

SIMMONS FIRST NATIONAL CORP
Form 10-Q
November 06, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For Quarter Ended September 30, 2017 Commission File Number 000-06253

(Exact name of registrant as specified in its charter)

Arkansas	71-0407808
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

501 Main Street, Pine Bluff, Arkansas	71601
(Address of principal executive offices)	(Zip Code)

870-541-1000

(Registrant's telephone number, including area code)

Not Applicable

Former name, former address and former fiscal year, if changed since last report

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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. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer
Smaller reporting company Emerging Growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the Registrant’s Common Stock as of October 31, 2017, was 45,970,797.

Simmons First National Corporation

Quarterly Report on Form 10-Q

September 30, 2017

Table of Contents

	<u>Page</u>
<u>Part I:</u>	
<u>Financial Information</u>	
<u>Item 1.</u>	
<u>Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets</u>	<u>3</u>
<u>Consolidated Statements of Income</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>7</u>
<u>Condensed Notes to Consolidated Financial Statements</u>	<u>8-49</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>50</u>
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>51-76</u>
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosure About Market Risk</u>	<u>76-78</u>
<u>Item 4.</u>	
<u>Controls and Procedures</u>	<u>79</u>
<u>Part II:</u>	
<u>Other Information</u>	
<u>Item 1A.</u>	
<u>Risk Factors</u>	<u>79</u>
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>79</u>
<u>Item 6.</u>	
<u>Exhibits</u>	<u>79-81</u>
<u>Signatures</u>	<u>82</u>

Part I: Financial Information
Item I. Financial Statements (Unaudited)

Simmons First National Corporation

Consolidated Balance Sheets

September 30, 2017 and December 31, 2016

(In thousands, except share data)	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Cash and non-interest bearing balances due from banks	\$ 108,675	\$ 117,007
Interest bearing balances due from banks and federal funds sold	323,615	168,652
Cash and cash equivalents	432,290	285,659
Interest bearing balances due from banks - time	4,059	4,563
Investment securities:		
Held-to-maturity	406,033	462,096
Available-for-sale	1,317,420	1,157,354
Total investments	1,723,453	1,619,450
Mortgage loans held for sale	12,614	27,788
Assets held in trading accounts	49	41
Other assets held for sale	182,378	--
Loans:		
Legacy loans	5,211,312	4,327,207
Allowance for loan losses	(42,717)	(36,286)
Loans acquired, net of discount and allowance	1,092,039	1,305,683
Net loans	6,260,634	5,596,604
Premises and equipment	224,376	199,359
Premises held for sale	--	6,052
Foreclosed assets and other real estate owned	31,477	26,895
Interest receivable	30,749	27,788
Bank owned life insurance	148,984	138,620
Goodwill	375,731	348,505
Other intangible assets	55,501	52,959
Other assets	53,075	65,773
Total assets	\$9,535,370	\$8,400,056
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing transaction accounts	\$ 1,669,860	\$ 1,491,676
Interest bearing transaction accounts and savings deposits	4,344,779	3,956,483
Time deposits	1,310,951	1,287,060
Total deposits	7,325,590	6,735,219

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Federal funds purchased and securities sold under agreements to repurchase	121,687	115,029
Other borrowings	522,541	273,159
Subordinated debentures	67,418	60,397
Other liabilities held for sale	176,964	--
Accrued interest and other liabilities	63,971	65,141
Total liabilities	8,278,171	7,248,945
Stockholders' equity:		
Common stock, Class A, \$0.01 par value; 120,000,000 shares authorized; 32,212,242 and 31,277,723 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	322	313
Surplus	763,443	711,976
Undivided profits	504,085	454,034
Accumulated other comprehensive loss	(10,651)	(15,212)
Total stockholders' equity	1,257,199	1,151,111
Total liabilities and stockholders' equity	\$9,535,370	\$8,400,056

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation**Consolidated Statements of Income****Three and Nine Months Ended September 30, 2017 and 2016**

(In thousands, except per share data)	Three Months Ended		Nine Months Ended September 30,	
	September 30, 2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)
INTEREST INCOME				
Loans	\$77,457	\$65,078	\$219,734	\$194,765
Interest bearing balances due from banks and federal funds sold	650	263	986	511
Investment securities	9,218	7,774	28,659	24,779
Mortgage loans held for sale	159	299	430	872
Assets held in trading accounts	--	4	--	13
TOTAL INTEREST INCOME	87,484	73,418	249,809	220,940
INTEREST EXPENSE				
Deposits	6,030	3,732	15,050	11,162
Federal funds purchased and securities sold under agreements to repurchase	83	59	250	183
Other borrowings	1,875	1,048	4,628	3,114
Subordinated debentures	677	516	1,870	1,603
TOTAL INTEREST EXPENSE	8,665	5,355	21,798	16,062
NET INTEREST INCOME	78,819	68,063	228,011	204,878
Provision for loan losses	5,462	8,294	16,792	15,733
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	73,357	59,769	211,219	189,145
NON-INTEREST INCOME				
Trust income	4,225	3,873	12,550	11,160
Service charges on deposit accounts	8,907	8,771	25,492	23,748
Other service charges and fees	2,433	3,261	7,145	8,846
Mortgage and SBA lending income	3,219	4,339	9,603	11,903
Investment banking income	680	1,131	2,007	2,999
Debit and credit card fees	8,864	7,825	25,457	22,713
Bank owned life insurance income	725	606	2,402	2,429
Gain on sale of securities	3	315	2,302	4,403
Other income	7,276	6,755	15,178	15,066
TOTAL NON-INTEREST INCOME	36,332	36,876	102,136	103,267
NON-INTEREST EXPENSE				
Salaries and employee benefits	35,285	31,784	105,026	99,660

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Occupancy expense, net	4,928	4,690	14,459	14,151
Furniture and equipment expense	4,840	4,272	13,833	12,296
Other real estate and foreclosure expense	1,071	1,849	2,177	3,782
Deposit insurance	1,020	1,136	2,480	3,380
Merger related costs	752	1,524	7,879	1,989
Other operating expenses	18,263	17,179	58,035	53,102
TOTAL NON-INTEREST EXPENSE	66,159	62,434	203,889	188,360
INCOME BEFORE INCOME TAXES	43,530	34,211	109,466	104,052
Provision for income taxes	14,678	10,782	35,429	34,209
NET INCOME	28,852	23,429	74,037	69,843
Preferred stock dividends	--	--	--	24
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$28,852	\$23,429	\$74,037	\$69,819
BASIC EARNINGS PER SHARE	\$0.90	\$0.77	\$2.33	\$2.29
DILUTED EARNINGS PER SHARE	\$0.89	\$0.76	\$2.31	\$2.28

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation**Consolidated Statements of Comprehensive Income****Three and Nine Months Ended September 30, 2017 and 2016**

(In thousands, except per share data)	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)
NET INCOME	\$28,852	\$23,429	\$74,037	\$69,843
OTHER COMPREHENSIVE INCOME				
Unrealized holding gains (losses) arising during the period on available-for-sale securities	1,107	(3,175)	9,807	12,271
Less: Reclassification adjustment for realized gains included in net income	3	315	2,302	4,403
Other comprehensive gain (loss), before tax effect	1,104	(3,490)	7,505	7,868
Less: Tax effect of other comprehensive gain (loss)	433	(1,369)	2,944	3,086
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	671	(2,121)	4,561	4,782
COMPREHENSIVE INCOME	\$29,523	\$21,308	\$78,598	\$74,625

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation**Consolidated Statements of Cash Flows****Nine Months Ended September 30, 2017 and 2016**

(In thousands)	September 30, 2017 (Unaudited)	September 30, 2016 (Unaudited)
OPERATING ACTIVITIES		
Net income	\$74,037	\$69,843
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	14,589	12,229
Provision for loan losses	16,792	15,733
Gain on sale of investments	(2,302)	(4,403)
Net accretion of investment securities and assets	(19,472)	(22,863)
Net amortization on borrowings	319	314
Stock-based compensation expense	5,675	2,679
Gain on sale of premises and equipment, net of impairment	(615)	(159)
Gain on sale of foreclosed assets and other real estate owned	(801)	(1,731)
Gain on sale of mortgage loans held for sale	(8,809)	(11,150)
Fair value write-down of closed branches	325	3,000
Deferred income taxes	4,962	1,070
Increase in cash surrender value of bank owned life insurance	(2,402)	(2,429)
Originations of mortgage loans held for sale	(353,714)	(472,902)
Proceeds from sale of mortgage loans held for sale	377,697	486,248
Changes in assets and liabilities:		
Interest receivable	(1,129)	(799)
Assets held in trading accounts	(8)	1,453
Other assets	8,249	16,680
Accrued interest and other liabilities	(9,738)	(13,950)
Income taxes payable	4,819	(2,286)
Net cash provided by operating activities	108,474	76,577
INVESTING ACTIVITIES		
Net originations of loans	(427,789)	(140,240)
Decrease in due from banks - time	2,488	9,714
Purchases of premises and equipment, net	(28,971)	(8,840)
Proceeds from sale of premises and equipment	3,475	890
Purchases of other real estate owned	(1,021)	--
Proceeds from sale of foreclosed assets and other real estate owned	11,401	24,095
Proceeds from sale of available-for-sale securities	327,218	249,079
Proceeds from maturities of available-for-sale securities	76,615	137,832
Purchases of available-for-sale securities	(380,308)	(498,011)
Proceeds from maturities of held-to-maturity securities	57,896	215,846
Purchases of held-to-maturity securities	(860)	(6,162)
Proceeds from bank owned life insurance death benefits	--	2,043

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Purchases of bank owned life insurance	(143)	(143)
Proceeds from the sale of insurance lines of business	3,707	--
Cash paid in business combinations, net of cash received	(22,000)	--
Cash received in business combinations, net of cash paid	--	106,419
Net cash (used in) provided by investing activities	(378,292)	92,522
FINANCING ACTIVITIES		
Net change in deposits	201,395	21,428
Repayments of subordinated debentures	--	(594)
Dividends paid on preferred stock	--	(24)
Dividends paid on common stock	(23,986)	(21,227)
Net change in other borrowed funds	246,382	48,940
Net change in federal funds purchased and securities sold under agreements to repurchase	(10,505)	11,658
Net shares issued under stock compensation plans	2,545	3,247
Shares issued under employee stock purchase plan	618	586
Redemption of preferred stock	--	(30,852)
Net cash provided by financing activities	416,449	33,162
INCREASE IN CASH AND CASH EQUIVALENTS	146,631	202,261
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	285,659	252,262
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$432,290	\$454,523

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation**Consolidated Statements of Stockholders' Equity****Nine Months Ended September 30, 2017 and 2016**

(In thousands, except share data)	Preferred Stock	Common Stock	Surplus	Accumulated Other Comprehensive Income (Loss)	Undivided Profits	Total
Balance, December 31, 2015	\$30,852	\$303	\$662,378	\$(2,665)	\$385,987	\$1,076,855
Comprehensive income	--	--	--	4,782	69,843	74,625
Stock issued for employee stock purchase plan – 15,735 shares	--	--	586	--	--	586
Stock-based compensation plans, net – 137,706 shares	--	2	5,924	--	--	5,926
Stock issued for Citizens National acquisition – 835,741 common shares	--	8	41,244	--	--	41,252
Preferred stock redeemed	(30,852)	--	--	--	--	(30,852)
Dividends on preferred stock	--	--	--	--	(24)	(24)
Dividends on common stock – \$0.72 per share	--	--	--	--	(21,227)	(21,227)
Balance, September 30, 2016 (Unaudited)	--	313	710,132	2,117	434,579	1,147,141
Comprehensive income	--	--	--	(17,329)	26,971	9,642
Stock-based compensation plans, net – 10,109 shares	--	--	1,844	--	--	1,844
Cash dividends – \$0.24 per share	--	--	--	--	(7,516)	(7,516)
Balance, December 31, 2016	--	313	711,976	(15,212)	454,034	1,151,111
Comprehensive income	--	--	--	4,561	74,037	78,598
Stock issued for employee stock purchase plan – 13,001 shares	--	--	618	--	--	618
Stock-based compensation plans, net – 121,548 shares	--	1	8,219	--	--	8,220
Stock issued for Hardeman acquisition – 799,970 common shares	--	8	42,630	--	--	42,638
Dividends on common stock – \$0.75 per share	--	--	--	--	(23,986)	(23,986)
Balance, September 30, 2017 (Unaudited)	\$--	\$322	\$763,443	\$(10,651)	\$504,085	\$1,257,199

See Condensed Notes to Consolidated Financial Statements.

