SIMMONS FIRST NATIONAL CORP
Form 10-K
February 26, 2009
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, 2008

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

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

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

Common Stock, $0.01 par value (Title of each class)	The Nasdaq Stock Market® (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. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):
o Large accelerated filer x Accelerated filer o Non-accelerated filer

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, 2008, was $350,885,496 based upon the last trade price as reported on the Nasdaq Global Select Market® of $27.97.

The number of shares outstanding of the Registrant's Common Stock as of February 4, 2009 was 13,982,474.

Part III is incorporated by reference from the Registrant's Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 21, 2009.

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 the Company believes will be of interest to investors. The Company hopes investors will find it useful to have all of this information available in a single document.

The Securities and Exchange Commission allows the Company 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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PART I

ITEM 1. BUSINESS

The disclosures set forth in this item are qualified by Item 1A. Risk Factors and the Forward Looking Statements section in Item 5, "Market for Registrant's Common Equity and Related Stockholder Matters" of this report and other cautionary statements set forth elsewhere in this report.

The Company and the Banks

Simmons First National Corporation (the "Company") is a financial holding company registered under the Bank Holding Company Act of 1956. The Gramm-Leach-Bliley-Act ("GLB Act") has substantially increased the financial activities that certain banks, bank holding companies, insurance companies and securities brokerage companies are permitted to undertake. Under the GLB Act, expanded activities in insurance underwriting, insurance sales, securities brokerage and securities underwriting not previously allowed for banks and bank holding companies are now permitted upon satisfaction of certain guidelines concerning management, capitalization and satisfaction of the applicable Community Reinvestment Act guidelines for the banks. Generally these new activities are permitted for bank holding companies whose banking subsidiaries are well managed, well capitalized and have at least a satisfactory rating under the Community Reinvestment Act. A bank holding company must apply to become a financial holding company and the Board of Governors of the Federal Reserve System must approve its application.

The Company's application to become a financial holding company was approved by the Board of Governors on March 13, 2000. The Company has reviewed the new activities permitted under the Act. If the appropriate opportunity presents itself, the Company is interested in expanding into other financial services.

The Company is a publicly traded financial holding company headquartered in Arkansas with consolidated total assets of $2.9 billion, consolidated loans of $1.9 billion, consolidated deposits of $2.3 billion and total equity capital of $289 million as of December 31, 2008. The Company owns eight community banks in Arkansas. The Company and its eight banking subsidiaries conduct their operations through 88 offices, of which 84 are financial centers, located in 47 communities in Arkansas.

Simmons First National Bank (the "Bank") is the Company's lead bank. The Bank is a national bank, which has been in operation since 1903. The Bank's primary market area, with the exception of its nationally provided credit card product, is Central and Western Arkansas. At December 31, 2008 the Bank had total assets of $1.4 billion, total loans of $955 million and total deposits of $1.1 billion. Simmons First Trust Company N.A., a wholly owned subsidiary of the Bank, performs the trust and fiduciary business operations for the Bank as well as the Company. Simmons First Investment Group, Inc. ("SFIG"), a wholly owned subsidiary of the Bank, which is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and a member of the National Association of Securities Dealers ("NASD"), performs the broker-dealer operations of the Bank.

Simmons First Bank of Jonesboro ("Simmons/Jonesboro") is a state bank, which was acquired in 1984. Simmons/Jonesboro's primary market area is Northeast Arkansas. At December 31, 2008, Simmons/Jonesboro had total assets of $295 million, total loans of $246 million and total deposits of $250 million.

Simmons First Bank of South Arkansas ("Simmons/South") is a state bank, which was acquired in 1984. Simmons/South's primary market area is Southeast Arkansas. At December 31, 2008, Simmons/South had total assets of $172 million, total loans of $91 million and total deposits of $147 million.

Simmons First Bank of Northwest Arkansas ("Simmons/Northwest") is a state bank, which was acquired in 1995. Simmons/Northwest's primary market area is Northwest Arkansas. At December 31, 2008, Simmons/Northwest had total assets of $287 million, total loans of $202 million and total deposits of $238 million.

Simmons First Bank of Russellville ("Simmons/Russellville") is a state bank, which was acquired in 1997. Simmons/Russellville's primary market area is Russellville, Arkansas. At December 31, 2008, Simmons/Russellville had total assets of $202 million, total loans of $121 million and total deposits of $146 million.

Simmons First Bank of Searcy ("Simmons/Searcy") is a state bank, which was acquired in 1997. Simmons/Searcy's primary market area is Searcy, Arkansas. At December 31, 2008, Simmons/Searcy had total assets of $152 million, total loans of $104 million and total deposits of $120 million.

Simmons First Bank of El Dorado, N.A. (“Simmons/El Dorado”) is a national bank, which was acquired in 1999. Simmons/El Dorado’s primary market area is South Central Arkansas. At December 31, 2008, Simmons/El Dorado had total assets of $258 million, total loans of $132 million and total deposits of $219 million.

Simmons First Bank of Hot Springs (“Simmons/Hot Springs”) is a state bank, which was acquired in 2004. Simmons/Hot Springs’ primary market area is Hot Springs, Arkansas. At December 31, 2008, Simmons/Hot Springs had total assets of $166 million, total loans of $82 million and total deposits of $117 million.

The Company's subsidiaries provide complete banking services to individuals and businesses throughout the market areas they serve. Services include consumer (credit card, student 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 the 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 the Company's 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. The Company's 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 the Company's 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, the Company has instituted a Special Asset Committee for the purpose of reviewing criticized loans in regard to collateral adequacy, workout strategies, and proper reserve allocations.

Growth Strategy

The Company's growth strategy has been to primarily focus on the state of Arkansas. In 2008, the Company completed a four-year de novo branch expansion plan with the opening of a new regional headquarters for Simmons/Northwest, along with an additional financial center in Little Rock. The Company added its first financial centers in the Arkansas markets of North Little Rock, Beebe and Paragould during 2007. New locations were also opened in Little Rock and El Dorado during 2006. In 2005 the Company added three branch locations in the Little Rock/Conway metropolitan area, one in the Fayetteville/Springdale/Rogers metropolitan area and one in the Fort Smith metropolitan area. While new financial centers can be dilutive to earnings in the short-term, the Company believes they will reward shareholders in the intermediate and long-term. As completion of its desired footprint within the state of Arkansas nears, the Company continues to evaluate opportunities to expand into contiguous states. More specifically, the Company is interested in expansion by opening new financial centers or by acquisitions of financial centers in growth or strategic markets, preferably with assets totaling $200 million or more.

With an expanded presence in Arkansas, ongoing investments in technology and enhanced products and services, the Company is in position to meet the demands of customers in the markets it serves.

Competition

There is significant competition among commercial banks in the Company's market areas. In addition, the Company also competes 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 the Company's competitors have greater resources and, as such, may have higher lending limits and may offer other services that are not provided by the Company. The Company generally competes 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.

Employees

As of February 4, 2009, the Company and its subsidiaries had approximately 1,111 full time equivalent employees. None of the employees is represented by any union or similar groups, and the Company has not experienced any labor disputes or strikes arising from any such organized labor groups. The Company considers its relationship with its 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	62	Chairman and Chief Executive Officer	22
David L. Bartlett	57	President and Chief Operating Officer	12
Robert A. Fehlman	44	Executive Vice President and Chief Financial Officer	20
Marty D. Casteel	57	Executive Vice President	20
Robert C. Dill	65	Executive Vice President, Marketing	42
David W. Garner	39	Senior Vice President and Controller	11
Tommie K. Jones	61	Senior Vice President and Human Resources Director	34
L. Ann Gill	61	Senior Vice President/Manager, Audit	43
Kevin J. Archer	45	Senior Vice President/Credit Policy and Risk Assessment	13
John L. Rush	74	Secretary	41

Board of Directors of the Company

The following is a list of the Board of Directors of the Company as of December 31, 2008, along with their principal occupation.

NAME	PRINCIPAL OCCUPATION
William E. Clark, II	President and Chief Executive Officer Clark Contractors LLC
Steven A. Cossé	Executive Vice President and General Counsel Murphy Oil Corporation
Edward Drilling	President AT&T Arkansas
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
Harry L. Ryburn	Orthodontist (retired)
Robert L. Shoptaw	Chairman of the Board Arkansas Blue Cross and Blue Shield

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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 the Company, 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, the Company is 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.

