nonperforming assets at December 31, 2010, as the loans are accounted for on a pooled basis and the pools are considered to be performing. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased impaired loans.

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. The subsidiary banks recognize 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.

Historically, we have sold our student loans into the secondary market before they reached payout status, thus requiring no servicing by the Company. Currently, with the banking industry no longer able to access the secondary market, and because the temporary federal government program only purchases student loans originated in the current year, we are required to service loans that have converted to a payout basis. Student loans are classified as impaired when payment of interest or principal is 90 days past due. Approximately $1.7 million of government guaranteed student loans were over 90 days past due as of December 31, 2010. Under existing rules, when these loans exceed 270

days past due, the Department of Education will purchase them at 97% of principal and accrued interest. Although these student loans remain guaranteed by the federal government, because they are over 90 days past due they are included in our non-performing assets.

Foreclosed assets held for sale, excluding other real estate covered by FDIC loss share agreements, increased by $14.0 million from December 31, 2009, to December 31, 2010, as we continue to aggressively manage our non-performing assets. The majority of the increase was attributable to our acceptance of a deed in lieu of foreclosure for an $8.1 million motel loan in the Northwest Arkansas region, previously in nonaccrual status. We recorded the property at $6.7 million, with the difference charged-off through our allowance for loan losses. This transaction is also the primary reason our nonaccrual loans decreased by $10.9 million from the previous year. Total non-performing assets increased $2.7 million from December 31, 2009. We remain aggressive in the identification, quantification and resolution of problem loans.

Foreclosed assets held for sale increased during 2009 by a net $6.2 million as we received title to collateral securing approximately $10.3 million for loans previously classified as nonaccrual, offset by proceeds from the sales of such properties of approximately $4.1 million.. The increase in nonaccrual loans during 2009 is primarily attributable to the downgrade and subsequent nonaccrual status of the previously mentioned motel loan.

Approximately $9.4 million of the foreclosed assets held for sale as of December 31, 2010, are related to C&D projects in the Northwest Arkansas region. These were primarily residential real estate development ventures and associated businesses.

Given current economic conditions, 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 ("TDR") 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 3 10-10-35, 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 one year after the year in which the restructuring takes place. The Company had TDRs totaling $21.6 million and $20.9 million at December 31, 2010, and December 31, 2009, respectively. The majority of performing and non-performing TDRs are in our CRE portfolio.

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.

Although the general state of the national economy remains volatile, and despite the challenges in housing and commercial real estate markets, we continue to maintain good asset quality, compared to the industry. The allowance for loan losses as a percent of total loans was 1.58% as of December 31, 2010. Non-performing loans equaled 0.83% of total loans. Non-performing assets were 1.12% of total assets. The allowance for loan losses was 190% of non-performing loans. Our net charge-offs to total loans for 2010 were 0.71%. Excluding credit cards, the net charge-offs to total loans were 0.52%. Net credit card charge-offs to total credit card loans for 2010 were 2.37%, compared to 2.41% in 2009, and more than 750 basis points better than the industry average charge-off ratio as reported by Moody's Investors Service for the same period.

The Company does not own any securities backed by subprime mortgage assets, and offers no mortgage loan products that target subprime borrowers.

Table 10 presents information concerning non-performing assets, including nonaccrual and restructured loans and other real estate owned (excluding loans and other real estate covered by FDIC loss share agreements).

Table 10: Non-performing Assets

	Years Ended December 31				
(In thousands, except ratios)	2010	2009	2008	2007	2006
Nonaccrual loans (1)	$ 11,186	$ 21,994	$ 14,358	$ 9,909	$ 8,958
Loans past due 90 days or more					
(principal or interest payments):					
Government guaranteed student loans (2)	1,736	1,939	--	--	--
Other loans	969	1,383	1,292	1,282	1,097
Total loans past due 90 days or more	2,705	3,322	1,292	1,282	1,097
Total non-performing loans	13,891	25,316	15,650	11,191	10,055
Other non-performing assets:					
Foreclosed assets held for sale	23,204	9,179	2,995	2,629	1,940
Other non-performing assets	109	20	12	17	52
Total other non-performing assets	23,313	9,199	3,007	2,646	1,992
Total non-performing assets	$ 37,204	$ 34,515	$ 18,657	$ 13,837	$ 12,047
Performing TDRs	$ 19,426	$ 12,718	$ --	$ --	$ --
Allowance for loan losses to non-performing loans (3)	190.17 %	98.81 %	165.12 %	226.10 %	252.46 %
Non-performing loans to total loans (3)	0.83	1.35	0.81	0.60	0.56
Non-performing loans to total loans (excluding government guaranteed student loans) (2) (3)	0.72	1.25	0.81	0.60	0.56
Non-performing assets to total assets (3)	1.12	1.12	0.64	0.51	0.45
Non-performing assets to total assets (excluding government guaranteed student loans) (2) (3)	1.07	1.05	0.64	0.51	0.45