SIMMONS FIRST NATIONAL CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Simmons First National Corporation (the “Company”) and its subsidiaries have been prepared based upon Securities and Exchange Commission (“SEC”) rules that permit reduced disclosures for interim periods. Certain information and footnote disclosures have been condensed or omitted in accordance with those rules and regulations. The accompanying consolidated balance sheet as of December 31, 2016, was derived from audited financial statements. In the opinion of management, these financial statements reflect all adjustments that are necessary for a fair presentation of interim results of operations, including normal recurring accruals. Significant intercompany accounts and transactions have been eliminated in consolidation. The results for the interim periods are not necessarily indicative of results for the full year. For a more complete discussion of significant accounting policies and certain other information, this report should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the SEC on February 28, 2017.

The preparation of financial statements, in accordance with accounting principles generally accepted in the United States (“US GAAP”), requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income items and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management’s evaluation of the relevant facts and circumstances as of the date of the consolidated financial statements and actual results may differ from these estimates. Such estimates include, but are not limited to, our allowance for loan losses.

Certain gains and fees were reclassified within non-interest income categories in the 2016 statements of income to conform to the 2017 presentation. These reclassifications were not material to the consolidated financial statements.

Recently Adopted Accounting Standards

Premium Amortization on Purchased Callable Debt Securities – In March 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-08, *Receivables – Nonrefundable Fees and*

Other Costs (Topic 310-20): Premium Amortization on Purchased Callable Debt Securities (“ASU 2017-08”), that amends the amortization period for certain purchased callable debt securities held at a premium. Specifically, the amendments shorten the amortization period by requiring that the premium be amortized to the earliest call date. Under previous US GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The effective date is for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. As permitted, we elected to early adopt the provisions of ASU 2017-08 during the first quarter 2017. The adoption of this standard did not have a material effect on our results of operations, financial position or disclosures.

Employee Share-Based Payments – In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”), which requires all excess tax benefits and tax deficiencies related to share-based payment awards be recognized as income tax expense or benefit in the income statement during the period in which they occur. Previously, such amounts were recorded in the pool of excess tax benefits included in additional paid-in capital, if such pool was available. Due to excess tax benefits no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method when computing earnings per share should exclude the amount of excess tax benefits that would have previously been recognized in additional paid-in capital. Additionally, excess tax benefits should be classified along with other income tax cash flows as an operating activity rather than a financing activity, as was previously the case. ASU 2016-09 also provides that an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current US GAAP) or account for forfeitures when they occur. ASU 2016-09 changes the threshold to qualify for equity classification (rather than as a liability) to permit withholding up to the maximum statutory tax rates (rather than the minimum as was previously the case) in the applicable jurisdictions. ASU 2016-09 became effective for annual and interim periods beginning after December 15, 2016. The prospective adoption of this standard has not had a material effect on our results of operations, financial position or disclosures. The impact of the requirement to report those income tax effects in earnings reduced reported federal and state income tax expense by approximately \$22,000 and \$1.5 million for the three and nine month periods ended September 30, 2017, respectively.

Recently Issued Accounting Standards

Derivatives and Hedging: Targeted Improvements – In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* (“ASU 2017-12”), that changes both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results in order to better align a company’s risk management activities and financial reporting for hedging relationships. In summary, this amendment 1) expands the types of transactions eligible for hedge accounting; 2) eliminates the separate measurement and presentation of hedge ineffectiveness; 3) simplifies the requirements around the assessment of hedge effectiveness; 4) provides companies more time to finalize hedge documentation; and 5) enhances presentation and disclosure requirements. The effective date is for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. All transition requirements and elections should be applied to existing hedging relationships on the date of adoption and the effects should be reflected as of the beginning of the fiscal year of adoption. We are currently evaluating the impact this standard will have on our results of operations, financial position or disclosures, but it is not expected to have a material impact.

Stock Compensation: Scope of Modification Accounting – In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting* (“ASU 2017-09”), that provides clarity and reduces both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, to a change to the terms or conditions of a share-based payment award. An entity may change the terms or conditions of a share-based payment award for many different reasons, and the nature and effect of the change can vary significantly. The guidance clarifies which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. ASU 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. ASU 2017-09 is not expected to have a material impact on the Company’s results of operations, financial position or disclosures.

Goodwill Impairment – In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”), that eliminates Step 2 from the goodwill impairment test which required entities to compare the implied fair value of goodwill to its carrying amount. Under the amendments, the goodwill impairment will be measured as the excess of the reporting unit’s carrying amount over its fair value. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The effective date is for fiscal years beginning after December 15, 2019, with early adoption permitted for interim or annual impairment tests beginning in 2017. ASU 2017-04 is not expected to have a material effect on our results of operations, financial position or disclosures.

Statement of Cash Flows – In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”), designed to address the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and distributions received from equity method investees. The amendments also provide guidance on when an entity should separate or aggregate cash flows based on the predominance principle. The effective date is for fiscal years beginning after December 15, 2017,

including interim periods within those fiscal years. The new standard is required to be applied retrospectively, but may be applied prospectively if retrospective application would be impracticable. Since the amendment applies to the classification of cash flows, no impact is anticipated on our financial position or results of operations. Additionally, although we do not expect it to have a material impact, we are currently evaluating the impact of this amendment on our financial statement disclosures.

Credit Losses on Financial Instruments – In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which requires earlier measurement of credit losses, expands the range of information considered in determining expected credit losses and enhances disclosures. The main objective of ASU 2016-13 is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments replace the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The effective date for these amendments is for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We have formed a cross functional team that is assessing our data and system needs and evaluating the impact of adopting the new guidance. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact on our results of operations, financial position or disclosures.

Leases – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), that establish the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. The new guidance results in a more consistent representation of the rights and obligations arising from leases by requiring lessees to recognize the lease asset and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. The effective date is for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Based upon leases that were outstanding as of September 30, 2017, we do not expect the new standard to have a material impact on our results of operations, but anticipate increases in our assets and liabilities. Decisions to repurchase, modify or renew leases prior to the implementation date will impact the level of materiality.

Financial Assets and Financial Liabilities – In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”), that makes changes primarily affecting the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The effective date is for fiscal periods beginning after December 15, 2017, including interim periods within those fiscal years. ASU 2016-01 is not expected to have a material impact on the Company’s results of operations or financial position. Additionally, although we do not expect a material impact, we are continuing to evaluate the impact of this ASU on our fair value disclosures in the notes to the consolidated financial statements.

Revenue Recognition – In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”), that outlines a single comprehensive revenue recognition model for entities to follow in accounting for revenue from contracts with customers. The core principle of this revenue model is that an entity should recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive for those goods or services. In July 2015, the FASB issued ASU No. 2015-14, deferring the effective date to annual and interim periods beginning after December 15, 2017. The adoption of this standard is not expected to have a material effect on our results of operations, financial position or disclosures. The guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other US GAAP, which comprises a significant portion of our revenue stream. We believe that for most revenue streams within the scope of ASU 2015-14, the amendments will not change the timing of when the revenue is recognized. We will continue to evaluate the impact focusing on noninterest income sources within the scope of the new guidance; however, we do not expect adoption to have a material impact on our results of operations or financial position. Additionally, although we do not expect a material impact, we are continuing to evaluate the impact of the additional disclosures in our notes to the consolidated financial statements required by this guidance.

There have been no other significant changes to the Company’s accounting policies from the 2016 Form 10-K. Presently, the Company is not aware of any other changes to the Accounting Standards Codification that will have a material impact on the Company’s present or future financial position or results of operations.

Acquisition Accounting, Loans Acquired

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

The Company evaluates loans acquired, other than purchased impaired loans, in accordance with the provisions of ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. The fair value discount on these loans is accreted into interest income over the weighted average life of the loans using a constant yield method. The Company evaluates purchased impaired loans in accordance with the provisions of ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected.

For impaired loans accounted for under ASC Topic 310-30, the Company continues to estimate cash flows expected to be collected on these loans. The Company evaluates at each balance sheet date whether the present value of the loans determined using the effective interest rates has decreased significantly and, if so, recognizes a provision for loan loss in the consolidated statement of income. For any significant increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the remaining life of the loan.

For further discussion of our acquisition and loan accounting, see Note 2, Acquisitions, and Note 6, Loans Acquired.

Earnings Per Common Share (“EPS”)

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

Following is the computation of EPS for the three and nine months ended September 30, 2017 and 2016:

	Three Months		Nine Months	
	Ended		Ended	
(In thousands, except per share data)	September 30,		September 30,	
	2017	2016	2017	2016
Net income available to common shareholders	\$28,852	\$23,429	\$74,037	\$69,819
Average common shares outstanding	32,214	30,621	31,797	30,434
Average potential dilutive common shares	210	223	210	223
Average diluted common shares	32,424	30,844	32,007	30,657
Basic earnings per share	\$0.90	\$0.77	\$2.33	\$2.29
Diluted earnings per share ⁽¹⁾	\$0.89	\$0.76	\$2.31	\$2.28

Stock options to purchase 3,305 and 61,395 shares for the three and nine months ended September 30, 2016 were not included in the diluted EPS calculation because the exercise price of those options exceeded the average (1)market price for each period. There were no stock options excluded from the earnings per share calculation due to the related exercise price exceeding the average market price for the three and nine months ended September 30, 2017.

NOTE 2: ACQUISITIONS

Hardeman County Investment Company, Inc.

On May 15, 2017, the Company completed the acquisition of Hardeman County Investment Company, Inc. (“Hardeman”), headquartered in Jackson, Tennessee, including its wholly-owned bank subsidiary, First South Bank. The Company issued 799,970 shares of its common stock valued at approximately \$42.6 million as of May 15, 2017, plus \$30.0 million in cash in exchange for all outstanding shares of Hardeman common stock.

Prior to the acquisition, Hardeman conducted banking business from 10 branches located in western Tennessee. Including the effects of the acquisition method accounting adjustments, the Company acquired approximately \$462.9 million in assets, including approximately \$251.6 million in loans (inclusive of loan discounts) and approximately \$389.0 million in deposits. The Company completed the systems conversion and merged Hardeman into Simmons Bank in September 2017. As part of the systems conversion, 5 existing Simmons and First South Bank branches were consolidated or closed.

Goodwill of \$29.4 million was recorded as a result of the transaction. The merger strengthened the Company’s position in the western Tennessee market, and the Company will be able to achieve cost savings by integrating the two companies and combining accounting, data processing, and other administrative functions, all of which gave rise to the goodwill recorded. The goodwill will not be deductible for tax purposes.

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

(In thousands)	Acquired from Hardeman	Fair Value Adjustments	Fair Value
Assets Acquired			
Cash and due from banks	\$ 8,001	\$ --	\$ 8,001
Interest bearing balances due from banks - time	1,984	--	1,984
Investment securities	170,654	(316)	170,338
Loans acquired	257,641	(5,992)	251,649
Allowance for loan losses	(2,382)	2,382	--
Foreclosed assets	1,083	(452)	631
Premises and equipment	9,905	1,258	11,163
Bank owned life insurance	7,819	--	7,819
Goodwill	11,485	(11,485)	--
Core deposit intangible	--	7,840	7,840
Other intangibles	--	830	830
Other assets	2,639	(1)	2,638
Total assets acquired	\$ 468,829	\$ (5,936)	\$ 462,893
Liabilities Assumed			
Deposits:			
Non-interest bearing transaction accounts	\$ 76,555	\$ --	\$ 76,555
Interest bearing transaction accounts and savings deposits	214,872	--	214,872
Time deposits	97,917	(368)	97,549
Total deposits	389,344	(368)	388,976
Securities sold under agreement to repurchase	17,163	--	17,163
Other borrowings	3,000	--	3,000
Subordinated debentures	6,702	--	6,702
Accrued interest and other liabilities	1,891	1,924	3,815
Total liabilities assumed	418,100	1,556	419,656
Equity	50,729	(50,729)	--
Total equity assumed	50,729	(50,729)	--
Total liabilities and equity assumed	\$ 468,829	\$ (49,173)	\$ 419,656
Net assets acquired			43,237
Purchase price			72,639
Goodwill			\$ 29,402

The purchase price allocation and certain fair value measurements remain preliminary due to the timing of the acquisition. Management will continue to review the estimated fair values and evaluate the assumed tax positions. The Company expects to finalize its analysis of the acquired assets and assumed liabilities in this transaction over the next few months, within one year of the acquisition. Therefore, adjustments to the estimated amounts and carrying values may occur.