The Company is 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

The Bank, Simmons/El Dorado and Simmons First Trust Company N.A., as national banking associations, are subject to regulation and supervision, of which regular bank examinations are a part, by the Office of the Comptroller of the Currency of the United States ("OCC"). Simmons/Jonesboro, Simmons/South, Simmons/Northwest and Simmons/Hot Springs, as state chartered banks, are subject to the supervision and regulation, of which regular bank examinations are a part, by the Federal Deposit Insurance Corporation ("FDIC") and the Arkansas State Bank Department. Simmons/Russellville and Simmons/Searcy, as state chartered member banks, are subject to the supervision and regulation, of which regular bank examinations are a part, by the Federal Reserve Board and the Arkansas State Bank Department. 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.

Prior to passage of the GLB Act in 1999, the subsidiary banks, with numerous exceptions, were subject to the application of the laws of the state of Arkansas, regarding the limitation of the maximum permissible interest rate on

loans. The Arkansas limitation for general loans was 5% over the Federal Reserve Discount Rate, with an additional maximum limitation of 17% per annum for consumer loans and credit sales. Certain loans secured by first liens on residential real estate and certain loans controlled by federal law (e.g., guaranteed student loans, SBA loans, etc.) were exempt from this limitation; however, a substantial portion of the loans made by the subsidiary banks, including all credit card loans, have historically been subject to this limitation. The GLB Act included a provision which sets the maximum interest rate on loans made in Arkansas, by banks with Arkansas as their home state, at the greater of the rate authorized by Arkansas law or the highest rate permitted by any of the out-of-state banks which maintain branches in Arkansas. An action was brought in the Western District of Arkansas, attacking the validity of the statute in 2000. Subsequently, the District Court issued a decision upholding the statute, and during October 2001, the Eighth Circuit Court of Appeals upheld the statute on appeal. Thus, in the fourth quarter of 2001, the Company began to implement the changes permitted by the GLB Act.

All of the Company's 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, the Company's 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 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 the Company’s risk-weighted capital ratios, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital" and Note 18, 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.

Temporary Liquidity Guarantee Program

On November 21, 2008, the Board of Directors of the FDIC adopted a final rule relating to the Temporary Liquidity Guarantee Program (“TLG Program”). The TLG Program was announced by the FDIC on October 14, 2008, preceded by the determination of systemic risk by the Secretary of the Department of Treasury (after consultation with the President) as an initiative to counter the system-wide crisis in the nation’s financial sector. Under the TLG Program the FDIC will (i) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008, and before June 30, 2009, and (ii) provide full FDIC deposit insurance coverage for non-interest bearing transaction deposit accounts, Negotiable Order of Withdrawal (“NOW”) accounts paying less than 0.5% interest per annum and Interest on Lawyers Trust Accounts (“IOLTA”) accounts held at participating FDIC- insured institutions through December 31, 2009. Coverage under the TLG Program was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranges from 50 basis points to 100 basis points per annum depending on the initial maturity of the debt. The fee assessment for deposit insurance coverage is an annualized 10 basis points paid quarterly on amounts in covered accounts exceeding $250,000. On December 5, 2008, the Company elected to participate in both guarantee programs. On February 10, 2009, the FDIC extended the date for issuing debt under the TLG Program from June 30 to October 31, 2009.

Available Information

The Company maintains an Internet website at www.simmonsfirst.com. On this website under the section, Investor Relations – Documents, the Company makes its filings with the Securities and Exchange Commission available free of charge. Additionally, the Company has adopted and posted on its website a Code of Ethics that applies to its principal executive officer, principal financial officer and principal accounting officer.

ITEM 1A. RISK FACTORS

Risks Related to the Company's Business

The Company's Business May Be Adversely Affected by Conditions in the Financial Markets and Economic Conditions Generally

Since December 2007, the United States has been in a recession. Business activity across a wide range of industries and regions is greatly reduced and local governments and many businesses are in serious difficulty due to the lack of consumer spending and the lack of liquidity in the credit markets. Unemployment has increased significantly.

Since mid-2007, and particularly during the second half of 2008, the financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. This was initially triggered by declines in home prices and the values of subprime mortgages, but spread to all mortgage and real estate asset classes, to leveraged bank loans and to nearly all asset classes, including equities. The global markets have been characterized by substantially increased volatility and short-selling and an overall loss of investor confidence, initially in financial institutions, but more recently in companies in a number of other industries and in the broader markets.

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. In 2008, the U.S. government, the Federal Reserve and other regulators have taken numerous steps to increase liquidity and to restore investor confidence, including investing approximately $200 billion in the equity of other banking organizations, but asset values have continued to decline and access to liquidity continues to be very limited.

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 markets where the Company operates (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.

Overall, during 2008, the business environment has been adverse for many households and businesses in the United States and worldwide. The business environment in Arkansas has been less adverse than in the United States generally but continues to deteriorate. It is expected that the business environment in the State of Arkansas, the United States and worldwide will continue to deteriorate for the foreseeable future. There can be no assurance that these conditions will improve in the near term. Such conditions could adversely affect the credit quality of the Company's loans, results of operations and financial condition.

The Company is Subject to Interest Rate Risk

The Company's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Company's ability to originate loans and obtain deposits, (ii) the fair value of the Company's financial assets and liabilities, and (iii) the average duration of the Company's mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Company's results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of operations.

The Company is Subject to Lending Risk

There are inherent risks associated with the Company's lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the State of Arkansas and the United States. Increases in interest rates and/or continuing weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Company is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Company to regulatory enforcement action that could result in the assessment of significant civil money penalties against the Company.

The Company's Allowance for Possible Loan Losses May Be Insufficient

The Company maintains an allowance for possible loan losses, which is a reserve established through a provision for possible loan losses charged to expense, that represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for possible loan losses inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Company's control, may require an increase in the allowance for possible loan losses. In addition, bank regulatory agencies periodically review the Company's allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for possible loan losses, the Company will need additional provisions to increase the allowance for possible loan losses. Any increases in the allowance for possible loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Company's financial condition and results of operations.

The Company's Profitability Depends Significantly on Economic Conditions in the State of Arkansas

The Company's success depends primarily on the general economic conditions of the State of Arkansas and the specific local markets in which the Company operates. Unlike larger national or other regional banks that are more geographically diversified, the Company provides banking and financial services to customers across Arkansas through its 84 financial centers in the state. The economic condition of Arkansas has a significant impact on the demand for the Company's products and services as well as the ability of the Company's customers to repay loans, the value of the collateral securing loans and the stability of the Company's deposit funding sources. Although economic conditions in the State of Arkansas have experienced less decline than in the United States generally, these conditions are declining and are expected to continue to decline. A significant decline in general economic conditions, whether caused by recession, inflation, unemployment, changes in securities markets, acts of terrorism, outbreak of hostilities or other international or domestic occurrences or other factors could impact these local economic conditions and, in turn, have a material adverse effect on the Company's financial condition and results of operations.

The Company Operates in a Highly Competitive Industry

The Company faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national, regional, and community banks within the various markets where the Company operates. The Company also faces competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of the Company's competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Company can.

The Company's ability to compete successfully depends on a number of factors, including, among other things:

- The ability to develop, maintain and build long-term customer relationships based on top quality service, high ethical standards and safe, sound assets.
- The ability to expand the Company's market position.
- The scope, relevance and pricing of products and services offered to meet customer needs and demands.
- The rate at which the Company introduces new products and services relative to its competitors.
- Customer satisfaction with the Company's level of service.
- Industry and general economic trends.

Failure to perform in any of these areas could significantly weaken the Company's competitive position, which could adversely affect the Company's growth and profitability, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations.

The Company is Subject to Extensive Government Regulation and Supervision

The Company is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not security holders. These regulations affect the Company's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. It is likely that there will be significant changes to the banking and financial institutions regulatory regimes in the near future in light of the recent performance of and government intervention in the financial services sector. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Company's business, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

The Company's Controls and Procedures May Fail or Be Circumvented

Management regularly reviews and updates the Company's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations and financial condition.