(1) Includes nonaccrual TDRs of approximately $2.1 million at December 31, 2010, and $8.2 million at December 31, 2009.
(2) Student loans past due 90 days or more are included in non-performing loans. Student loans are guaranteed by the federal government 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 assets covered by FDIC loss share agreements, except for their inclusion in total assets.

There was no interest income on the nonaccrual loans recorded for the years ended December 31, 2010, 2009 and

2008.

At December 31, 2010, impaired loans, net of government guarantees, excluding loans covered by FDIC loss share agreements, were $50.6 million compared to $46.9 million at December 31, 2009. Impaired loans at December 31, 2010, include $1.7 million of government guaranteed student loans. During 2010, some large commercial real estate loan relationships in the Northwest Arkansas region were downgraded and considered impaired. However, individual impairment testing on these loans, based on current appraisals, revealed the need for specific reserves that were actually smaller for these relationships than had previously been applied based on our model. 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 Company maintains an allowance for loan losses. This allowance is created through charges to income and maintained at a sufficient level to absorb expected losses in our loan portfolio. The allowance for loan losses is determined monthly based on management's assessment of several factors such as (1) historical loss experience based on volumes and types, (2) reviews or evaluations of the loan portfolio and allowance for loan losses, (3) trends in volume, maturity and composition, (4) off balance sheet credit risk, (5) volume and trends in delinquencies and non-accruals, (6) lending policies and procedures including those for loan losses, collections and recoveries, (7) national, state and local economic trends and conditions, (8) concentrations of credit that might affect loss experience across one or more components of the loan portfolio, (9) the experience, ability and depth of lending management and staff and (10) other factors and trends that will affect specific loans and categories of loans.

As we evaluate the allowance for loan losses, it is categorized as follows: (1) specific allocations, (2) allocations for classified assets with no specific allocation, (3) general allocations for each major loan category and (4) unallocated portion.

Specific Allocations

Specific allocations are made when factors are present requiring a greater reserve than would be required when using the assigned risk rating allocation. As a general rule, if a specific allocation is warranted, it is the result of an analysis of a previously classified credit or relationship. Our evaluation process in specific allocations includes a review of appraisals or other collateral analysis. These values are compared to the remaining outstanding principal balance. If a loss is determined to be reasonably possible, the possible loss is identified as a specific allocation. If the loan is not collateral dependent, the measurement of loss is based on the expected future cash flows of the loan.

Allocations for Classified Assets with No Specific Allocation

We establish allocations for loans rated "watch" through "doubtful" based upon analysis of historical loss experience by category. A percentage rate is applied to each of these loan categories to determine the level of dollar allocation. During the second quarter of 2009, we made adjustments to our methodology in the evaluation of the collectability of loans, which added quantitative factors to the internal and external influences used in determining the credit quality of loans and the allocation of the allowance. This adjustment in methodology resulted in an addition to impaired loans from classified loans and a redistribution of allocated and unallocated reserves.

It is likely that the methodology will continue to evolve over time. Allocated reserves are presented in table 12 below detailing the components of the allowance for loan losses.

General Allocations

We establish general allocations for each major loan category. This section 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 allocations in this section are based on an analysis of historical losses for each loan category. We give consideration to trends, changes in loan mix, delinquencies, prior losses and other related information.