The Company's operating results for 2017 include the operating results of the acquired assets and assumed liabilities of Hardeman subsequent to the acquisition date.

Citizens National Bank

On September 9, 2016, the Company completed the acquisition of Citizens National Bank ("Citizens"), headquartered in Athens, Tennessee. The Company issued 835,741 shares of its common stock valued at approximately \$41.3 million as of September 9, 2016, plus \$35.0 million in cash in exchange for all outstanding shares of Citizens common stock.

Prior to the acquisition, Citizens conducted banking business from 9 branches located in east Tennessee. Including the effects of the acquisition method accounting adjustments, the Company acquired approximately \$585.1 million in assets, including approximately \$340.9 million in loans (inclusive of loan discounts) and approximately \$509.9 million in deposits. The Company completed the systems conversion and merged Citizens into Simmons Bank in October 2016.

Goodwill of \$23.4 million was recorded as a result of the transaction. The merger strengthened the Company's position in the east Tennessee market, and the Company is able to achieve cost savings by integrating the two companies and combining accounting, data processing, and other administrative functions, all of which gave rise to the goodwill recorded. The goodwill will be deductible for tax purposes.

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

(In thousands)	Acquired from Citizens	Fair Value Adjustments	Fair Value
Assets Acquired			
Cash and due from banks	\$ 131,467	\$ (351)	\$ 131,116
Federal funds sold	10,000	--	10,000
Investment securities	61,987	1	61,988
Loans acquired	350,361	(9,511)	340,850
Allowance for loan losses	(4,313)	4,313	--
Foreclosed assets	4,960	(1,518)	3,442
Premises and equipment	6,746	1,339	8,085
Bank owned life insurance	6,632	--	6,632
Core deposit intangible	--	5,075	5,075
Other intangibles	--	591	591
Other assets	17,364	6	17,370
Total assets acquired	\$585,204	\$ (55)	\$585,149
Liabilities Assumed			
Deposits:			
Non-interest bearing transaction accounts	\$ 109,281	\$ --	\$ 109,281
Interest bearing transaction accounts and savings deposits	204,912	--	204,912
Time deposits	195,664	--	195,664
Total deposits	509,857	--	509,857
Securities sold under agreement to repurchase	13,233	--	13,233
FHLB borrowings	4,000	47	4,047
Accrued interest and other liabilities	3,558	1,530	5,088
Total liabilities assumed	530,648	1,577	532,225
Equity	54,556	(54,556)	--
Total equity assumed	54,556	(54,556)	--
Total liabilities and equity assumed	\$585,204	\$ (52,979)	\$532,225
Net assets acquired			52,924
Purchase price			76,300
Goodwill			\$23,376

During 2017, the Company finalized its analysis of the loans acquired along with the other acquired assets and assumed liabilities in this transaction.

The Company's operating results for 2017 and 2016 include the operating results of the acquired assets and assumed liabilities of Citizens subsequent to the acquisition date.

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

Cash and due from banks, time deposits due from banks and federal funds sold – The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets.

Investment securities – Investment securities were acquired with an adjustment to fair value based upon quoted market prices if material. Otherwise, the carrying amount of these assets was deemed to be a reasonable estimate of fair value.

Loans acquired – Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and current discount rates. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns. The discount rate does not include a factor for credit losses as that has been included in the estimated cash flows. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques.

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

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

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

Goodwill – The consideration paid as a result of the acquisition exceeded the fair value of the assets acquired, resulting in an intangible asset, goodwill. Goodwill established prior to the acquisitions, if applicable, was written off.

Core deposit intangible – This intangible asset represents the value of the relationships that the acquired banks had with their deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base and the net maintenance cost attributable to customer deposits. Core deposit intangible established prior to the acquisitions, if applicable, was written off.

Other intangibles – These intangible assets represent the value of the relationships that Citizens had with their trust customers and Hardeman had with their insurance customers. The fair value of these intangible assets was estimated based on a combination of discounted cash flow methodology and a market valuation approach. Other intangibles established prior to the acquisitions, if applicable, were written off.

Other assets – The fair value adjustment results from certain assets whose value was estimated to be less than book value, such as certain prepaid assets, receivables and other miscellaneous assets. Otherwise, the carrying amount of these assets was deemed to be a reasonable estimate of fair value.

Deposits – The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. The Company performed a fair value analysis of the estimated weighted average interest rate of the certificates of deposits compared to the current market rates and recorded a fair value adjustment for the difference when material.

Securities sold under agreement to repurchase – The carrying amount of securities sold under agreement to repurchase is a reasonable estimate of fair value based on the short-term nature of these liabilities.

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

Subordinated debentures – The fair value of subordinated debentures is estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities. Due to the floating rate nature of the debenture, the fair value approximates book value as of the date acquired.

Accrued interest and other liabilities – The adjustment establishes a liability for unfunded commitments equal to the fair value of that liability at the date of acquisition.

See Note 22 for additional information related to other acquisitions that were completed during the fourth quarter of 2017.

NOTE 3: INVESTMENT SECURITIES

The amortized cost and fair value of investment securities that are classified as held-to-maturity (“HTM”) and available-for-sale (“AFS”) are as follows:

(In thousands)	September 30, 2017				December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
<u>Held-to-Maturity</u>								
U.S. Government agencies	\$66,928	\$ 40	\$(140)	\$66,828	\$76,875	\$ 107	\$(182)	\$76,800
Mortgage-backed securities	16,972	56	(191)	16,837	19,773	63	(249)	19,587
State and political subdivisions	320,116	6,397	(55)	326,458	362,532	4,967	(842)	366,657
Other securities	2,017	--	--	2,017	2,916	--	--	2,916
Total HTM	\$406,033	\$ 6,493	\$(386)	\$412,140	\$462,096	\$ 5,137	\$(1,273)	\$465,960
<u>Available-for-Sale</u>								
U.S. Treasury	\$--	\$--	\$--	\$--	\$300	\$--	\$--	\$300
U.S. Government agencies	210,004	273	(2,057)	208,220	140,005	67	(2,301)	137,771
Mortgage-backed securities	973,111	120	(13,533)	959,698	885,783	178	(17,637)	868,324
State and political subdivisions	87,405	161	(2,744)	84,822	108,374	38	(5,469)	102,943
Other securities	63,295	1,385	--	64,680	47,022	996	(2)	48,016
Total AFS	\$1,333,815	\$ 1,939	\$(18,334)	\$1,317,420	\$1,181,484	\$ 1,279	\$(25,409)	\$1,157,354

Securities with limited marketability, such as stock in the Federal Reserve Bank and the Federal Home Loan Bank, are carried at cost and are reported as other AFS securities in the table above.

Certain investment securities are valued at less than their historical cost. Total fair value of these investments at September 30, 2017, was \$1.2 billion, which is approximately 69.7% of the Company’s combined AFS and HTM investment portfolios.

The following table shows the gross unrealized losses and fair value of the Company’s investments with unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2017:

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(In thousands)	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
<u>Held-to-Maturity</u>						
U.S. Government agencies	\$12,947	\$ (53)	\$39,913	\$ (87)	\$52,860	\$ (140)
Mortgage-backed securities	4,094	(42)	6,687	(149)	10,781	(191)
State and political subdivisions	11,300	(41)	2,634	(14)	13,934	(55)
Total HTM	\$28,341	\$ (136)	\$49,234	\$ (250)	\$77,575	\$ (386)
<u>Available-for-Sale</u>						
U.S. Government agencies	\$66,254	\$ (750)	\$82,211	\$ (1,307)	\$148,465	\$ (2,057)
Mortgage-backed securities	626,560	(7,458)	273,883	(6,075)	900,443	(13,533)
State and political subdivisions	1,813	(32)	76,781	(2,712)	78,594	(2,744)
Other securities	--	--	100	--	100	--
Total AFS	\$694,627	\$ (8,240)	\$432,975	\$ (10,094)	\$1,127,602	\$ (18,334)

These declines primarily resulted from the rate for these investments yielding less than current market rates. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. Management does not have the intent to sell these securities and management believes it is more likely than not the Company will not have to sell these securities before recovery of their amortized cost basis less any current period credit losses.

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

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company expects to receive full value for the securities. Furthermore, as of September 30, 2017, management also had the ability and intent to hold the securities classified as AFS for a period of time sufficient for a recovery of cost. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of September 30, 2017, management believes the impairments detailed in the table above are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

Income earned on securities for the three and nine months ended September 30, 2017 and 2016, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2017	2016	2017	2016
Taxable:				
Held-to-maturity	\$625	\$771	\$1,922	\$3,094
Available-for-sale	5,949	4,005	18,003	12,931
Non-taxable:				
Held-to-maturity	2,135	2,617	6,635	8,162
Available-for-sale	509	381	2,099	592
Total	\$9,218	\$7,774	\$28,659	\$24,779

The amortized cost and estimated fair value by maturity of securities are shown in the following table. Securities are classified according to their contractual maturities without consideration of principal amortization, potential prepayments or call options. Accordingly, actual maturities may differ from contractual maturities.

(In thousands)	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	\$50,829	\$50,838	\$21,211	\$21,145
After one through five years	105,323	105,823	81,147	80,388
After five through ten years	99,399	100,902	14,532	14,427
After ten years	133,510	137,740	181,619	178,182
Securities not due on a single maturity date	16,972	16,837	973,111	959,698
Other securities (no maturity)	--	--	62,195	63,580
Total	\$406,033	\$412,140	\$1,333,815	\$1,317,420

The carrying value, which approximates the fair value, of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$985.8 million at September 30, 2017 and \$915.2 million at December 31, 2016.

There were \$3,000 of gross realized gains and no realized losses from the sale of securities during the three months ended September 30, 2017 and \$2.3 million of realized gains and \$5,000 of realized losses from the sale of securities during the nine months ended September 30, 2017. There were \$315,000 of gross realized gains and no realized losses from the sale of securities during the three months ended September 30, 2016 and \$4.4 million of realized gains and no realized losses from the sale of securities during the nine months ended September 30, 2016.

The state and political subdivision debt obligations are predominately non-rated bonds representing small issuances, primarily in Arkansas, Missouri, Tennessee and Texas issues, which are evaluated on an ongoing basis.

NOTE 4: OTHER ASSETS AND OTHER LIABILITIES HELD FOR SALE

On August 28, 2017, the Company, through its bank subsidiary, Simmons Bank, acquired the stock of Heartland Bank at a public auction to satisfy certain indebtedness of its holding company, Rock Bancshares, Inc. The Company recorded \$182.4 million of other assets held for sale and \$177.0 of other liabilities held for sale, at fair value as of the date of the transaction.

The Company is actively marketing and exploring a plan to sell the acquired assets and liabilities of Heartland Bank and expects to complete a sale within one year of acquisition. Heartland Bank remains a separate operating entity, and any sale will be conducted on terms that are mutually agreeable to both parties.

The following is a description of the methods used to determine the purchase price allocation for fair values of significant assets and liabilities presented in the Heartland Bank transaction.

Cash and due from banks, time deposits due from banks and federal funds sold – The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets.

Investment securities – The carrying amount of these assets was deemed to be a reasonable estimate of fair value, as there were no material differences to fair value based upon quoted market prices.

Loans acquired – Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and current discount rates. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns. The discount rate does not include a factor for credit losses as that has been included in the estimated cash flows. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques.

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

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

Deposits – The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. The Company performed a fair value analysis of the estimated weighted average interest rate of the certificates of deposits compared to the current market rates and determined the difference was not material.

NOTE 5: LOANS AND ALLOWANCE FOR LOAN LOSSES

At September 30, 2017, the Company's loan portfolio was \$6.303 billion, compared to \$5.633 billion at December 31, 2016. The various categories of loans are summarized as follows:

(In thousands)	September 30, 2017	December 31, 2016
Consumer:		
Credit cards	\$ 176,316	\$ 184,591
Other consumer	317,946	303,972
Total consumer	494,262	488,563
Real Estate:		
Construction	515,274	336,759
Single family residential	1,048,403	904,245
Other commercial	2,231,223	1,787,075
Total real estate	3,794,900	3,028,079
Commercial:		
Commercial	688,960	639,525
Agricultural	207,849	150,378
Total commercial	896,809	789,903
Other	25,341	20,662
Loans	5,211,312	4,327,207
Loans acquired, net of discount and allowance ⁽¹⁾	1,092,039	1,305,683
Total loans	\$6,303,351	\$5,632,890

(1) See Note 6, Loans Acquired, for segregation of loans acquired by loan class.