New Lines of Business or New Products and Services May Subject the Company to Additional Risks

From time to time, the Company may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services the Company may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/ or new product or service could have a significant impact on the effectiveness of the Company's system of internal controls. Failure to successfully manage

these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Company's business, results of operations and financial condition.

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The Company Relies on Dividends from Its Subsidiaries for Most of Its Revenue

The Company is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its revenue from dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on the Company's common stock and interest and principal on the Company's debt. Various federal and/or state laws and regulations limit the amount of dividends that the subsidiaries may pay to the Company. In the event the subsidiaries are unable to pay dividends to the Company, the Company may not be able to service debt, pay obligations or pay dividends on the Company's common stock. The inability to receive dividends from its subsidiaries could have a material adverse effect on the Company's business, financial condition and results of operations.

Potential Acquisitions May Disrupt the Company's Business and Dilute Stockholder Value

The Company seeks merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- Potential exposure to unknown or contingent liabilities of the target company.
- Exposure to potential asset quality issues of the target company.
- Difficulty and expense of integrating the operations and personnel of the target company.
- Potential disruption to the Company's business.
- Potential diversion of the Company's management's time and attention.
- The possible loss of key employees and customers of the target company.
- Difficulty in estimating the value of the target company.
- Potential changes in banking or tax laws or regulations that may affect the target company.

The Company regularly evaluates merger and acquisition opportunities and conducts due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of the Company's tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on the Company's financial condition and results of operations.

The Company May Not Be Able to Attract and Retain Skilled People

The Company's success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by the Company can be intense and the Company may not be able to hire people or to retain them. The unexpected loss of services of key personnel of the Company could have a material adverse impact on the Company's business because of their skills, knowledge of the Company's market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

The Company's Information Systems May Experience an Interruption or Breach in Security

The Company relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company's customer relationship management, general ledger, deposit, loan and other systems. While the Company has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of

the Company's information systems could damage the Company's reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's financial condition and results of operations.

The Company Continually Encounters Technological Change

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Company's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company's operations. Many of the Company's competitors have substantially greater resources to invest in technological improvements. The Company may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Company's business and, in turn, the Company's financial condition and results of operations.

The Company is Subject to Claims and Litigation Pertaining to Fiduciary Responsibility

From time to time, customers make claims and take legal action pertaining to the Company's performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Company's performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to the Company they may result in significant financial liability and/or adversely affect the market perception of the Company and its products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations.

Severe Weather, Natural Disasters, Acts of War or Terrorism and Other External Events Could Significantly Impact the Company's Business

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the Company's ability to conduct business. Such events could affect the stability of the Company's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Company to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such event in the future could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations.

Risks Associated with the Company's Common Stock

The Company's Stock Price Can Be Volatile

Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. The Company's stock price can fluctuate significantly in response to a variety of factors including, among other things:

Changes in securities analysts' estimates of financial performance.
Volatility of stock market prices and volumes.
Rumors or erroneous information.
Changes in market valuations of similar companies.
Changes in interest rates.
New developments in the banking industry.
Variations in quarterly or annual operating results.
New litigation or changes in existing litigation.
Regulatory actions.

Changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause the Company's stock price to decrease regardless of operating results.

The Trading Volume in the Company's Common Stock is Less Than That of Other Larger Financial Services Companies

Although the Company's common stock is listed for trading on the Nasdaq Global Select Market, the trading volume in its common stock is less than that of other, larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the lower trading volume of the Company's common stock, significant sales of the Company's common stock, or the expectation of these sales, could cause the Company's stock price to fall.

An Investment in the Company's Common Stock is Not an Insured Deposit

The Company's common stock is not a bank deposit and, therefore, is not insured against loss by the Federal Deposit Insurance Corporation (FDIC), any other deposit insurance fund or by any other public or private entity. Investment in the Company's common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire the Company's common stock, you could lose some or all of your investment.

The Company's Articles of Incorporation and By-Laws As Well As Certain Banking Laws May Have an Anti-Takeover Effect

Provisions of the Company's 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 the Company, even if doing so would be perceived to be beneficial to the Company's 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 the Company's common stock.

Risks Associated with the Company's Industry

The Earnings of Financial Services Companies Are Significantly Affected by General Business and Economic Conditions

The Company's operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, and the strength of the U.S. economy and the local economies in which the Company operates, all of which are beyond the Company's control. The continuing deterioration in economic conditions in the United States and abroad could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for the Company's products and services, among other things, any of which could have a material adverse impact on the Company's financial condition and results of operations.

Financial Services Companies Depend on the Accuracy and Completeness of Information about Customers and Counterparties

In deciding whether to extend credit or enter into other transactions, the Company may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial

information. The Company may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on the Company's business and, in turn, the Company's financial condition and results of operations.

Consumers May Decide Not to Use Banks to Complete their Financial Transactions

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on the Company's financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are currently no unresolved Commission staff comments.

ITEM 2. PROPERTIES

The principal offices of the Company and the 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, the Company has corporate offices located in Little Rock, Arkansas.

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

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 are seeking $2,000,000 in compensatory damages and $10,000,000 in punitive damages. The Company and the banks have filed Motions to Dismiss. The plaintiffs were granted additional time to discover any evidence for litigation and have 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 has been changed to Jefferson County for the Company and Simmons First Bank of South Arkansas. Non-binding mediation failed on June 24, 2008. Jury trial is set for the week of June 22, 2009. At this time, no basis for any material liability has been identified. The Company and the bank continue to vigorously defend the claims asserted in the suit.

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

The Company's Common Stock trades on The Nasdaq Stock Market® in the Global Select Market System under the symbol "SFNC." The following table sets forth, for all the periods indicated, cash dividends declared and the high and low closing bid prices for the Company's Common Stock.

	Price Per Common Share High	Price Per Common Share Low	Quarterly Dividends Per Common Share
2008			
1st quarter	$ 29.73	$ 24.41	$ 0.19
2nd quarter	32.95	27.97	0.19
3rd quarter	36.00	26.47	0.19
4th quarter	33.55	23.68	0.19
2007			
1st quarter	$ 32.19	$ 25.33	$ 0.18
2nd quarter	30.49	25.75	0.18
3rd quarter	29.00	22.33	0.18
4th quarter	29.48	23.81	0.19

As of February 4, 2009, there were 1,376 shareholders of record of the Company's Common Stock.

The Company's policy is to declare regular quarterly dividends based upon the Company's earnings, financial position, capital requirements and such other factors deemed relevant by the Board of Directors. This dividend policy is subject to change, however, and the payment of dividends by the Company is necessarily dependent upon the availability of earnings and the Company's financial condition in the future. The payment of dividends on the Common Stock is also subject to regulatory capital requirements. The Company has received approval from The Department of the Treasury (the "Treasury") to participate in the Troubled Asset Relief Program Capital Purchase Program (the "CPP"). If the Company participates in the CPP by issuing Preferred Stock to the Treasury, dividend increases may be restricted and will require the Treasury's consent for three years. For further discussion on the CPP, see "Management's Discussion and Analysis of Financial Condition and Results of Operation – Recent Market Developments."

The Company's principal source of funds for dividend payments to its stockholders is dividends received from its subsidiary banks. Under applicable banking laws, the declaration of dividends by the Bank and Simmons/El Dorado 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/Jonesboro, Simmons/Northwest, Simmons/South, Simmons/Hot Springs, Simmons/Russellville and Simmons/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, 2008, approximately $14.3 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 18, Stockholders' Equity, of Notes to Consolidated Financial Statements.

Stock Repurchase

The Company made no purchases of its common stock during the three months ended December 31, 2008.

On November 28, 2007, the Company announced the substantial completion of the existing stock repurchase program and the adoption by the Board of Directors of a new stock repurchase program. The 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 the Company intends to repurchase. The Company may discontinue purchases at any time that management determines additional purchases are not warranted. 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. The Company intends to use the repurchased shares to satisfy stock option exercise, payment of future stock dividends and general corporate purposes.