Unallocated Portion

Allowance allocations other than specific, classified and general are included in the unallocated portion. While allocations are made for loans based upon historical loss analysis, the unallocated portion is designed to cover the uncertainty of how current economic conditions and other uncertainties may impact the existing loan portfolio. Factors to consider include national and state economic conditions such as increases in unemployment, the recent real estate lending crisis, the volatility in the stock market and the unknown impact of the various government stimulus programs. Various Federal Reserve articles and reports indicate the economy is in a moderate recovery, but questions remain about the durability of growth and whether it can be sustained by private demand as the impetus from the federal fiscal stimulus fades later this year. While the recession may be over, production, income, sales and employment are at very low levels. With moderate economic growth, it is possible the recovery could take years. The unemployment rate seems likely to remain elevated for several years. The unallocated reserve addresses inherent probable losses not included elsewhere in the allowance for loan losses. While calculating allocated reserve, the unallocated reserve supports uncertainties within the loan portfolio.

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 for the last five years is shown in table 11.

Table 11: Allowance for Loan Losses

(In thousands)	2010	2009	2008	2007	2006
Balance, beginning of year	$25,016	$25,841	$25,303	$25,385	$26,923
Loans charged off					
Credit card	5,321	5,336	3,760	2,663	2,454
Other consumer	2,471	2,758	2,105	1,538	1,242
Real estate	9,564	4,814	2,987	1,916	1,868
Commercial	1,246	1,920	1,394	715	1,317
Total loans charged off	18,602	14,828	10,246	6,832	6,881
Recoveries of loans previously charged off					
Credit card	1,035	920	883	1,024	1,040
Other consumer	884	673	519	483	629
Real estate	3,657	1,393	207	648	901
Commercial	297	701	529	414	536
Total recoveries	5,873	3,687	2,138	2,569	3,106
Net loans charged off	12,729	11,141	8,108	4,263	3,775
Reclass to reserve for unfunded commitments (1)	--	--	--	--	(1,525)
Provision for loan losses	14,129	10,316	8,646	4,181	3,762
Balance, end of year	$26,416	$25,016	$25,841	$25,303	$25,385
Net charge-offs to average loans (2)	0.71 %	0.58 %	0.43 %	0.23 %	0.22 %
Allowance for loan losses to period-end loans (2)	1.57 %	1.33 %	1.34 %	1.37 %	1.42 %
Allowance for loan losses to net charge-offs (2)	207.53 %	224.54 %	318.71 %	593.55 %	672.45 %

(1) On March 31, 2006, the reserve for unfunded commitments was reclassified from the allowance for loan losses to other liabilities.
(2) Excludes loans covered by FDIC loss share agreements.

Provision for Loan Losses

The amount of provision to the allowance each year 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 at least a quarterly basis, but generally on a monthly basis, and after considering the factors previously noted, to determine the level of provision made to the allowance.

Allocated Allowance for Loan Losses

We utilize a consistent methodology in the calculation and application of the allowance for loan losses. Because there are portions of the portfolio that have not matured to the degree necessary to obtain reliable loss statistics from which to calculate estimated losses, the unallocated portion of the allowance is an integral component of the total allowance. Although unassigned to a particular credit relationship or product segment, this portion of the allowance is vital to safeguard against the uncertainty and imprecision inherent when estimating credit losses, especially when trying to determine the impact the current and unprecedented economic crisis will have on the existing loan portfolios.

Accordingly, several factors in the national economy, including the increase of unemployment rates, the continuing credit crisis, the mortgage crisis, the uncertainty in the residential and commercial real estate markets and other loan sectors which may be exhibiting weaknesses and the unknown impact of various current and future federal government economic stimulus programs influence our determination of the size of unallocated reserves.

As of December 31, 2010, the allowance for loan losses reflects an increase of approximately $1.4 million from December 31, 2009. During 2010, management determined that there are several economic and environmental factors that necessitate the need for a higher level of unallocated reserve. Due to these factors, along with an increase in net loan charge-offs, we increased our provision by approximately $3.8 million over 2009, resulting in the higher level of allowance at December 31, 2010.