Loan Origination/Risk Management – The Company seeks to manage its credit risk by diversifying its loan portfolio, determining that borrowers have adequate sources of cash flow for loan repayment without liquidation of collateral; obtaining and monitoring collateral; providing an adequate allowance for loans losses by regularly reviewing loans through the internal loan review process. The loan portfolio is diversified by borrower, purpose and industry. The Company seeks to use diversification within the loan portfolio to reduce its credit risk, thereby minimizing the adverse impact on the portfolio, if weaknesses develop in either the economy or a particular segment of borrowers. Collateral requirements are based on credit assessments of borrowers and may be used to recover the debt in case of default. Furthermore, a factor that influenced the Company's judgment regarding the allowance for loan losses consists of a five-year historical loss average segregated by each primary loan sector. On an annual basis, historical loss rates are calculated for each sector.

Consumer – The consumer loan portfolio consists of credit card loans and other consumer loans. Credit card loans are diversified by geographic region to reduce credit risk and minimize any adverse impact on the portfolio. Although they are regularly reviewed to facilitate the identification and monitoring of creditworthiness, credit card loans are unsecured loans, making them more susceptible to be impacted by economic downturns resulting in increasing unemployment. Other consumer loans include direct and indirect installment loans and overdrafts. Loans in this portfolio segment are sensitive to unemployment and other key consumer economic measures.

Real estate – The real estate loan portfolio consists of construction loans, single family residential loans and commercial loans. Construction and development loans (“C&D”) and commercial real estate loans (“CRE”) can be particularly sensitive to valuation of real estate. Commercial real estate cycles are inevitable. The long planning and production process for new properties and rapid shifts in business conditions and employment create an inherent tension between supply and demand for commercial properties. While general economic trends often move individual markets in the same direction over time, the timing and magnitude of changes are determined by other forces unique to each market. CRE cycles tend to be local in nature and longer than other credit cycles. Factors influencing the CRE market are traditionally different from those affecting residential real estate markets; thereby making predictions for one market based on the other difficult. Additionally, submarkets within commercial real estate – such as office, industrial, apartment, retail and hotel – also experience different cycles, providing an opportunity to lower the overall risk through diversification across types of CRE loans. Management realizes that local demand and supply conditions will also mean that different geographic areas will experience cycles of different amplitude and length. The Company monitors these loans closely.

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

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

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

(In thousands)	September 30, 2017	December 31, 2016
Consumer:		
Credit cards	\$ 273	\$ 373
Other consumer	3,880	1,793
Total consumer	4,153	2,166
Real estate:		
Construction	2,403	3,411
Single family residential	13,034	12,139
Other commercial	18,811	12,385
Total real estate	34,248	27,935
Commercial:		
Commercial	13,827	7,765
Agricultural	2,210	1,238
Total commercial	16,037	9,003
Total	\$ 54,438	\$ 39,104

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

(In thousands)	Gross 30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days Past Due & Accruing
September 30, 2017						
Consumer:						
Credit cards	\$655	\$492	\$1,147	\$175,169	\$176,316	\$ 218
Other consumer	4,870	2,570	7,440	310,506	317,946	4
Total consumer	5,525	3,062	8,587	485,675	494,262	222
Real estate:						
Construction	440	1,478	1,918	513,356	515,274	--
Single family residential	5,516	4,785	10,301	1,038,102	1,048,403	--
Other commercial	3,032	8,945	11,977	2,219,246	2,231,223	--
Total real estate	8,988	15,208	24,196	3,770,704	3,794,900	--
Commercial:						
Commercial	991	10,745	11,736	677,224	688,960	10
Agricultural	469	1,793	2,262	205,587	207,849	--
Total commercial	1,460	12,538	13,998	882,811	896,809	10
Other	--	--	--	25,341	25,341	--
Total	\$15,973	\$30,808	\$46,781	\$5,164,531	\$5,211,312	\$ 232
December 31, 2016						
Consumer:						
Credit cards	\$716	\$275	\$991	\$183,600	\$184,591	\$ 275
Other consumer	3,786	1,027	4,813	299,159	303,972	11
Total consumer	4,502	1,302	5,804	482,759	488,563	286
Real estate:						
Construction	1,420	1,246	2,666	334,093	336,759	--
Single family residential	6,310	5,927	12,237	892,008	904,245	14
Other commercial	4,212	6,722	10,934	1,776,141	1,787,075	--
Total real estate	11,942	13,895	25,837	3,002,242	3,028,079	14
Commercial:						
Commercial	2,040	5,296	7,336	632,189	639,525	--
Agricultural	121	1,215	1,336	149,042	150,378	--
Total commercial	2,161	6,511	8,672	781,231	789,903	--
Other	--	--	--	20,662	20,662	--
Total	\$18,605	\$21,708	\$40,313	\$4,286,894	\$4,327,207	\$ 300

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

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

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

(In thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Investment in Impaired Loans Three Months Ended September 30, 2017	Average Interest Income Recognized	Average Investment in Impaired Loans Nine Months Ended September 30, 2017	Average Interest Income Recognized
<u>September 30, 2017</u>									
Consumer:									
Credit cards	\$ 273	\$ 273	\$ --	\$ 273	\$ --	\$ 283	\$ 12	\$ 292	\$ 23
Other consumer	4,022	3,880	--	3,880	--	3,314	23	2,711	53
Total consumer	4,295	4,153	--	4,153	--	3,597	35	3,003	76
Real estate:									
Construction	2,652	1,496	907	2,403	220	2,582	17	2,828	56
Single family residential	13,782	12,450	584	13,034	53	12,878	85	12,772	251
Other commercial	19,065	7,260	10,983	18,243	2,052	19,306	121	19,313	380
Total real estate	35,499	21,206	12,474	33,680	2,325	34,766	223	34,913	687
Commercial:									
Commercial	13,774	4,805	8,112	12,917	3,996	14,543	84	12,943	255
Agricultural	2,184	1,059	--	1,059	--	1,562	8	1,645	32
Total commercial	15,958	5,864	8,112	13,976	3,996	16,105	92	14,588	287
Total	\$ 55,752	\$ 31,223	\$ 20,586	\$ 51,809	\$ 6,321	\$ 54,468	\$ 350	\$ 52,504	\$ 1,050

						Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
<u>December 31, 2016</u>									
Consumer:									
Credit cards	\$ 373	\$ 373	\$ --	\$ 373	\$ --	\$ 439	\$ --	\$ 340	\$ 10
Other consumer	1,836	1,797	3	1,800	1	1,324	14	882	32
Total consumer	2,209	2,170	3	2,173	1	1,763	14	1,222	42
Real estate:									
Construction	4,275	1,038	2,374	3,412	156	4,474	44	4,692	170
Single family residential	12,970	10,630	1,753	12,383	162	10,897	119	8,762	317
Other commercial	20,993	6,891	7,315	14,206	99	18,981	178	15,113	547
Total real estate	38,238	18,559	11,442	30,001	417	34,352	341	28,567	1,034
Commercial:									
Commercial	11,848	2,734	7,573	10,307	262	4,402	59	3,256	118
Agricultural	2,226	1,215	--	1,215	--	1,604	16	1,003	36
Total commercial	14,074	3,949	7,573	11,522	262	6,006	75	4,259	154
Total	\$ 54,521	\$ 24,678	\$ 19,018	\$ 43,696	\$ 680	\$ 42,121	\$ 430	\$ 34,048	\$ 1,230

At September 30, 2017, and December 31, 2016, impaired loans, net of government guarantees and excluding loans acquired, totaled \$51.8 million and \$43.7 million, respectively. Allocations of the allowance for loan losses relative to impaired loans were \$6.3 million and \$680,000 at September 30, 2017 and December 31, 2016, respectively. Approximately \$350,000 and \$1.1 million of interest income was recognized on average impaired loans of \$54.5 million and \$52.5 million for the three and nine months ended September 30, 2017. Interest income recognized on impaired loans on a cash basis during the three and nine months ended September 30, 2017 and 2016 was not material.

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

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

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

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

(Dollars in thousands)	Accruing TDR Loans		Nonaccrual TDR Loans		Total TDR Loans	
	Number	Balance	Number	Balance	Number	Balance

September 30, 2017

Real estate:

Construction	--	\$--	1	\$432	1	\$432
Single-family residential	4	144	14	838	18	982
Other commercial	5	6,877	3	6,152	8	13,029
Total real estate	9	7,021	18	7,422	27	14,443

Commercial:

Commercial	7	2,191	6	749	13	2,940
Total commercial	7	2,191	6	749	13	2,940
Total	16	\$9,212	24	\$8,171	40	\$17,383

December 31, 2016

Consumer:

Other consumer	--	\$--	1	\$3	1	\$3
Total consumer	--	--	1	3	1	3

Real estate:

Construction	--	--	1	18	1	18
Single-family residential	3	167	29	2,078	32	2,245
Other commercial	23	9,048	2	780	25	9,828
Total real estate	26	9,215	32	2,876	58	12,091

Commercial:

Commercial	15	1,783	5	297	20	2,080
Total commercial	15	1,783	5	297	20	2,080
Total	41	\$10,998	38	\$3,176	79	\$14,174

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The following table presents loans that were restructured as TDRs during the three and nine months ended September 30, 2017 and 2016, excluding loans acquired, segregated by class of loans.

(Dollars in thousands)	Number of Loans	Balance Prior to TDR	Balance at September 30	Modification Type Change in Maturity Date	Change in Rate	Financial Impact on Date of Restructure
<u>Three Months Ended September 30, 2017</u>						
Commercial:						
Commercial	1	\$ 608	\$ 607	\$607	\$--	\$ --
Total commercial	1	608	607	607	--	--
Total	1	\$608	\$ 607	\$607	\$--	\$ --
<u>Three Months Ended September 30, 2016</u>						
Consumer:						
Other consumer	1	\$47	\$ 8	\$8	\$--	\$ --
Total consumer	1	47	8	8	--	--
Real Estate:						
Single-family residential	13	742	694	694	--	--
Other commercial	2	835	834	66	768	--
Total real estate	15	1,577	1,528	760	768	--
Commercial:						
Commercial	5	1,387	1,387	1,387	--	--
Total commercial	5	1,387	1,387	1,387	--	--
Total	21	\$3,011	\$ 2,923	\$2,155	\$768	\$ --
<u>Nine Months Ended September 30, 2017</u>						
Real estate:						
Construction	1	\$456	\$ 456	\$456	\$--	\$ --
Other commercial	2	7,362	7,362	7,362	--	33
Total real estate	3	7,818	7,818	7,818	--	33
Commercial:						
Commercial	10	1,419	1,407	1,368	39	--
Total commercial	10	1,419	1,407	1,368	39	--
Total	13	\$9,237	\$ 9,225	\$9,186	\$39	\$ 33
<u>Nine Months Ended September 30, 2016</u>						
Consumer:						
Other consumer	2	\$50	\$ 11	\$11	\$--	\$ --
Total consumer	2	50	11	11	--	--
Real estate:						
Single-family residential	22	1,538	1,487	933	554	--
Other commercial	27	9,797	9,765	8,633	1,132	--
Total real estate	49	11,335	11,252	9,566	1,686	--
Commercial:						

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Commercial	16	1,987	1,959	1,959	--	--
Total commercial	16	1,987	1,959	1,959	--	--
Total	67	\$13,372	\$ 13,222	\$11,536	\$1,686	\$ --

During the three months ended September 30, 2017, the Company modified one loan with a recorded investment of \$608,000 prior to modification that was deemed troubled debt restructuring. The restructured loan was modified by changing the maturity date. Based on the fair value of the collateral, no specific reserve was determined necessary for this loan. Also, there was no immediate financial impact from the restructuring of the loan, as it was not considered necessary to charge-off interest or principal on the date of restructure.