Effective July 1, 2008, the Company made a strategic decision to temporarily suspend stock repurchases. This decision was made to preserve capital at the parent company due to the lack of liquidity in the credit markets and the uncertainties in the overall economy. If the Company participates in the CPP by issuing Preferred Stock to the Treasury, stock repurchases may be restricted and will require the Treasury's consent for three years. For further discussion on the CPP, see "Management's Discussion and Analysis of Financial Condition and Results of Operation – Recent Market Developments."

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, 2003 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	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
Simmons First National Corporation	100.00	107.31	105.09	121.93	105.75	120.66
NASDAQ Bank Index	100.00	110.99	106.18	117.87	91.85	69.88
S&P 500 Index	100.00	110.88	116.33	134.70	142.10	89.53

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,” “may,” “might,” “will,” “would,” “could” or “intend,” future or conditional verb tenses, and variations or negatives of such terms. The 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.

We caution the reader not to place undue reliance on the forward-looking statements contained in this Report in that actual results could differ materially from those indicated in such forward-looking statements due to a variety of factors. These factors include, but are not limited to, changes in the Company’s operating or expansion strategy, availability of and costs associated with obtaining adequate and timely sources of liquidity, the ability to maintain credit quality, possible adverse rulings, judgments, settlements and other outcomes of pending litigation, the ability of the Company to collect amounts due under loan agreements, changes in consumer preferences, effectiveness of the Company’s interest rate risk management strategies, laws and regulations affecting financial institutions in general or relating to taxes, the effect of pending or future legislation, the ability of the Company to repurchase its Common Stock on favorable terms and other risk factors. Other relevant risk factors may be detailed from time to time in the Company’s press releases and filings with the Securities and Exchange Commission. We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date of this Report.

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, 2008, 2007, 2006, 2005 and 2004, were derived from consolidated financial statements of the Company, which were audited by BKD, LLP. 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.

SELECTED CONSOLIDATED FINANCIAL DATA

(In thousands, except per share data)	Years Ended December 31 (1) 2008	2007	2006	2005	2004
Income statement data:					
Net interest income	$ 94,017	$ 92,116	$ 88,804	$ 90,257	$ 85,636
Provision for loan losses	8,646	4,181	3,762	7,526	8,027
Net interest income after provision for loan losses	85,371	87,935	85,042	82,731	77,609
Non-interest income	49,326	46,003	43,947	42,318	40,705
Non-interest expense	96,360	94,197	89,068	85,584	82,385
Provision for income taxes	11,427	12,381	12,440	12,503	11,483
Net income	26,910	27,360	27,481	26,962	24,446
Per share data:					
Basic earnings	1.93	1.95	1.93	1.88	1.68
Diluted earnings	1.91	1.92	1.90	1.84	1.65
Diluted core earnings (non-GAAP) (2)	1.73	1.97	1.90	1.84	1.68
Book value	20.69	19.57	18.24	17.04	16.29
Dividends	0.76	0.73	0.68	0.61	0.57
Balance sheet data at period end:					
Assets	2,923,109	2,692,447	2,651,413	2,523,768	2,413,944
Loans	1,933,074	1,850,454	1,783,495	1,718,107	1,571,376
Allowance for loan losses	25,841	25,303	25,385	26,923	26,508
Deposits	2,336,333	2,182,857	2,175,531	2,059,958	1,959,195
Long-term debt	158,671	82,285	83,311	87,020	94,663
Stockholders' equity	288,792	272,406	259,016	244,085	238,222
Capital ratios at period end:					
Stockholders' equity to total assets	9.88%	10.12%	9.75%	9.67%	9.87%
Leverage (3)	9.15%	9.06%	8.83%	8.62%	8.46%
Tier 1	13.24%	12.43%	12.38%	12.26%	12.72%
Total risk-based	14.50%	13.69%	13.64%	13.54%	14.00%
Selected ratios:					
Return on average assets	0.94%	1.03%	1.07%	1.08%	1.03%
Return on average equity	9.54%	10.26%	10.93%	11.24%	10.64%
Return on average tangible equity (non-GAAP) (4)	12.54%	13.78%	15.03%	15.79%	14.94%
Net interest margin (5)	3.75%	3.96%	3.96%	4.13%	4.08%
Allowance/nonperforming loans	165.12%	226.10%	234.05%	319.48%	220.84%

Allowance for loan losses as a percentage of period-end loans	1.34%	1.37%	1.42%	1.57%	1.69%
Nonperforming loans as a percentage of period-end loans	0.81%	0.60%	0.56%	0.49%	0.76%
Net charge-offs as a percentage of average total assets	0.28%	0.16%	0.15%	0.28%	0.34%
Dividend payout	39.79%	38.02%	35.79%	33.15%	38.80%

(1) The selected consolidated financial data set forth above should be read in conjunction with the financial statements of the Company and related Management's Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this report.
(2) 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 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. In 2004, the Company recorded a $0.03 reduction in EPS from the write-off of deferred debt issuance cost associated with the redemption of trust preferred securities.
(3) Leverage ratio is Tier 1 capital to quarterly average total assets less intangible assets and gross unrealized gains/losses on available-for-sale investments.
(4) Tangible calculations are non-GAAP measures that eliminate the effect of goodwill and acquisition related intangible assets and the corresponding amortization expense on a tax-effected basis where applicable.
(5) Fully taxable equivalent (assuming an income tax rate of 37.5%).

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

Recent Market Developments

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law. Pursuant to the EESA, the U.S. Treasury was given the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 14, 2008, the Secretary of the Department of the Treasury announced that the Department of the Treasury (the "Treasury") will purchase equity stakes in a wide variety of banks and thrifts. Under the program, known as the Troubled Asset Relief Program Capital Purchase Program (the "CPP"), from the $700 billion authorized by the EESA, the Treasury made $250 billion of capital available to U.S. financial institutions in the form of preferred stock. Under the CPP, eligible healthy financial institutions, such as the Company, will be able to sell senior preferred shares (the "Preferred Shares") on standardized terms to the Treasury in amounts equal to between 1% and 3% of an institution's risk-weighted assets. The CPP is completely voluntary, and, although the Company anticipates being profitable in the current year, has adequate sources of liquidity, and is well-capitalized under regulatory guidelines, participation in the CPP would allow the Company to raise additional low cost capital to ensure that, during these uncertain times, it is well-positioned to support existing operations as well as anticipated future growth.

On October 29, 2008, the Treasury gave the Company approval to participate in the CPP. On January 6, 2009, the Treasury amended its approval to allow the Company to participate in the CPP at a level up to $59.7 million. Because the Company's Restated Articles of Incorporation do not authorize preferred stock, as required for participation in the CPP, the Company is holding a Special Meeting of Shareholders on February 27, 2009, to amend the Restated Articles of Incorporation to authorize the issuance of Preferred Shares in order to participate in the CPP.

Even if the proposed amendment to the Restated Articles of Incorporation is adopted, the Company has not yet determined whether it will participate in the CPP or, if it does participate, how many Preferred Shares will be sold. If the Company participates in the CPP by issuing Preferred Stock, the Treasury will also receive warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. The Company would also be required to adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the CPP.

On November 21, 2008, the Board of Directors of the Federal Deposit Insurance Corporation ("FDIC") adopted a final rule relating to the Temporary Liquidity Guarantee Program ("TLG Program"). The TLG Program was announced by the FDIC on October 14, 2008, preceded by the determination of systemic risk by the Secretary of the Department of Treasury (after consultation with the President) as an initiative to counter the system-wide crisis in the nation's financial sector. Under the TLG Program the FDIC will (i) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008, and before June 30, 2009, and (ii) provide full FDIC deposit insurance coverage for non-interest bearing transaction deposit accounts, Negotiable Order of Withdrawal ("NOW") accounts paying less than 0.5% interest per annum and Interest on Lawyers Trust Accounts ("IOLTA") accounts held at participating FDIC-insured institutions through December 31, 2009. Coverage under the TLG Program was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranges from 50 basis points to 100 basis points per annum depending on the initial maturity of the debt. The fee assessment for deposit insurance coverage is an annualized 10 basis points paid quarterly on amounts in covered accounts exceeding $250,000. On December 5, 2008, the Company elected to participate in both guarantee programs. On February 10, 2009, the FDIC extended the date for issuing debt

under the TLG Program from June 30 to October 31, 2009.