In late 2006, the economy in Northwest Arkansas, particularly in the residential real estate market, started showing signs of deterioration which caused concerns over the full recoverability of this portion of our loan portfolio. We continued to monitor the Northwest Arkansas economy and, beginning in the third quarter of 2007, specific credit relationships deteriorated to a level requiring increased general and specific reserves. These credit relationships continued to deteriorate, and others were identified, prompting special loan loss provisions each quarter, beginning with the second quarter of 2008, resulting in an increase to the allowance allocation for real estate loans through December 31, 2008.

As the economic downturn continued through 2009, additional problem loans were identified and specific allocations were applied, resulting in a significant decrease in the unallocated portion of the allowance for loan losses. Although several non-performing loans with large specific allocations were charged off during 2009, the identification of other non-performing loans with specific allocations late in 2009 resulted in a relatively small decrease in the total allocation to real estate loans as of December 31, 2009. During 2010, we moved some significant credits from non-performing loans to foreclosed assets held for sale, resulting in a lower allocation in the real estate portfolio. However, the real estate related portfolios could still be adversely impacted by the overall economic downturn and the regional market saturation in Northwest Arkansas.

Our allocation of the allowance for loan losses to credit card loans decreased by approximately $0.3 million from December 31, 2009, to December 31, 2010, while credit card loan balances increased by $1.2 million during the period. Annualized net credit card charge-offs to credit card loans decreased from 2.41% at December 31, 2009, to 2.14% at December 31, 2010. Although we continue to have minimal credit card losses compared to the industry, credit card loans are unsecure loans. The current economic downturn could adversely affect consumers in a more delayed fashion compared to commercial business in general. Increasing unemployment an diminished asset values could prevent our credit card customers from repaying their credit card balances which could result in an increased amount of our net charge-offs that could have a significant adverse effect on our unsecured credit card portfolio.

The unallocated allowance for loan losses is based on our concerns over the uncertainty of the national economy and the economy in Arkansas, Missouri and Kansas. The impact of market pricing in the poultry, timber and catfish industries in Arkansas remains uncertain. We are also cautious regarding the continued softening of the real estate

market, specifically in the Northwest Arkansas region. The housing industry remains one of the weakest links for economic recovery. Although Arkansas's unemployment rate is lagging behind the national average, it has continued to rise. We actively monitor the status of these industries and economic factors as they relate to our loan portfolio and make changes to the allowance for loan losses as necessary. Based on our analysis of loans and external uncertainties, we believe the allowance for loan losses is adequate for the year ended December 31, 2010.

We allocate the allowance for loan losses according to the amount deemed to be reasonably necessary to provide for losses incurred within the categories of loans set forth in table 12.

Table 12: Allocation of Allowance for Loan Losses

	December 31									
	2010		2009		2008		2007		2006	
(In thousands)	Allowance Amount	% of loans (1)	Allowance Amount	% of loans (1)	Allowance Amount	% of loans (1)	Allowance Amount	% of loans (1)	Allowance Amount	% of loans (1)
Credit cards	$ 5,549	11.3 %	$ 5,808	10.1 %	$ 3,957	8.8 %	$ 3,841	9.0 %	$ 3,702	8.0 %
Other consumer	1,703	10.7 %	1,719	13.5 %	1,325	12.9 %	1,501	11.5 %	1,402	12.8 %
Real estate	9,692	63.4 %	11,164	62.4 %	11,695	63.1 %	10,157	64.1 %	9,835	64.7 %
Commercial	2,277	14.1 %	2,451	13.7 %	2,255	14.7 %	2,528	14.8 %	2,856	13.7 %
Other	255	0.5 %	161	0.3 %	209	0.5 %	187	0.6 %	--	0.8 %
Unallocated	6,940		3,713		6,400		7,089		7,590	
Total	$ 26,416	100.0 %	$ 25,016	100.0 %	$ 25,841	100.0 %	$ 25,303	100.00 %	$ 25,385	100.0 %

(1) Percentage of loans in each category to total loans not covered by FDIC loss share.

Investments and Securities

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as either held-to-maturity, available-for-sale or trading.

Held-to-maturity securities, which include any security for which management has the positive intent and ability to hold until maturity, are carried at historical cost, adjusted for amortization of premiums and accretion of discounts. Premiums and discounts are amortized and accreted, respectively, to interest income using the constant yield method over the period to maturity. Interest and dividends on investments in debt and equity securities are included in income when earned.