During the nine months ended September 30, 2017, the Company modified 13 loans with a recorded investment of \$9.2 million prior to modification which was deemed troubled debt restructuring. The restructured loans were modified by deferring amortized principal payments, changing the maturity date and requiring interest only payments for a period of 12 months. Based on the fair value of the collateral, a specific reserve of \$33,000 was determined necessary for these loans. Also, there was no immediate financial impact from the restructuring of these loans, as it was not considered necessary to charge-off interest or principal on the date of restructure.

During the three months ended September 30, 2016, the Company modified 21 loans with a recorded investment of \$3.0 million and during the nine months ended September 30, 2016, the Company modified 67 loans with a total recorded investment of \$13.4 million prior to modification which were deemed troubled debt restructuring. The restructured loans were modified by changing various terms, including changing the maturity date, deferring amortized principal payments and requiring interest only payments for a period of 12 months. Based on the fair value of the collateral, a specific reserve of \$402,000 was determined necessary for these loans. Also, there was no immediate financial impact from the restructuring of these loans, as it was not considered necessary to charge-off interest or principal on the date of restructure.

There was one commercial real estate loan for which a payment default occurred during the nine months ended September 30, 2017, and that had been modified as a TDR within 12 months or less of the payment default, excluding loans acquired. A charge off of approximately \$440,000 was recorded for this loan during the third quarter 2017. There was one consumer loan for which a payment default occurred during the nine months ended September 30, 2016, that had been modified as a TDR within 12 months or less of the payment default, excluding loans acquired. A charge off of \$39,000 was recorded for this loan. We define a payment default as a payment received more than 90 days after its due date.

In addition to the TDRs that occurred during the period provided in the preceding tables, the Company had TDRs with pre-modification loan balances of \$117,000 and \$166,500 at September 30, 2017 and 2016, respectively, for which other real estate owned (“OREO”) was received in full or partial satisfaction of the loans. The majority of such TDRs were in commercial real estate and residential real estate. At September 30, 2017 and December 31, 2016, the Company had \$1,180,000 and \$1,714,000, respectively, of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process. At September 30, 2017 and December 31, 2016, the Company had \$5,275,000 and \$5,094,000, respectively, of OREO secured by residential real estate properties.

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

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

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

Risk Rate 2 – Pass (Good) - Loans under this category possess a nominal risk of default. This category includes borrowers with strong financial strength and superior financial ratios and trends. These loans are generally fully

secured by cash or equivalents (other than those rated "excellent").

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

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

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

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

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

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

Loans acquired are evaluated using this internal grading system. Loans acquired are evaluated individually and include purchased credit impaired loans of \$7.9 million and \$17.8 million that are accounted for under ASC Topic 310-30 and are classified as substandard (Risk Rating 6) as of September 30, 2017 and December 31, 2016, respectively. Of the remaining loans acquired and accounted for under ASC Topic 310-20, \$22.6 million and \$47.8 million were classified (Risk Ratings 6, 7 and 8 – see classified loans discussion below) at September 30, 2017 and December 31, 2016, respectively.

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

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

Total classified loans, excluding loans accounted for under ASC Topic 310-30, were \$130.6 million and \$166.0 million, as of September 30, 2017 and December 31, 2016, respectively.

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The following table presents a summary of loans by credit risk rating as of September 30, 2017 and December 31, 2016, segregated by class of loans. Loans accounted for under ASC Topic 310-30 are all included in Risk Rate 1-4 in this table.

(In thousands)	Risk Rate 1-4	Risk Rate 5	Risk Rate 6	Risk Rate 7	Risk Rate 8	Total
<u>September 30, 2017</u>						
Consumer:						
Credit cards	\$ 176,316	\$--	\$--	\$--	\$ --	\$ 176,316
Other consumer	313,725	--	4,221	--	--	317,946
Total consumer	490,041	--	4,221	--	--	494,262
Real estate:						
Construction	507,128	2,085	6,045	16	--	515,274
Single family residential	1,022,886	2,553	22,675	289	--	1,048,403
Other commercial	2,175,968	11,729	43,526	--	--	2,231,223
Total real estate	3,705,982	16,367	72,246	305	--	3,794,900
Commercial:						
Commercial	661,635	6,267	21,057	1	--	688,960
Agricultural	205,524	26	2,276	23	--	207,849
Total commercial	867,159	6,293	23,333	24	--	896,809
Other	25,341	--	--	--	--	25,341
Loans acquired	1,051,889	9,673	29,862	615	--	1,092,039
Total	\$6,140,412	\$32,333	\$ 129,662	\$944	\$ --	\$6,303,351
(In thousands)	Risk Rate 1-4	Risk Rate 5	Risk Rate 6	Risk Rate 7	Risk Rate 8	Total
<u>December 31, 2016</u>						
Consumer:						
Credit cards	\$ 183,943	\$--	\$ 648	\$--	\$--	\$ 184,591
Other consumer	301,632	26	2,314	--	--	303,972
Total consumer	485,575	26	2,962	--	--	488,563
Real estate:						
Construction	330,080	98	6,565	16	--	336,759
Single family residential	875,603	4,024	24,460	158	--	904,245
Other commercial	1,738,207	6,874	41,994	--	--	1,787,075
Total real estate	2,943,890	10,996	73,019	174	--	3,028,079
Commercial:						
Commercial	616,805	558	22,162	--	--	639,525
Agricultural	148,218	104	2,033	--	23	150,378
Total commercial	765,023	662	24,195	--	23	789,903
Other	20,662	--	--	--	--	20,662
Loans acquired	1,217,886	22,181	64,075	1,541	--	1,305,683
Total	\$5,433,036	\$33,865	\$ 164,251	\$ 1,715	\$ 23	\$5,632,890

Allowance for Loan Losses

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

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

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

The general allocation is calculated monthly based on management’s assessment of several factors such as (1) historical loss experience based on volumes and types, (2) volume and trends in delinquencies and nonaccruals, (3) lending policies and procedures including those for loan losses, collections and recoveries, (4) national, state and local economic trends and conditions, (5) external factors and pressure from competition, (6) the experience, ability and depth of lending management and staff, (7) seasoning of new products obtained and new markets entered through acquisition and (8) other factors and trends that will affect specific loans and categories of loans. The Company establishes general allocations for each major loan category. This category also includes allocations to loans which are collectively evaluated for loss such as credit cards, one-to-four family owner occupied residential real estate loans and other consumer loans.

The following table details activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2017. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

(In thousands)	Commercial	Real Estate	Credit Card	Other Consumer and Other	Total
<u>Three Months Ended September 30, 2017</u>					
Balance, beginning of period ⁽²⁾	\$ 8,105	\$25,731	\$3,754	\$ 3,789	\$41,379
Provision for loan losses ⁽¹⁾	2,310	2,150	761	241	5,462
Charge-offs	(2,442)	(896)	(1,017)	(819)	(5,174)
Recoveries	21	309	275	445	1,050
Net charge-offs	(2,421)	(587)	(742)	(374)	(4,124)
Balance, September 30, 2017 ⁽²⁾	\$ 7,994	\$27,294	\$3,773	\$ 3,656	\$42,717
<u>Nine Months Ended September 30, 2017</u>					
Balance, beginning of period ⁽²⁾	\$ 7,739	\$21,817	\$3,779	\$ 2,951	\$36,286
Provision for loan losses ⁽¹⁾	3,255	7,984	2,168	1,920	15,327
Charge-offs	(3,083)	(3,264)	(2,962)	(2,986)	(12,295)
Recoveries	83	757	788	1,771	3,399
Net charge-offs	(3,000)	(2,507)	(2,174)	(1,215)	(8,896)
Balance, September 30, 2017 ⁽²⁾	\$ 7,994	\$27,294	\$3,773	\$ 3,656	\$42,717
Period-end amount allocated to:					
Loans individually evaluated for impairment	\$ 3,996	\$2,325	\$--	\$ --	\$6,321
Loans collectively evaluated for impairment	3,998	24,969	3,773	3,656	36,396
Balance, September 30, 2017 ⁽²⁾	\$ 7,994	\$27,294	\$3,773	\$ 3,656	\$42,717

Provision for loan losses of \$1,464,000 attributable to loans acquired was excluded from this table for the nine months ended September 30, 2017 (total provision for loan losses for the three and nine months ended September (1)30, 2017 was \$5,462,000 and \$16,792,000). There was \$2.0 million in charge-offs for loans acquired during the nine months ended September 30, 2017 resulting in an ending balance in the allowance related to loans acquired of \$391,000.

Allowance for loan losses at September 30, 2017 includes \$391,000 allowance for loans acquired (not shown in the table above). Allowance for loan losses at December 31, 2016 includes \$954,000 allowance for loans acquired. The (2) total allowance for loan losses at September 30, 2017 and June 30, 2017 was \$43,108,000 and \$41,770,000, respectively.

Activity in the allowance for loan losses for the three and nine months ended September 30, 2016 was as follows:

(In thousands)	Commercial	Real Estate	Credit Card	Other Consumer and Other	Total
<u>Three Months Ended September 30, 2016</u>					
Balance, beginning of period ⁽⁴⁾	\$ 7,832	\$ 19,635	\$ 3,748	\$ 2,308	\$ 33,523
Provision for loan losses ⁽³⁾	680	6,066	501	832	8,079
Charge-offs	(284)	(6,297)	(699)	(600)	(7,880)
Recoveries	12	55	199	106	372
Net charge-offs	(272)	(6,242)	(500)	(494)	(7,508)
Balance, September 30, 2016 ⁽⁴⁾	\$ 8,240	\$ 19,459	\$ 3,749	\$ 2,646	\$ 34,094
<u>Nine Months Ended September 30, 2016</u>					
Balance, beginning of period ⁽⁴⁾	\$ 5,985	\$ 19,522	\$ 3,893	\$ 1,951	\$ 31,351
Provision for loan losses ⁽³⁾	4,961	7,009	1,422	1,819	15,211
Charge-offs	(3,043)	(7,350)	(2,260)	(1,482)	(14,135)
Recoveries	337	278	694	358	1,667
Net charge-offs	(2,706)	(7,072)	(1,566)	(1,124)	(12,468)
Balance, September 30, 2016 ⁽⁴⁾	\$ 8,240	\$ 19,459	\$ 3,749	\$ 2,646	\$ 34,094
Period-end amount allocated to:					
Loans individually evaluated for impairment	\$ 64	\$ 515	\$ --	\$ 1	\$ 580
Loans collectively evaluated for impairment	8,176	18,944	3,749	2,645	33,514
Balance, September 30, 2016 ⁽⁴⁾	\$ 8,240	\$ 19,459	\$ 3,749	\$ 2,646	\$ 34,094
Period-end amount allocated to:					
Loans individually evaluated for impairment	\$ 262	\$ 417	\$ --	\$ 1	\$ 680
Loans collectively evaluated for impairment	7,477	21,400	3,779	2,950	35,606
Balance, December 31, 2016 ⁽⁵⁾	\$ 7,739	\$ 21,817	\$ 3,779	\$ 2,951	\$ 36,286

(3) Provision for loan losses of \$215,000 and \$522,000 attributable to loans acquired was excluded from this table for the three and nine months ended September 30, 2016 (total provision for loan losses for the three and nine months ended September 30, 2016 was \$8,294,000 and \$15,733,000). The \$215,000 and \$522,000 was subsequently charged-off, resulting in no change in the ending balance in the allowance related to loans acquired.

(4) Allowance for loan losses at September 30, 2016, June 30, 2016 and December 31, 2015 includes \$954,000 allowance for loans acquired. The total allowance for loan losses at September 30, 2016, June 30, 2016 and December 31, 2015 was \$35,048,000, \$34,477,000 and \$32,305,000, respectively.

(5) Allowance for loan losses at December 31, 2016 includes \$954,000 allowance for loans acquired (not shown in the table above). The total allowance for loan losses December 31, 2016 was \$37,240,000.

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

(In thousands)	Commercial	Real Estate	Credit Card	Other Consumer and Other	Total
September 30, 2017					
Loans individually evaluated for impairment	\$ 13,976	\$33,680	\$273	\$ 3,880	\$51,809
Loans collectively evaluated for impairment	882,833	3,761,220	176,043	339,407	5,159,503
Balance, end of period	\$ 896,809	\$3,794,900	\$176,316	\$343,287	\$5,211,312
December 31, 2016					
Loans individually evaluated for impairment	\$ 11,522	\$30,001	\$373	\$ 1,800	\$43,696
Loans collectively evaluated for impairment	778,381	2,998,078	184,218	322,834	4,283,511
Balance, end of period	\$ 789,903	\$3,028,079	\$184,591	\$324,634	\$4,327,207

NOTE 6: LOANS ACQUIRED

During the second quarter of 2017, the Company evaluated \$249.3 million of net loans (\$254.3 million gross loans less \$5.0 million discount) purchased in conjunction with the acquisition of Hardeman, described in Note 2, Acquisitions, in accordance with the provisions of ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. The fair value discount is being accreted into interest income over the weighted average life of the loans using a constant yield method. These loans are not considered to be impaired loans. The Company evaluated the remaining \$2.3 million of net loans (\$3.3 million gross loans less \$956,000 discount) purchased in conjunction with the acquisition of Hardeman for impairment in accordance with the provisions of ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected.