Critical Accounting Policies

Overview

The accounting and reporting policies followed by the Company 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 the Company bases estimates on historical experience, current information and other factors deemed to be relevant, actual results could differ from those estimates.

The Company considers 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 the Company’s 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) the valuation of goodwill and the useful lives applied to intangible assets, (c) the valuation of employee benefit plans and (d) income taxes.

Allowance for Loan Losses

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 adequate 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 that have been incurred as of period end. 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 the Company’s ongoing risk management system.

A loan is considered impaired when it is probable that the Company will not receive all amounts due according to the contractual terms of the loan. 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 a greater allocation than that established by the Company based on its 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.

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. The Company performs an annual goodwill impairment test in accordance with Financial Accounting Standards Board ("FASB") Statement No. 142 ("SFAS No. 142"), which requires that goodwill and intangible assets that have indefinite lives no longer be amortized but be reviewed for impairment annually, or more frequently if certain conditions occur. Prior to the adoption of SFAS No. 142, goodwill was being amortized using the straight-line method over a period of 15 years. Impairment losses on recorded goodwill, if any, will be recorded as operating expenses.

Employee Benefit Plans

The Company has 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 FASB Statement No. 123, Share-Based Payment (Revised 2004) ("SFAS No. 123R"), 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 10, Employee Benefit Plans, in the accompanying Notes to Consolidated Financial Statements included elsewhere in this report.

Income Taxes

The Company is subject to the federal income tax laws of the United States and the tax laws of the states and other jurisdictions where it conducts 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 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.

2008 Overview

Simmons First National Corporation recorded net income of $26.9 million for the year ended December 31, 2008, a 1.7% decrease from net income of $27.4 million in 2007. Net income in 2006 was $27.5 million. Diluted earnings per share decreased $0.01, or 0.5%, to $1.91 in 2008 compared to $1.92 in 2007. Diluted earnings per share in 2006 were $1.90. The Company's return on average assets and return on average stockholders' equity for the year ended December 31, 2008, were 0.94% and 9.54%, compared to 1.03% and 10.26%, respectively, for the year ended 2007.

During the first quarter of 2008, the Company recorded a nonrecurring $0.05 increase in diluted earnings per share related to the reversal of a $1.2 million pre-tax contingent liability established during the fourth quarter of 2007. That contingent liability represented the Company's pro-rata portion of Visa, Inc.'s, and its related subsidiary Visa U.S.A.'s (collectively "Visa") litigation liabilities, which was satisfied in conjunction with Visa's initial public offering ("IPO"). Also as a result of Visa's IPO, the Company received cash proceeds from the mandatory partial redemption of its equity interest in Visa, resulting in a nonrecurring $3.0 million pre-tax gain in the first quarter 2008, or $0.13 per diluted common share. Finally, associated with its membership in Visa, the Company received 110,308 class B shares of Visa. The class B shares have a restricted holding period, and the Company will not recognize any gain until such time the shares are redeemed for cash or otherwise disposed of.

At December 31, 2008, the Company's loan portfolio totaled $1.933 billion, which is an $82.6 million, or 4.5%, increase from the same period last year. This increase is due primarily to a $35.3 million, or 46.3%, increase in student loans and a $69.5 million, or 7.5%, increase in commercial and residential real estate loans. Loan growth was somewhat mitigated by a $36.0 million, or 13.8%, decline in development and construction loans due to permanent financing of completed projects and to the downturn in the construction industry.

Although the general state of the national economy remains volatile, and despite the challenges in the Northwest Arkansas region, the Company continues to maintain relatively good asset quality. In fact, we continue to sustain good asset quality in all other regions of Arkansas. The allowance for loan losses as a percent of total loans was 1.34% at December 31, 2008. Non-performing loans equaled 0.81% of total loans, up 21 basis points from 2007. Non-performing assets were 0.64% of total assets, up 13 basis points from 2007. The allowance for loan losses was 165% of non-performing loans. The Company's annualized net charge-offs for 2008 were 0.50% of total loans. Excluding credit cards, annualized net charge-offs for 2008 were 0.36% of total loans. Annualized net credit card charge-offs for the 2008 were 1.78%, more than 400 basis points below the most recently published credit card charge-off industry average. The Company does not own any securities backed by subprime mortgage assets and has no mortgage loan products that target subprime borrowers.

Total assets for the Company at December 31, 2008, were $2.923 billion, an increase of $231 million, or 8.6%, over the period ended December 31, 2007. Stockholders' equity as of December 31, 2008 was $288.8 million, an increase of $16.4 million, or approximately 6.0 %, from December 31, 2007.

Simmons First National Corporation is an Arkansas based, Arkansas committed financial holding company with $2.9 billion in assets and eight community banks in Pine Bluff, Lake Village, Jonesboro, Rogers, Searcy, Russellville, El Dorado and Hot Springs, Arkansas. The Company's eight banks conduct financial operations from 88 offices, of which 84 are financial centers, in 47 communities.

Net Interest Income

Net interest income, the Company's 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 37.50%.

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. The Company's 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 2006 at 7.25% and increased 50 basis points in the first quarter and 50 basis points in the second quarter to end the year at 8.25%. During 2007, the prime interest rate 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 Federal Funds rate, which is the cost to banks of immediately available overnight funds, began 2006 at 4.25%. During 2006, the Federal Funds rate increased 50 basis points in the first quarter and 50 basis points in the second quarter to end the year 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 Company's 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 the Company's loan portfolio and approximately 80% of the Company's time deposits have repriced in one year or less. These historical percentages are consistent with the Company's current interest rate sensitivity.

For the year ended December 31, 2008, net interest income on a fully taxable equivalent basis was $98.1 million, an increase of $2.5 million, or 2.6%, from the same period in 2007. The increase in net interest income was the result of a $14.3 million decrease in interest expense offset by an $11.8 million decrease in interest income. As a result, the net interest margin was 3.75% for the year ended December 31, 2008, a decrease of 21 basis points from 2007.

The $14.3 million decrease in interest expense for 2008 is primarily the result of a 92 basis point decrease in cost of funds due to competitive repricing during a falling interest rate environment, partially offset by a $175.5 million increase in average interest bearing liabilities. The growth in average interest bearing liabilities was primarily due to the Company's initiatives to enhance liquidity during 2008 through (1) the introduction of a new high yield investment deposit account and (2) securing additional long-term FHLB advances. The lower interest rates accounted for a $16.2 million decrease in interest expense. The most significant component of this decrease was the $9.7 million decrease associated with the repricing of the Company's time deposits that resulted from time deposits that matured

during the period or were tied to a rate that fluctuated with changes in market rates. Historically, approximately 80% of the Company's time deposits reprice in one year or less. As a result, the average rate paid on time deposits decreased 92 basis points from 4.66% to 3.74%. Lower rates on federal funds purchased and other debt resulted in an additional $4.8 million decrease in interest expense, with the average rate paid on debt decreasing by 184 basis points from 5.23% to 3.39%. The higher level of average interest bearing liabilities resulted in a $1.9 million increase in interest expense. More specifically, the higher level of average interest bearing liabilities was the result of increases of approximately $120.3 million from internal deposit growth and $55.2 million in federal funds purchased and other debt.

The $11.8 million decrease in interest income for 2008 is primarily the result of a 101 basis point decrease in yield on earning assets associated with the repricing to a lower interest rate environment, offset by a $205.3 million increase in average interest earning assets due to internal growth. The lower interest rates accounted for a $22.5 million decrease in interest income. The most significant component of this decrease was the $20.9 million decrease associated with the repricing of the Company's loan portfolio that resulted from loans that matured during the period or were tied to a rate that fluctuated with changes in market rates. Historically, approximately 70% of the Company's loan portfolio reprices in one year or less. As a result, the average rate earned on the loan portfolio decreased 111 basis points from 7.79% to 6.68%. The growth in average interest earning assets resulted in a $10.7 million improvement in interest income. The growth in average loans accounted for $5.2 million of this increase, while the growth in investment securities resulted in $3.8 million of the increase.

The Company's net interest margin decreased 21 basis points to 3.75% for the year ended December 31, 2008, when compared to 3.96% for the same period in 2007. This decrease in the net interest margin was primarily due to significant repricing of earning assets due to declining interest rates throughout 2008, along with the Company's concentrated effort to grow core deposits. Based on its current interest rate risk pricing model, and considering the most recent rate reductions, the Company anticipates additional margin compression during 2009.