Available-for-sale securities, which include any security for which management has no immediate plans to sell, but which may be sold in the future, are carried at fair value. Realized gains and losses, based on amortized cost of the specific security, are included in other income. Unrealized gains and losses are recorded, net of related income tax effects, in stockholders' equity. Premiums and discounts are amortized and accreted, respectively, to interest income, using the constant yield method over the period to maturity. Interest and dividends on investments in debt and equity securities are included in income when earned.

Our philosophy regarding investments is conservative based on investment type and maturity. Investments in the portfolio primarily include U.S. Treasury securities, U.S. Government agencies, mortgage-backed securities and municipal securities. Our general policy is not to invest in derivative type investments or high-risk securities, except for collateralized mortgage-backed securities for which collection of principal and interest is not subordinated to significant superior rights held by others.

Held-to-maturity and available-for-sale investment securities were $465.2 million and $148.5 million, respectively, at December 31, 2010, compared to the held-to-maturity amount of $464.1 million and available-for-sale amount of $182.9 million at December 31, 2009. During 2009, we made a decision to change our portfolio targets from 75% available-for-sale to 25% available-for-sale. We chose this strategy due to our level of pledging and our history of holding securities to maturity.

As of December 31, 2010, $253.8 million, or 54.6%, of the held-to-maturity securities were invested in U.S. Treasury securities and obligations of U.S. government agencies, 87.3% of which will mature in less than five years. In the available-for-sale securities, $125.5 million, or 84.5%, were in U.S. Treasury and U.S. government agency securities, 67.4% of which will mature in less than five years.

In order to reduce our income tax burden, an additional $210.3 million, or 45.2%, of the held-to-maturity securities portfolio, as of December 31, 2010, was invested in tax-exempt obligations of state and political subdivisions. In the available-for-sale securities, there was none invested in tax-exempt obligations of state and political subdivisions. Most of the state and political subdivision debt obligations are non-rated bonds and represent relatively small, Arkansas issues, which are evaluated on an ongoing basis. There are no securities of any one state or political subdivision issuer exceeding ten percent of our stockholders' equity at December 31, 2010.

We have approximately $78,000 in mortgaged-backed securities in the held-to-maturity portfolio at December 31, 2010. In the available-for-sale securities, approximately $2.8 million, or 1.9% were invested in mortgaged-backed securities. Securities with limited marketability, such as stock in the Federal Reserve Bank and the Federal Home Loan Bank, are carried at cost and are reported as other available for sale securities.

As of December 31, 2010, the held-to-maturity investment portfolio had gross unrealized gains of $4.1 million and gross unrealized losses of $2.4 million.

We had gross realized gains of $467,000 and gross realized losses of $150,000 during the year ended December 31, 2010, from the sale and/or calls securities. As part of our acquisition strategy related to SSB, we liquidated the acquired investment portfolio, resulting in net realized gain of $317,000 in 2010. We had gross realized gains of $144,000 and no realized losses during 2009 from the sales and/or calls of securities and no gross realized gains or losses during 2008.

Trading securities, which include any security held primarily for near-term sale, are carried at fair value. Gains and losses on trading securities are included in other income. Our trading account is established and maintained for the benefit of investment banking. The trading account is typically used to provide inventory for resale and is not used to take advantage of short-term price movements.

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.

During the third quarter of 2008, we determined that our investment in FNMA common stock, held in the available-for-sale other securities category, had become other-than-temporarily impaired. As a result of this impairment the security was written down by $75,000. We had accumulated this stock over several years in the form of stock dividends from FNMA. The remaining balance of this investment is approximately $5,000. We have no investment in FNMA or FHLMC preferred stock.

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time we expect to receive full value for the securities. Furthermore, as of December 31, 2010, 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 December 31, 2010, management believes the impairments detailed in the table below are temporary.

Table 13 presents the carrying value and fair value of investment securities for each of the years indicated.

Table 13: Investment Securities

	Years Ended December 31							
	2010				2009			
(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. Treasury	$4,000	$ 28	$ --	$4,028	$--	$ --	$ --	$ -
U.S. Government agencies	249,844	1,764						