During the third quarter of 2016, the Company evaluated \$340.1 million of net loans (\$348.8 million gross loans less \$8.7 million discount) purchased in conjunction with the acquisition of Citizens, described in Note 2, Acquisitions, in accordance with the provisions of ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. The fair value discount is being accreted into interest income over the weighted average life of the loans using a constant yield method. These loans are not considered to be impaired loans. The Company evaluated the remaining \$757,000 of net loans (\$1.6 million gross loans less \$848,000 discount) purchased in conjunction with the acquisition of Citizens for impairment in accordance with the provisions of ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*.

See Note 2, Acquisitions, for further discussion of loans acquired.

The following table reflects the carrying value of all loans acquired as of September 30, 2017 and December 31, 2016:

(in thousands)	Loans Acquired	
	September 30, 2017	December 31, 2016
Consumer:		
Other consumer	\$29,662	\$ 49,677
Total consumer	29,662	49,677
Real estate:		
Construction	48,520	57,587
Single family residential	363,796	423,176
Other commercial	565,993	690,108
Total real estate	978,309	1,170,871
Commercial:		
Commercial	70,620	81,837
Agricultural	13,448	3,298
Total commercial	84,068	85,135
Total loans acquired ⁽¹⁾	\$ 1,092,039	\$ 1,305,683

(1) Loans acquired are reported net of a \$391,000 and \$954,000 allowance at September 30, 2017 and December 31, 2016, respectively.

Nonaccrual loans acquired, excluding purchased credit impaired loans accounted for under ASC Topic 310-30, segregated by class of loans, are as follows (see Note 5, Loans and Allowance for Loan Losses, for discussion of nonaccrual loans):

(In thousands)	September 30, 2017	December 31, 2016
Consumer:		
Other consumer	\$ 315	\$ 456
Total consumer	315	456
Real estate:		
Construction	1,905	7,961
Single family residential	11,840	13,366
Other commercial	7,261	22,045
Total real estate	21,006	43,372
Commercial:		
Commercial	2,163	2,806
Agricultural	216	198
Total commercial	2,379	3,004

Total	\$ 23,700	\$ 46,832
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31

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An age analysis of past due loans acquired segregated by class of loans, is as follows (see Note 5, Loans and Allowance for Loan Losses, for discussion of past due loans):

(In thousands)	Gross 30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days Past Due & Accruing
September 30, 2017						
Consumer:						
Other consumer	\$ 401	\$ 161	\$ 562	\$ 29,100	\$ 29,662	\$ 7
Total consumer	401	161	562	29,100	29,662	7
Real estate:						
Construction	19	1,420	1,439	47,081	48,520	--
Single family residential	4,785	3,127	7,912	355,884	363,796	--
Other commercial	806	2,670	3,476	562,517	565,993	--
Total real estate	5,610	7,217	12,827	965,482	978,309	--
Commercial:						
Commercial	156	1,788	1,944	68,676	70,620	--
Agricultural	16	42	58	13,390	13,448	--
Total commercial	172	1,830	2,002	82,066	84,068	--
Total	\$ 6,183	\$ 9,208	\$ 15,391	\$ 1,076,648	\$ 1,092,039	\$ 7
December 31, 2016						
Consumer:						
Other consumer	\$ 571	\$ 189	\$ 760	\$ 48,917	\$ 49,677	\$ --
Total consumer	571	189	760	48,917	49,677	--
Real estate:						
Construction	132	7,332	7,464	50,123	57,587	--
Single family residential	8,358	4,857	13,215	409,961	423,176	11
Other commercial	2,836	10,741	13,577	676,531	690,108	--
Total real estate	11,326	22,930	34,256	1,136,615	1,170,871	11
Commercial:						
Commercial	723	2,153	2,876	78,961	81,837	--
Agricultural	48	--	48	3,250	3,298	--
Total commercial	771	2,153	2,924	82,211	85,135	--
Total	\$ 12,668	\$ 25,272	\$ 37,940	\$ 1,267,743	\$ 1,305,683	\$ 11

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The following table presents a summary of loans acquired by credit risk rating, segregated by class of loans (see Note 5, Loans and Allowance for Loan Losses, for discussion of loan risk rating). Loans accounted for under ASC Topic 310-30 are all included in Risk Rate 1-4 in this table.

(In thousands)	Risk Rate 1-4	Risk Rate 5	Risk Rate 6	Risk Rate 7	Risk Rate 8	Total
September 30, 2017						
Consumer:						
Other consumer	\$28,982	\$--	\$680	\$--	\$--	\$29,662
Total consumer	28,982	--	680	--	--	29,662
Real estate:						
Construction	45,718	1,314	1,488	--	--	48,520
Single family residential	347,821	1,534	13,825	615	--	363,795
Other commercial	549,853	6,200	9,941	--	--	565,994
Total real estate	943,392	9,048	25,254	615	--	978,309
Commercial:						
Commercial	66,367	325	3,928	--	--	70,620
Agricultural	13,148	300	--	--	--	13,448
Total commercial	79,515	625	3,928	--	--	84,068
Total	\$1,051,889	\$9,673	\$29,862	\$615	\$--	\$1,092,039
December 31, 2016						
Consumer:						
Other consumer	\$48,992	\$14	\$671	\$--	\$--	\$49,677
Total consumer	48,992	14	671	--	--	49,677
Real estate:						
Construction	50,704	88	6,795	--	--	57,587
Single family residential	400,553	2,696	18,392	1,535	--	423,176
Other commercial	641,018	17,384	31,706	--	--	690,108
Total real estate	1,092,275	20,168	56,893	1,535	--	1,170,871
Commercial:						
Commercial	73,609	1,965	6,257	6	--	81,837
Agricultural	3,010	34	254	--	--	3,298
Total commercial	76,619	1,999	6,511	6	--	85,135
Total	\$1,217,886	\$22,181	\$64,075	\$1,541	\$--	\$1,305,683

Loans acquired were individually evaluated and recorded at estimated fair value, including estimated credit losses, at the time of acquisition. These loans are systematically reviewed by the Company to determine the risk of losses that may exceed those identified at the time of the acquisition. Techniques used in determining risk of loss are similar to the Company's legacy loan portfolio, with most focus being placed on those loans which include the larger loan relationships and those loans which exhibit higher risk characteristics.

The amount of the estimated cash flows expected to be received from the purchased credit impaired loans in excess of the fair values recorded for the purchased credit impaired loans is referred to as the accretable yield. The accretable yield is recognized as interest income over the estimated lives of the loans. Each quarter, the Company estimates the cash flows expected to be collected from the acquired purchased credit impaired loans, and adjustments may or may not be required.

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The impact of the adjustments on the Company's financial results for the three and nine months ended September 30, 2017 and 2016 is shown below:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2017	2016	September 30, 2017	2016
Impact on net interest income and pre-tax income	\$ 23	\$ 65	\$ 2,596	\$ 1,240
Net impact, net of taxes	\$ 14	\$ 40	\$ 1,578	\$ 754

These adjustments will be recognized over the remaining lives of the purchased credit impaired loans. The accretable yield adjustments recorded in future periods will change as the Company continues to evaluate expected cash flows from the purchased credit impaired loans.

Changes in the carrying amount of the accretable yield for all purchased impaired loans were as follows for the three and nine months ended September 30, 2017 and 2016.

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2017	September 30, 2017	September 30, 2017
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Beginning balance	\$ 766	\$ 8,448	\$ 1,655	\$ 17,802
Additions	--	--	--	2,388
Accretable yield adjustments	52	--	2,698	--
Accretion	(408)	408	(3,943)	3,943
Payments and other reductions, net	--	(980)	--	(16,257)
Balance, ending	\$ 410	\$ 7,876	\$ 410	\$ 7,876

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2016	September 30, 2016	September 30, 2016
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Beginning balance	\$ 2,365	\$ 20,663	\$ 954	\$ 23,469
Additions	--	1,614	--	1,614
Accretable yield adjustments	171	--	3,245	--
Accretion	(555)	555	(2,218)	2,218
Payments and other reductions, net	--	(1,412)	--	(5,881)

Balance, ending	\$ 1,981	\$ 21,420	\$ 1,981	\$ 21,420
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Purchased impaired loans are evaluated on an individual borrower basis. Because some loans evaluated by the Company were determined to have experienced impairment in the estimated credit quality or cash flows, the Company recorded a provision and established an allowance for loan losses for loans acquired resulting in a total allowance on loans acquired of \$391,000 at September 30, 2017 and \$954,000 at December 31, 2016. There was no provision on loans acquired for the three months ended September 30, 2017. The provision on loans acquired for the nine months ended September 30, 2017 was \$1.5 million. The provision on loans acquired during the three and nine months ended September 30, 2016 was \$215,000 and \$522,000.

NOTE 7: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is tested annually, or more often if circumstances warrant, for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated, and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements. Goodwill totaled \$375.7 million at September 30, 2017 and \$348.5 million at December 31, 2016.

The change in goodwill during 2017 primarily includes \$29.4 million recorded as a result of the Company's 2017 Hardeman acquisition, which is not deductible for tax purposes, partially offset by \$4.1 million due to the sale of the Company's property and casualty insurance lines of business. Goodwill impairment was neither indicated nor recorded during the nine months ended September 30, 2017 or the year ended December 31, 2016.

Core deposit premiums are amortized over periods ranging from 10 to 15 years and are periodically evaluated, at least annually, as to the recoverability of their carrying value. Core deposit premiums of \$7.8 million were recorded during the second quarter of 2017 as part of the Hardeman acquisition. Core deposit premiums of \$5.1 million were recorded in the fourth quarter of 2016 as part of the Citizens acquisition.

Intangible assets are being amortized over various periods ranging from 10 to 15 years. The Company recorded \$830,000 of intangible assets during the second quarter of 2017 related to the insurance operations acquired in the Hardeman acquisition. The Company recorded \$591,000 of intangible assets during the fourth quarter of 2016 related to the trust operations acquired in the Citizens acquisition. Intangible assets decreased by \$1.3 million due to the sale of insurance lines of business during the third quarter of 2017.

The Company's goodwill and other intangibles (carrying basis and accumulated amortization) at September 30, 2017 and December 31, 2016, were as follows:

(In thousands)	September 30, 2017	December 31, 2016
Goodwill	\$ 375,731	\$ 348,505
Core deposit premiums:		
Gross carrying amount	56,532	48,692
Accumulated amortization	(14,297)	(10,625)
Core deposit premiums, net	42,235	38,067
Purchased credit card relationships:		
Gross carrying amount	2,068	2,068
Accumulated amortization	(1,654)	(1,344)

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Purchased credit card relationships, net	414	724
Books of business intangible:		
Gross carrying amount	15,414	15,884
Accumulated amortization	(2,562)	(1,716)
Books of business intangible, net	12,852	14,168
Other intangible assets, net	55,501	52,959
Total goodwill and other intangible assets	\$ 431,232	\$ 401,464

The Company's estimated remaining amortization expense on intangibles as of September 30, 2017 is as follows:

Year	(In thousands)
Remainder of 2017	\$ 1,665
2018	6,557
2019	6,247
2020	6,234
2021	6,172
Thereafter	28,626
Total	\$ 55,501

NOTE 8: TIME DEPOSITS

Time deposits include approximately \$635,765,000 and \$600,280,000 of certificates of deposit of \$100,000 or more at September 30, 2017, and December 31, 2016, respectively. Of this total approximately \$255,168,000 and \$193,596,000 of certificates of deposit were over \$250,000 at September 30, 2017 and December 31, 2016, respectively.