For the year ended December 31, 2007, net interest income on a fully taxable equivalent basis was $95.6 million, an increase of $3.6 million, or 3.9%, from the same period in 2006. The increase in net interest income was the result of a $15.5 million increase in interest income offset by an $11.9 million increase in interest expense. As a result, the net interest margin was 3.96% for the year ended December 31, 2007, unchanged from 2006.

Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the years ended December 31, 2008, 2007 and 2006, respectively, as well as changes in fully taxable equivalent net interest margin for the years 2008 versus 2007 and 2007 versus 2006.

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

(In thousands)	Years Ended December 31 2008	2007	2006
Interest income	$ 156,141	$ 168,536	$ 153,362
FTE adjustment	4,060	3,463	3,185
Interest income - FTE	160,201	171,999	156,547
Interest expense	62,124	76,420	64,558
Net interest income - FTE	$ 98,077	$ 95,579	$ 91,989
Yield on earning assets - FTE	6.12%	7.13%	6.74%
Cost of interest bearing liabilities	2.77%	3.69%	3.24%
Net interest spread - FTE	3.35%	3.44%	3.50%
Net interest margin - FTE	3.75%	3.96%	3.96%

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

(In thousands)	2008 vs. 2007	2007 vs. 2006
Increase due to change in earning assets	$ 10,688	$ 6,959
(Decrease) increase due to change in earning asset yields	(22,486)	8,496
Increase (decrease) due to change in interest rates paid on interest bearing liabilities	16,216	(8,639)
Decrease due to change in interest bearing liabilities	(1,920)	(3,226)
Increase in net interest income	$ 2,498	$ 3,590

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Table 3 shows, for each major category of earning assets and interest bearing liabilities, the average (computed on a daily basis) amount outstanding, the interest earned or expensed on such amount and the average rate earned or expensed for each of the years in the three-year period ended December 31, 2008. 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								
	2008			2007			2006		
(In thousands)	Average Balance	Income/ Expense	Yield/ Rate(%)	Average Balance	Income/ Expense	Yield/ Rate(%)	Average Balance	Income/ Expense	Yield/ Rate(%)
ASSETS									
Earning Assets									
Interest bearing balances due from banks	$ 83,547	$ 1,415	1.69	$ 22,957	$ 1,161	5.06	$ 22,746	$ 1,072	4.71
Federal funds sold	34,577	748	2.16	26,798	1,418	5.29	20,223	1,057	5.23
Investment securities - taxable	437,612	21,057	4.81	395,388	18,362	4.64	410,445	15,705	3.83
Investment securities - non-taxable	157,793	10,173	6.45	131,369	8,454	6.44	117,931	7,573	6.42
Mortgage loans held for sale	6,909	411	5.95	7,971	505	6.34	7,666	476	6.21
Assets held in trading accounts	5,711	73	1.28	4,958	100	2.02	4,590	71	1.55
Loans	1,891,357	126,324	6.68	1,822,777	141,999	7.79	1,740,477	130,593	7.50
Total interest earning assets	2,617,506	160,201	6.12	2,412,218	171,999	7.13	2,324,078	156,547	6.74
Non-earning assets	250,675			254,656			251,261		
Total assets	$ 2,868,181			$ 2,666,874			$ 2,575,339		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Liabilities									
Interest bearing liabilities									
Interest bearing transaction and savings deposits	$ 959,567	$ 14,924	1.56	$ 736,160	$ 13,089	1.78	$ 737,328	$ 11,658	1.58
Time deposits	1,021,427	38,226	3.74	1,124,557	52,385	4.66	1,052,705	42,592	4.05

Total interest bearing deposits	1,980,994	53,150	2.68	1,860,717	65,474	3.52	1,790,033	54,250	3.03
Federal funds purchased and securities sold under agreement to repurchase	113,964	2,110	1.85	113,167	5,371	4.75	100,280	4,615	4.60
Other borrowed funds									
Short-term debt	4,333	111	2.56	14,757	804	5.45	21,065	1,227	5.82
Long-term debt	146,218	6,753	4.62	81,408	4,771	5.86	82,525	4,466	5.41
Total interest bearing liabilities	2,245,509	62,124	2.77	2,070,049	76,420	3.69	1,993,903	64,558	3.24
Non-interest bearing liabilities									
Non-interest bearing deposits	317,772			307,041			308,804		
Other liabilities	22,714			23,156			21,114		
Total liabilities	2,585,995			2,400,246			2,323,821		
Stockholders' equity	282,186			266,628			251,518		
Total liabilities and stockholders' equity	$ 2,868,181			$ 2,666,874			$ 2,575,339		
Net interest spread			3.35			3.44			3.50
Net interest margin		$ 98,077	3.75		$ 95,579	3.96		$ 91,989	3.96

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, 2008 and 2007, 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					
	2008 over 2007			2007 over 2006		
(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	$ 1,436	$ (1,182)	$ 254	$ 10	$ 79	$ 89
Federal funds sold	332	(1,002)	(670)	348	13	361
Investment securities - taxable	2,094	571	2,665	(594)	3,252	2,658
Investment securities - non-taxable	1,704	15	1,719	865	17	882
Mortgage loans held for sale	(64)	(30)	(94)	19	10	29
Assets held in trading accounts	2	1	3	6	24	30
Loans	5,184	(20,859)	(15,675)	6,305	5,101	11,406
Total	10,688	(22,486)	(11,798)	6,959	8,496	15,455
Interest expense						
Interest bearing transaction and savings deposits	3,620	(1,785)	1,835	(18)	1,450	1,432
Time deposits	(4,504)	(9,655)	(14,159)	3,044	6,750	9,794
Federal funds purchased and securities sold under agreements to repurchase	38	(3,299)	(3,261)	608	148	756
Other borrowed funds						
Short-term debt	(396)	(297)	(693)	(347)	(75)	(422)
Long-term debt	3,162	(1,180)	1,982	(61)	366	305
Total	1,920	(16,216)	(14,296)	3,226	8,639	11,865

Increase (decrease) in net interest income	$	8,768	$	(6,270)	$	2,498	$	3,733	$	(143)	$	3,590

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 2008, 2007 and 2006, was $8.6 million, $4.2 million and $3.8 million, respectively. At various times throughout 2008, the Company recorded special provisions for loan losses totaling approximately $2.4 million for possible loan losses related to the Northwest Arkansas region. During 2007, the Company sustained a low rate of net credit card charge-offs of 1.14%, allowing the provision to remain at a level similar to that of 2006. However, the provision increased somewhat due to an increase in non-performing assets and in net loan charge-offs, particularly in the Northwest Arkansas region. See the Allowance for Loan Losses section for additional analysis of the provision for loan losses.

Non-Interest Income

Total non-interest income was $49.3 million in 2008, compared to $46.0 million in 2007 and $43.9 million in 2006. 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, 2008, 2007 and 2006, respectively, as well as changes in 2008 from 2007 and in 2007 from 2006.

Table 5: Non-Interest Income

(In thousands)	Years Ended December 31 2008	2007	2006	2008 Change from 2007		2007 Change from 2006	
Trust income	$ 6,230	$ 6,218	$ 5,612	$ 12	0.19%	$ 606	10.80%
Service charges on deposit accounts	15,145	14,794	15,795	351	2.37	(1,001)	-6.34
Other service charges and fees	2,681	3,016	2,561	(335)	-11.11	455	17.77
Income on sale of mortgage loans, net of commissions	2,606	2,766	2,849	(160)	-5.78	(83)	-2.91
Income on investment banking, net of commissions	1,025	623	341	402	64.53	282	82.70
Credit card fees	13,579	12,217	10,742	1,362	11.15	1,475	13.73
Premiums on sale of student loans	1,134	2,341	2,071	(1,207)	-51.56	270	13.04
Bank owned life insurance income	1,547	1,493	1,523	54	3.62	(30)	-1.97
Gain on mandatory partial redemption of Visa shares	2,973	--	--	2,973	--	--	--
Other income	2,406	2,535	2,453	(129)	-5.09	82	3.34
Total non-interest income	$ 49,326	$ 46,003	$ 43,947	$ 3,323	7.22%	$ 2,056	4.68%

Recurring fee income for 2008 was $37.6 million, an increase of $1.4 million, or 3.8%, when compared with the 2007 amounts. Service charges on deposit accounts increased by $351,000, principally due improvement in our fee structure, along with core deposit growth. Other service charges and fees decreased by $335,000, primarily due to a decrease in commission revenue from a third party official check vendor as a result of a contract expiration and the change in business related to Check 21. Credit card fees increased $1.4 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 and 2008.