NOTE 9: INCOME TAXES

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Income taxes currently payable	\$ 11,946	\$ 10,327	\$ 30,467	\$ 33,139
Deferred income taxes	2,732	455	4,962	1,070
Provision for income taxes	\$ 14,678	\$ 10,782	\$ 35,429	\$ 34,209

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

(In thousands)	September 30, 2017	December 31, 2016
Deferred tax assets:		
Loans acquired	\$ 5,900	\$ 7,986

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Allowance for loan losses	16,841		14,754	
Valuation of foreclosed assets	4,020		3,958	
Tax NOLs from acquisition	12,642		13,077	
Deferred compensation payable	2,983		2,785	
Vacation compensation	1,828		1,740	
Accrued equity and other compensation	5,138		6,367	
Acquired securities	1,201		1,098	
Other accrued liabilities	2,301		1,834	
Unrealized loss on available-for-sale securities	6,708		9,559	
Other	4,610		5,267	
Gross deferred tax assets	64,172		68,425	
Deferred tax liabilities:				
Goodwill and other intangible amortization	(32,189))	(29,601))
Accumulated depreciation	(6,403))	(5,370))
Other	(7,369))	(5,877))
Gross deferred tax liabilities	(45,961))	(40,848))
Net deferred tax asset, included in other assets	\$ 18,211		\$ 27,577	

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense for the three and nine months ended September 30 is shown below:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2017	2016	September 30, 2017	2016
Computed at the statutory rate (35%)	\$ 15,235	\$ 11,974	\$ 38,313	\$ 36,418
Increase (decrease) in taxes resulting from:				
State income taxes, net of federal tax benefit	342	21	1,117	1,390
Discrete items related to ASU 2016-09	5	--	(1,372)	--
Tax exempt interest income	(955)	(1,072)	(3,160)	(3,120)
Tax exempt earnings on BOLI	(178)	(146)	(616)	(665)
Merger related expenses	187	131	559	131
Federal tax credits	(397)	(890)	(1,190)	(943)
Other differences, net	439	764	1,778	998
Actual tax provision	\$ 14,678	\$ 10,782	\$ 35,429	\$ 34,209

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

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

Section 382 of the Internal Revenue Code imposes an annual limit on the ability of a corporation that undergoes an "ownership change" to use its U.S. net operating losses to reduce its tax liability. The Company closed a stock acquisition in a prior year that invoked the Section 382 annual limitation. Approximately \$36.5 million of federal net operating losses subject to the IRC Sec 382 annual limitation are expected to be utilized by the Company. The net operating loss carryforwards expire between 2028 and 2035.

The Company files income tax returns in the U.S. federal jurisdiction. The Company's U.S. federal income tax returns are open and subject to examinations from the 2014 tax year and forward. The Company's various state income tax returns are generally open from the 2014 and later tax return years based on individual state statute of limitations.

NOTE 10: SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

We utilize securities sold under agreements to repurchase to facilitate the needs of our customers and to facilitate secured short-term funding needs. Securities sold under agreements to repurchase are stated at the amount of cash received in connection with the transaction. We monitor collateral levels on a continuous basis. We may be required to provide additional collateral based on the fair value of the underlying securities. Securities pledged as collateral under repurchase agreements are maintained with our safekeeping agents.

The gross amount of recognized liabilities for repurchase agreements was \$121.4 million and \$102.4 million at September 30, 2017 and December 31, 2016, respectively. The remaining contractual maturity of the securities sold under agreements to repurchase in the consolidated balance sheets as of September 30, 2017 and December 31, 2016 is presented in the following tables:

(In thousands)	Remaining Contractual Maturity of the Agreements				Total
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	
September 30, 2017					
Repurchase agreements:					
U.S. Government agencies	\$ 121,352	\$ --	\$ --	\$ --	\$ 121,352
December 31, 2016					
Repurchase agreements:					
U.S. Government agencies	\$ 101,647	\$ --	\$ --	\$ 757	\$ 102,404

NOTE 11: OTHER BORROWINGS AND SUBORDINATED DEBENTURES

Debt at September 30, 2017 and December 31, 2016 consisted of the following components:

(In thousands)	September 30, 2017	December 31, 2016
Other Borrowings		
FHLB advances, net of discount, due 2017 to 2033, 1.15% to 7.37% secured by residential real estate loans	\$ 477,982	\$ 225,230
Notes payable, due 10/15/2020, 3.85%, fixed rate, unsecured	44,559	47,929
Total other borrowings	522,541	273,159

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Subordinated Debentures

Trust preferred securities, due 12/30/2033, floating rate of 2.80% above the three month LIBOR rate, reset quarterly, callable without penalty	20,620	20,620
Trust preferred securities, net of discount, due 6/30/2035, floating rate of 1.75% above the three month LIBOR rate, reset quarterly, callable without penalty	9,301	9,225
Trust preferred securities, net of discount, due 9/15/2037, floating rate of 1.37% above the three month LIBOR rate, reset quarterly	10,246	10,130
Trust preferred securities, net of discount, due 12/3/2033, floating rate of 2.88% above the three month LIBOR rate, reset quarterly, callable without penalty	5,157	5,161
Trust preferred securities, net of discount, due 12/13/2034, floating rate of 2.00% above the three month LIBOR rate, reset quarterly, callable without penalty	5,137	5,105
Trust preferred securities, net of discount, due 6/6/2037, floating rate of 1.57% above the three month LIBOR rate, reset quarterly, callable without penalty	10,255	10,156
Trust preferred securities, net of discount, due 12/15/2035, floating rate of 1.45% above the three month LIBOR rate, reset quarterly, callable without penalty	6,702	--
Total subordinated debentures	67,418	60,397
Total other borrowings and subordinated debentures	\$ 589,959	\$ 333,556

The Company had \$442.0 million of Federal Home Loan Bank (“FHLB”) advances with original maturities of one year or less at September 30, 2017 and \$180.0 million at December 31, 2016.

The Company had total FHLB advances of \$478.0 million at September 30, 2017, with approximately \$1.075 billion of additional advances available from the FHLB. The FHLB advances are secured by mortgage loans and investment securities totaling approximately \$2.014 billion at September 30, 2017.

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

Aggregate annual maturities of long-term debt at September 30, 2017, are:

Year	(In thousands)
2017	\$ 1,851
2018	23,863
2019	7,586
2020	36,343
2021	2,251
Thereafter	76,065
Total	\$ 147,959

NOTE 12: CONTINGENT LIABILITIES

The Company and/or its subsidiaries have various unrelated legal proceedings, which, in the aggregate, are not expected to have a material adverse effect on the financial position of the Company and its subsidiaries.

NOTE 13: COMMON STOCK

On July 23, 2012, the Company approved a stock repurchase program which authorized the repurchase of up to 850,000 shares of Class A common stock, or approximately 5% of the shares outstanding at that time. The shares are to be purchased from time to time at prevailing market prices, through open market or unsolicited negotiated transactions, depending upon market conditions. Under the repurchase program, there is no time limit for the stock repurchases, nor is there a minimum number of shares that the Company intends to repurchase. The Company may discontinue purchases at any time that management determines additional purchases are not warranted. The Company intends to use the repurchased shares to satisfy stock option exercises, payment of future stock awards and dividends and general corporate purposes.

NOTE 14: UNDIVIDED PROFITS

The Company's subsidiary bank is subject to a legal limitation on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. The approval of the Commissioner of the Arkansas State Bank Department is required if the total of all dividends declared by an Arkansas state bank in any calendar year exceeds seventy-five percent (75%) of the total of its net profits, as defined, for that year combined with seventy-five percent (75%) of its retained net profits of the preceding year. At September 30, 2017, the Company's subsidiary bank had approximately \$1.8 million available for payment of dividends to the Company, without prior regulatory approval.

The risk-based capital guidelines of the Federal Reserve Board and the Arkansas State Bank Department include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) an undercapitalized institution. Under the Basel III Rules effective January 1, 2015, the criteria for a well-capitalized institution are: a 5% "Tier I leverage capital" ratio, an 8% "Tier I risk-based capital" ratio, 10% "total risk-based capital" ratio; and a 6.50% "common equity Tier 1 (CET1)" ratio.

The Company and Bank must hold a capital conservation buffer composed of CET1 capital above its minimum risk-based capital requirements. The implementation of the capital conservation buffer began on January 1, 2016, at the 0.625% level and will phase in over a four-year period (increasing by that amount on each subsequent January 1 until it reaches 2.5% on January 1, 2019). As of September 30, 2017, the Company and its subsidiary bank met all capital adequacy requirements under the Basel III Capital Rules, and management believes the Company and subsidiary bank would meet all Capital Rules on a fully phased-in basis if such requirements were currently effective. The Company's CET1 ratio was 11.97% at September 30, 2017.

NOTE 15: STOCK BASED COMPENSATION

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

The table below summarizes the transactions under the Company's active stock compensation plans for the nine months ended September 30, 2017:

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	Stock Options Outstanding		Stock Awards Outstanding		Stock Units Outstanding	
	Number of Shares (000)	Weighted Average Exercise Price	Number of Shares (000)	Weighted Average Exercise Price	Number of Shares (000)	Weighted Average Exercise Price
Balance, January 1, 2017	473	\$ 42.85	139	\$ 40.96	113	\$ 45.40
Granted	--	--	--	--	185	58.18
Stock Options Exercised	(39)	32.16	--	--	--	--
Stock Awards/Units Vested	--	--	(34)	36.45	(124)	52.71
Forfeited/Expired	(3)	44.68	(12)	43.83	(13)	51.72
Balance, September 30, 2017	431	\$ 43.82	93	\$ 42.21	161	\$ 53.97
Exercisable, September 30, 2017	325	\$ 43.23				

The following table summarizes information about stock options under the plans outstanding at September 30, 2017:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares	Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
\$17.55-\$21.13	3,950	2.76	\$ 19.38	3,950	\$ 19.38
21.29 -21.29	3,700	5.30	21.29	2,500	21.29
21.51 -21.51	1,250	2.30	21.51	1,250	21.51
30.31 -30.31	22,180	0.63	30.31	22,180	30.31
40.57 -40.57	40,490	7.25	40.57	40,490	40.57
40.72 -40.72	1,500	7.13	40.72	600	40.72
44.40 -44.40	49,870	7.25	44.40	37,144	44.40
45.50 -45.50	246,485	7.62	45.50	193,025	45.50
47.02 -47.02	58,090	7.79	47.02	20,838	47.02
48.13 -48.13	3,305	7.96	48.13	2,645	48.13
\$17.55-\$48.13	430,820	7.12	\$ 43.82	324,622	\$ 43.23

Total stock-based compensation expense was \$6,486,000 and \$4,204,000 during the nine months ended September 30, 2017 and 2016, respectively. Stock-based compensation expense is recognized ratably over the requisite service period for all stock-based awards. There was \$407,000 of unrecognized stock-based compensation expense related to stock options at September 30, 2017. Unrecognized stock-based compensation expense related to non-vested stock awards was \$15,423,000 at September 30, 2017. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 2.0 years.

The intrinsic value of stock options outstanding and stock options exercisable at September 30, 2017 was \$6,066,000 and \$4,761,000. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the period, which was \$57.90 as of September 30, 2017, and the exercise price multiplied by the number of options outstanding and exercisable at a price below that closing price. The total intrinsic value of stock options exercised during the nine months ended September 30, 2017 and September 30, 2016, was \$1,012,000 and \$1,063,000, respectively.