Recurring fee income for 2007 was $36.2 million, an increase of $1.5 million, or 4.4%, when compared with the 2006 amounts. Trust income increased by $606,000, mainly due to the addition of new customer accounts. Service charges on deposit accounts decreased by $1.0 million, principally due to reduced income on insufficient funds (“NSF”) charges. The decrease in NSF income is primarily due to the increase in consumer use of debit cards and internet banking, and the associated decrease in paper transactions. Other service charges and fees increased by $455,000, primarily due to an increase in ATM income, driven by an increase in PIN-based debit card volume and an improvement in the fee structure. Credit card fees increased $1.5 million, primarily due to a higher volume of credit and debit card transactions.

During the year ended December 31, 2008, income on investment banking increased $402,000, or 64.5% from the year ended 2007. This improvement was due to additional sales volume driven by the interest rate environment, called securities and customer liquidity. During 2007, income on investment banking increased $282,000, or 82.7% from 2006, due to additional sales volume driven by the yield curve and customers’ expectation of future interest rate decreases.

Premiums on sale of student loans decreased by $1.2 million, or 51.6%, in 2008 over 2007. The decrease was primarily due to a reduction in sales of student loans during 2008. The student loan industry is going through major challenges related to secondary market liquidity. The current liquidity of the secondary market has effectively disappeared; therefore, the Company is currently unable to sell student loans at a premium. For the immediate future, it is the Company's intention, and we have the liquidity, to continue to fund new loans and hold those loans that normally would be sold into the secondary market through the 2008-2009 school year. 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. During the third quarter of 2009, the Company expects to sell into the government program all student loans originated and fully funded during the 2008-2009 school year. Under the terms of the government program, the loans will be sold at par plus reimbursement of the 1% lender fee and a premium of $75 per loan. The Company expects to increase the student loan portfolio by approximately $50 million during the carrying period; however, we have the option of creating liquidity by selling participation loans into the government program.

Premiums on sale of student loans increased by $270,000, or 13.0%, in 2007 over 2006. The increase was primarily due to accelerating the sale of student loans during 2007. Generally, as student loans reach payout status, the Company sells those loans into the secondary market. Because of changes in the industry relative to loan consolidations and in order to protect the premium on these loans, the Company made the decision to sell student loans prior to the payout period. This resulted in recognition of premium in 2007 on loans that normally would have been sold in 2008.

For 2009, the Company anticipates the entire premium on sale of student loans, currently estimated at $1.6 million, to be recorded in the third quarter of 2009, when the loans are sold. We will continue to evaluate the profitability and viability of this strategic business unit going forward.

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

There were no gains or losses on sale of securities during 2008 or 2007.

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. The Company utilizes an extensive profit planning and reporting system involving all affiliates. 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. Management also regularly monitors staffing levels at each affiliate to ensure productivity and overhead are in line with existing workload requirements.

Non-interest expense for 2008 was $96.4 million, an increase of $2.2 million or 2.3%, from 2007. The increase in non-interest expense during 2008 compared to 2007 is primarily attributed to normal on-going operating expenses and the incremental expenses of approximately $1.6 million associated with the operation of new financial centers opened during 2008.

Also included in non-interest expense for 2008 is a $1.2 million nonrecurring item related to the reversal of the Company's portion of Visa's contingent litigation liabilities. The Company established the liability and recorded a $1.2 million nonrecurring expense item during the fourth quarter of 2007. This liability represented the Company's

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, its reversal and the additional expenses from the expansion, non-interest expense for 2008 increased by 3.2% over 2007.

FDIC deposit insurance expense increased by $465,000 in 2008, or 142%, over 2007. During 2007, the FDIC issued credits based on historical deposit levels to be used in offsetting deposit insurance assessments; the Company received approximately $1.8 million of these credits. The majority of the credits were exhausted during the third quarter of 2008. As these credits are used, FDIC insurance expense increases. Based on the recent FDIC insurance assessment projections, we estimate the Company's annual deposit insurance expense to increase by approximately $1.8 million in 2009 over 2008.

Credit card expense for 2008 increased $576,000, or 14.1%, over 2007, primarily due to increased card usage, interchange fees and other related expense resulting from initiatives the Company has taken to grow its credit card portfolio. See Loan Portfolio section for additional information.

Other non-interest expense for 2008 includes an increase of $289,000 for compensation expense. Recognition of the expense for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to post-retirement periods is required by EITF 06-4, which became effective January 1, 2008. See Note 16, New Accounting Standards, of the Notes to Consolidated Financial Statements.

Non-interest expense for 2007 was $94.2 million, an increase of $5.1 million or 5.8%, from 2006. The increase in non-interest expense during 2007 compared to 2006 is primarily attributed to normal on-going operating expenses and the incremental expenses of approximately $634,000 associated with the operation of new financial centers opened during 2007. Also, during 2007, the Company recorded a nonrecurring expense of $1.2 million related to indemnification obligations with Visa's litigation, as previously discussed. When normalized for both the Visa litigation expense and the additional expenses from the expansion, non-interest expense for 2007 increased by 3.7% over 2006.

Credit card expense for 2007 increased $860,000, or 26.6%, over 2006, primarily due to the increased volume in credit card applications, card creation, interchange and other related expense resulting from initiatives the Company has taken to stabilize its credit card portfolio. See Loan Portfolio section for additional information.

Other non-interest expense for 2007 increased $832,000, or 7.8%, compared to 2006. The most significant component of the increase was an increase of $442,000 of student loan origination fees paid by the Company in 2007. The Federal Student Loan Program began a three-year phase out program of origination fees on its loans late in 2006. Most of the national market began waiving and absorbing the fees themselves during the phase-out period; therefore, as a leader in the Arkansas student loan market, the Company decided to do the same in order to prevent putting itself at a competitive disadvantage. Proper accounting for these fees requires them to be amortized over the period in which the Company holds the loans. The Company expensed $558,000 of student loan origination fees during 2007, compared to $116,000 in 2007, an increase of 381%. Expense from the student loan origination fees in 2008 approximated 2007 levels.

Core deposit premium amortization expense recorded for the years ended December 31, 2008, 2007 and 2006, was $807,000, $817,000 and $830,000, respectively. The Company's estimated amortization expense for each of the following five years is: 2009 – $802,000; 2010 – $699,000; 2011 – $451,000; 2012 – $321,000; and 2013 – $268,000. 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, 2008, 2007 and 2006, respectively, as well as changes in 2008 from 2007 and in 2007 from 2006.

Table 6: Non-Interest Expense

(In thousands)	Years Ended December 31 2008	2007	2006	2008 Change from 2007		2007 Change from 2006	
Salaries and employee benefits	$ 57,050	$ 54,865	$ 53,442	$ 2,185	3.98%	$ 1,423	2.66%
Occupancy expense, net	7,383	6,674	6,385	709	10.62	289	4.53
Furniture and equipment expense	5,967	5,865	5,718	102	1.74	147	2.57
Loss on foreclosed assets	239	212	136	27	12.74	76	55.88
Deposit insurance	793	328	270	465	141.77	58	21.48
Other operating expenses							
Professional services	2,824	2,780	2,490	44	1.62	290	11.61
Postage	2,256	2,309	2,278	(53)	-2.30	31	1.36
Telephone	1,868	1,820	1,961	48	2.64	(141)	-7.19
Credit card expense	4,671	4,095	3,235	576	14.07	860	26.58
Operating supplies	1,588	1,669	1,611	(81)	-4.85	58	3.60
Amortization of core deposits	807	817	830	(10)	-1.22	(13)	-1.57
Visa litigation liability expense	(1,220)	1,220	--	(2,440)	--	1,220	--
Other expense	12,134	11,543	10,712	591	5.11	831	7.77
Total non-interest expense	$ 96,360	$ 94,197	$ 89,068	$ 2,163	2.30%	$ 5,129	5.76%

Income Taxes

The provision for income taxes for 2008 was $11.4 million, compared to $12.4 million in 2007 and $12.4 million in 2006. The effective income tax rates for the years ended 2008, 2007 and 2006 were 29.8%, 31.2% and 31.2%, respectively.

Loan Portfolio

The Company's loan portfolio averaged $1.891 billion during 2008 and $1.823 billion during 2007. As of December 31, 2008, total loans were $1.933 billion, compared to $1.850 billion on December 31, 2007. 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).

The Company seeks to manage its credit risk by diversifying its loan portfolio, determining that borrowers have adequate sources of cash flow for loan repayment without liquidation of collateral, obtaining and monitoring collateral, providing an adequate allowance for 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. The Company seeks 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. The Company uses 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 $419.3 million at December 31, 2008, or 21.7% of total loans, compared to $379.9 million, or 20.5% of total loans at December 31, 2007. The $39.4 million consumer loan increase from 2007 to 2008 is primarily due to the increase in the loans held in the student loan portfolio resulting from the current lack of a secondary market.

The student loan portfolio balance at December 31, 2008 was $111.6 million, an increase of $35.3 million, or 46.3%, from December 31, 2007. The Company expects a significant increase in student loan balances until the third quarter of 2009 due to the departure of competitors from the market, the Company's decision to hold loans normally sold in the secondary market and other issues and challenges facing the student loan industry. See Non-Interest Income section for additional information.

Historically, as student loans reached payout status, the Company would sell these loans into the secondary market. Because of changes in the industry relative to loan consolidations in 2006 and 2007 and in order to protect the premium, the Company made the decision to sell some student loans prior to the payout period in 2006 and continued the practice throughout 2007. These early sales created a decline in the portfolio balance of student loans at December 31, 2007 and 2006.

The credit card portfolio balance at December 31, 2008, increased by $3.5 million, or 2.2%, when compared to the same period in 2007. This follows a $22.7 million, or 15.8% growth during the previous year. The growth in outstanding credit card balances is primarily the result of an increase in net new accounts. Management believes the increase in outstanding balances and the addition of new accounts are the result of the introduction of several initiatives over the past two years to make the Company's credit card products more competitive, while maintaining extremely high underwriting standards. The Company added approximately 15,000 net new accounts in 2007. Although the account growth is slowing, the positive trend has continued with the addition of over 5,000 net new accounts in 2008.

Real estate loans consist of construction loans, single family residential loans and commercial loans. Real estate loans were $1.219 billion at December 31, 2008, or 63.1% of total loans, compared to $1.186 billion, or 64.1% of total loans at December 31, 2007, an increase of $33.5 million. Commercial real estate loans increased $42.7 million during 2008 and single-family residential loans increased by $26.9 million, primarily due to the permanent financing of completed projects previously included in the construction loan category. Construction and development loans represent only 11.6% of the total loan portfolio.

Commercial loans consist of commercial loans, agricultural loans and loans to financial institutions. Commercial loans were $284.2 million at December 31, 2008, or 14.7% of total loans, compared to the $274.0 million, or 14.8% of total loans at December 31, 2007. This $10.2 million increase in commercial loans is primarily due to a $14.8 million increase in agricultural loans, partially offset by a $4.0 million decrease in loans to financial institutions.

The amounts of loans outstanding at the indicated dates are reflected in table 7, according to type of loan.

Table 7: Loan Portfolio

	Years Ended December 31				
(In thousands)	2008	2007	2006	2005	2004
Consumer					
Credit cards	$ 169,615	$ 166,044	$ 143,359	$ 143,058	$ 155,326
Student loans	111,584	76,277	84,831	89,818	83,283
Other consumer	138,145	137,624	142,596	138,051	128,552
Real Estate					
Construction	224,924	260,924	277,411	238,898	169,001
Single family residential	409,540	382,676	364,450	340,839	318,488
Other commercial	584,843	542,184	512,404	479,684	481,728
Commercial					
Commercial	192,496	193,091	178,028	184,920	158,613
Agricultural	88,233	73,470	62,293	68,761	62,340

Financial institutions	3,471	7,440	4,766	20,499	1,079
Other	10,223	10,724	13,357	13,579	12,966
Total loans	$ 1,933,074	$ 1,850,454	$ 1,783,495	$ 1,718,107	$ 1,571,376

Table 8 reflects the remaining maturities and interest rate sensitivity of loans at December 31, 2008.

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	$ 344,100	$ 74,597	$ 647	$ 419,344
Real estate	781,849	403,591	33,867	1,219,307
Commercial	227,676	55,517	1,007	284,200
Other	7,644	2,179	400	10,223
Total	$ 1,361,269	$ 535,884	$ 35,921	$ 1,933,074
Predetermined rate	$ 762,131	$ 470,971	$ 35,777	$ 1,268,879
Floating rate	599,138	64,913	144	664,195
Total	$ 1,361,269	$ 535,884	$ 35,921	$ 1,933,074

Asset Quality

A loan is considered impaired when it is probable that the Company will not receive all amounts due according to the contracted 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 uncollectable, the portion of the loan determined to be uncollectable 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 uncollectable. 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 uncollectable.

Table 9 presents information concerning non-performing assets, including nonaccrual and restructured loans and other real estate owned.

Table 9: Non-performing Assets

(In thousands)	Years Ended December 31 2008	2007	2006	2005	2004
Nonaccrual loans	$ 14,358	$ 9,909	$ 8,958	$ 7,296	$ 10,918
Loans past due 90 days or more (principal or interest payments)	1,292	1,282	1,097	1,131	1,085
Total non-performing loans	15,650	11,191	10,055	8,427	12,003
Other non-performing assets					
Foreclosed assets held for sale	2,995	2,629	1,940	1,540	1,839
Other non-performing assets	12	17	52	16	83
Total other non-performing assets	3,007	2,646	1,992	1,556	1,922
Total non-performing assets	$ 18,657	$ 13,837	$ 12,047	$ 9,983	$ 13,925
Allowance for loan losses to non-performing loans	165.12%	226.10%	252.46%	319.48%	220.84%
Non-performing loans to total loans	0.81%	0.60%	0.56%	0.49%	0.76%
Non-performing assets to total assets	0.64%	0.51%	0.45%	0.40%	0.58%

There was no interest income on the nonaccrual loans recorded for the years ended December 31, 2008, 2007 and 2006.

At December 31, 2008, impaired loans were $17.2 million compared to $12.5 million in 2007. 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 the Company's 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 the Company evaluates 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. The evaluation process in specific allocations for the Company 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

The Company establishes allocations for loans rated "watch" through "doubtful" based upon analysis of historical loss experience by category. A percentage rate is applied to each category of these loan categories to determine the level of dollar allocation.

General Allocations

The Company establishes 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. The Company gives consideration to trends, changes in loan mix, delinquencies, prior losses and other related information.

Unallocated Portion

Allowance allocations other than specific, classified and general for the Company are included in unallocated. 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 downturn in the stock market and the unknown impact of the Economic Stimulus package.

Reserve for Unfunded Commitments

Historically, the Company had included reserves for unfunded commitments in the allowance for loan losses. On March 31, 2006, the reserve for unfunded commitments was reclassified from the allowance for loan losses to 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 the Company's 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 10.

Table 10: Allowance for Loan Losses

(In thousands)	2008	2007	2006	2005	2004
Balance, beginning of year	$ 25,303	$ 25,385	$ 26,923	$ 26,508	$ 25,347
Loans charged off					
Credit card	3,760	2,663	2,454	4,950	4,589
Other consumer	2,105	1,538	1,242	1,240	2,144
Real estate	2,987	1,916	1,868	1,048	1,263
Commercial	1,394	715	1,317	3,688	2,409
Total loans charged off	10,246	6,832	6,881	10,926	10,405
Recoveries of loans previously charged off					
Credit card	883	1,024	1,040	832	720
Other consumer	519	483	629	636	683
Real estate	207	648	901	251	277
Commercial	529	414	536	2,096	751
Total recoveries	2,138	2,569	3,106	3,815	2,431
Net loans charged off	8,108	4,263			