The fair value of the Company's employee stock options granted is estimated on the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. There were no stock options granted during the nine months ended September 30, 2017. The weighted-average fair value of stock options granted during the nine months ended

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September 30, 2016 was \$11.64 per share. The Company estimated expected market price volatility and expected term of the options based on historical data and other factors. The weighted-average assumptions used to determine the fair value of options granted are detailed in the table below:

	Nine Months Ended September 30, 2016	
Expected dividend yield	1.96	%
Expected stock price volatility	27.34	%
Risk-free interest rate	2.01	%
Expected life of options (in years)	7	

NOTE 16: ADDITIONAL CASH FLOW INFORMATION

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

(In thousands)	Nine Months Ended September 30,	
	2017	2016
Interest paid	\$21,531	\$16,311
Income taxes paid	21,718	32,069
Transfers of loans to foreclosed assets and other real estate owned	5,311	3,846
Transfers of premises to foreclosed assets and other real estate owned	3,188	--
Transfers of premises and equipment to premises held for sale	--	7,200
Transfers of premises held for sale to foreclosed assets and other real estate owned	--	652

NOTE 17: OTHER OPERATING EXPENSES

Other operating expenses consist of the following:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Professional services	\$ 3,946	\$ 3,282	\$13,079	\$9,678
Postage	1,091	1,150	3,427	3,458
Telephone	943	912	3,003	3,014
Credit card expense	3,137	2,947	9,081	8,319
Marketing	1,219	1,525	4,253	4,647
Operating supplies	592	457	1,406	1,273
Amortization of intangibles	1,724	1,503	4,828	4,411
Branch right sizing expense	153	218	370	3,451
Other expense	5,458	5,185	18,588	14,851
Total other operating expenses	\$ 18,263	\$ 17,179	\$58,035	\$53,102

NOTE 18: CERTAIN TRANSACTIONS

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

NOTE 19: COMMITMENTS AND CREDIT RISK

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

At September 30, 2017, the Company had outstanding commitments to extend credit aggregating approximately \$568,655,000 and \$1,628,358,000 for credit card commitments and other loan commitments, respectively. At December 31, 2016, the Company had outstanding commitments to extend credit aggregating approximately \$562,527,000 and \$1,220,137,000 for credit card commitments and other loan commitments, respectively.

Standby letters of credit are conditional commitments issued by the Company, to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company had total outstanding letters of credit amounting to \$29,812,000 and \$29,362,000 at September 30, 2017, and December 31, 2016, respectively, with terms ranging from 9 months to 15 years. At September 30, 2017 and December 31, 2016, the Company had no deferred revenue under standby letter of credit agreements.

NOTE 20: PREFERRED STOCK

On February 27, 2015, as part of the acquisition of Community First, the Company issued 30,852 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series A (“Simmons Series A Preferred Stock”) in exchange for the outstanding shares of Community First Senior Non-Cumulative Perpetual Preferred Stock, Series C (“Community First Series C Preferred Stock”). The preferred stock was held by the United States Department of the Treasury (“Treasury”) as the Community First Series C Preferred Stock was issued when Community First entered into a Small Business Lending Fund Securities Purchase Agreement with the Treasury. The Simmons Series A Preferred Stock qualified as Tier 1 capital and paid quarterly dividends. The rate remained fixed at 1% through February 18, 2016, at which time it would convert to a fixed rate of 9%. On January 29, 2016, the Company redeemed all of the preferred stock, including accrued and unpaid dividends.

NOTE 21: FAIR VALUE MEASUREMENTS

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

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

Level 1 Inputs – Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices for similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

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

Assets held in trading accounts – The Company's assets held in trading accounts are reported at fair value utilizing Level 2 inputs.

The following table sets forth the Company's financial assets by level within the fair value hierarchy that were measured at fair value on a recurring basis as of September 30, 2017 and December 31, 2016.

(In thousands)	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Other Inputs Unobservable Inputs (Level 3)
September 30, 2017				
ASSETS				
Available-for-sale securities				
U.S. Government agencies	\$208,220	\$ --	\$ 208,220	\$ --
Mortgage-backed securities	959,698	--	959,698	--
State and political subdivisions	84,822	--	84,822	--

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Other securities	64,680	--	64,680	--
Assets held in trading accounts	49	--	49	--

December 31, 2016

ASSETS

Available-for-sale securities

U.S. Treasury	\$ 300	\$ 300	\$ --	\$ --
U.S. Government agencies	137,771	--	137,771	--
Mortgage-backed securities	868,324	--	868,324	--
States and political subdivisions	102,943	--	102,943	--
Other securities	48,016	--	48,016	--
Assets held in trading accounts	41	--	41	--

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

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

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

Foreclosed assets and other real estate owned – Foreclosed assets and other real estate owned are reported at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company's recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed assets and other real estate owned is estimated using Level 3 inputs based on unobservable market data. As of September 30, 2017 and December 31, 2016, the fair value of foreclosed assets and other real estate owned less estimated costs to sell was \$31.5 million and \$26.9 million, respectively.

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

Mortgage loans held for sale – Mortgage loans held for sale are reported at fair value if, on an aggregate basis, the fair value of the loans is less than cost. In determining whether the fair value of loans held for sale is less than cost when quoted market prices are not available, the Company may consider outstanding investor commitments, discounted cash flow analyses with market assumptions or the fair value of the collateral if the loan is collateral dependent. Such loans are classified within either Level 2 or Level 3 of the fair value hierarchy. Where assumptions are made using significant unobservable inputs, such loans held for sale are classified as Level 3. At September 30, 2017 and December 31, 2016, the aggregate fair value of mortgage loans held for sale exceeded their cost. Accordingly, no mortgage loans held for sale were marked down and reported at fair value.

The following table sets forth the Company's financial assets by level within the fair value hierarchy that were measured at fair value on a nonrecurring basis as of September 30, 2017 and December 31, 2016.

(In thousands)	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
September 30, 2017				
ASSETS				
Impaired loans ⁽¹⁾ ⁽²⁾ (collateral dependent)	\$ 11,229	\$ --	\$ --	\$ 11,229
Foreclosed assets and other real estate owned ⁽¹⁾	19,506	--	--	19,506
December 31, 2016				
ASSETS				
Impaired loans ⁽¹⁾ ⁽²⁾ (collateral dependent)	\$ 17,154	\$ --	\$ --	\$ 17,154
Foreclosed assets and other real estate owned ⁽¹⁾	17,806	--	--	17,806

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

Specific allocations of \$2,195,000 and \$2,384,000 were related to the impaired collateral dependent loans for (2) which fair value re-measurements took place during the periods ended September 30, 2017 and December 31, 2016, respectively.

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

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

Interest bearing balances due from banks – The fair value of interest bearing balances due from banks – time is estimated using a discounted cash flow calculation that applies the rates currently offered on deposits of similar

remaining maturities (Level 2).

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

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

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

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

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

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

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

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

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

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

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

(In thousands)	Carrying Amount	Fair Value Measurements			Total
		Level 1	Level 2	Level 3	
September 30, 2017					
Financial assets:					
Cash and cash equivalents	\$432,290	\$432,290	\$--	\$--	\$432,290
Interest bearing balances due from banks - time	4,059	--	4,059	--	4,059
Held-to-maturity securities	406,033	--	412,140	--	412,140
Mortgage loans held for sale	12,614	--	--	12,614	12,614
Interest receivable	30,749	--	30,749	--	30,749
Legacy loans (net of allowance)	5,168,595	--	--	5,140,768	5,140,768
Loans acquired (net of allowance)	1,092,039	--	--	1,086,160	1,086,160
Financial liabilities:					
Non-interest bearing transaction accounts	1,669,860	--	1,669,860	--	1,669,860
Interest bearing transaction accounts and savings deposits	4,344,779	--	4,344,779	--	4,344,779
Time deposits	1,310,951	--	--	1,301,451	1,301,451
Federal funds purchased and securities sold under agreements to repurchase	121,687	--	121,687	--	121,687
Other borrowings	522,541	--	526,266	--	526,266
Subordinated debentures	67,418	--	62,142	--	62,142
Interest payable	2,043	--	2,043	--	2,043
December 31, 2016					
Financial assets:					
Cash and cash equivalents	\$285,659	\$285,659	\$--	\$--	\$285,659
Interest bearing balances due from banks - time	4,563	--	4,563	--	4,563
Held-to-maturity securities	462,096	--	465,960	--	465,960
Mortgage loans held for sale	27,788	--	--	27,788	27,788
Interest receivable	27,788	--	27,788	--	27,788
Legacy loans (net of allowance)	4,290,921	--	--	4,305,165	4,305,165
Loans acquired (net of allowance)	1,305,683	--	--	1,310,017	1,310,017
Financial liabilities:					
Non-interest bearing transaction accounts	1,491,676	--	1,491,676	--	1,491,676
Interest bearing transaction accounts and savings deposits	3,956,483	--	3,956,483	--	3,956,483
Time deposits	1,287,060	--	--	1,278,339	1,278,339
Federal funds purchased and securities sold under agreements to repurchase	115,029	--	115,029	--	115,029
Other borrowings	273,159	--	292,367	--	292,367
Subordinated debentures	60,397	--	55,318	--	55,318
Interest payable	1,668	--	1,668	--	1,668

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

NOTE 22: SUBSEQUENT EVENTS

On October 19, 2017, the Company completed its mergers with Southwest Bancorp, Inc. (“OKSB”) and First Texas BHC, Inc. (“First Texas”) pursuant to the terms of the Agreements and Plan of Mergers, dated December 14, 2016 and January 23, 2017, respectively. The Company was the surviving corporation in both mergers, which are referred to individually as the “OKSB Merger” and the “First Texas Merger”, and collectively as the “mergers.” The mergers were described in the Joint Proxy Statement/Prospectus of the Company, OKSB and First Texas filed with the SEC on September 12, 2017. As a result of the mergers, the Company expanded its reach into three new banking markets and now has approximately \$14.7 billion in assets and approximately \$10.5 billion and \$11.2 billion in loans and deposits, respectively.

In the OKSB Merger, each outstanding share of OKSB common stock was cancelled and converted into the right to receive 0.3903 shares of the Company’s common stock and \$5.11 in cash. The Company issued 7,250,000 shares of its common stock and paid \$95,000,000 in cash to effect the OKSB Merger. In the First Texas Merger, each outstanding share of First Texas common stock was cancelled and converted into the right to receive 0.8263 shares of the Company’s common stock and \$6.60 in cash. The Company issued 6,500,000 shares of its common stock and paid \$70,000,000 in cash to effect the First Texas Merger. Additionally, upon consummation of the mergers, the Company assumed subordinated debt issued by OKSB and First Texas in an aggregate principal amount of \$76.7 million. The mergers were approved by stockholders of the Company on October 18, 2017 while the stockholders of OKSB and First Texas approved the mergers on October 19, 2017.

Due to the timing of the mergers and the number of assets and liabilities assumed, the Company is continuing to determine their preliminary fair values and the purchase price allocation. The Company expects to finalize the analysis of the acquired assets and liabilities over the next few months and within one year of the mergers. We will record the mergers using the acquisition method of accounting and will recognize the assets acquired and liabilities assumed at their fair values as of the date of acquisition. The results of the mergers will be included in our consolidated operating results beginning on the acquisition date.

On October 6, 2017, the Company entered into a Revolving Credit Agreement (the “Credit Agreement”) with U.S. Bank National Association and executed an unsecured Revolving Credit Note (the “Note”) pursuant to which the Company may borrow, prepay and re-borrow up to \$75 million for purposes of financing distributions, financing certain acquisitions, and working capital purposes. The Credit Agreement contains customary representations, warranties, and covenants of the Company, including, among other things, covenants that impose various financial ratio requirements. The Company will primarily use the proceeds of the revolving credit loans under the Credit Agreement to repay the subordinated debt assumed with the mergers as previously discussed.

The principal amounts borrowed under the Credit Agreement will bear interest at a variable rate equal to the applicable one-month LIBOR rate plus 1.50%. The amount of interest accruing under the Note shall be computed on an actual day, 360-day year basis. The line of credit available to the Company under the Credit Agreement expires on

October 5, 2018, at which time all amounts borrowed, together with applicable interest, fees, and other amounts owed by the Company shall be due and payable.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee, Board of Directors and Stockholders

Simmons First National Corporation

Pine Bluff, Arkansas

We have reviewed the accompanying condensed consolidated balance sheet of **SIMMONS FIRST NATIONAL CORPORATION** as of September 30, 2017, and the related condensed consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2017 and 2016 and the related consolidated statements of stockholders' equity and cash flows for the nine month periods ended September 30, 2017 and 2016. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 28, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

BKD, LLP

/s/ BKD, LLP

Little Rock, Arkansas

November 6, 2017

50

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

OVERVIEW

Our net income for the three months ended September 30, 2017 was \$28.9 million and diluted earnings per share were \$0.89, compared to net income of \$23.4 million and \$0.76 diluted earnings per share for the same period of 2016. Diluted earnings per share increased by \$0.13, or 17.1%. Net income for the nine months ended September 30, 2017, was \$74.0 million and diluted earnings per share were \$2.31, compared to net income of \$69.8 million and \$2.28 diluted earnings per share for the same period in 2016. Year-to-date diluted earnings per share increased by \$0.03, or 1.3%.

The first three quarters in both 2017 and 2016 included non-core items that impacted net income. The 2017 non-core items were significant and mainly related to acquisitions and a gain on the sale of the Company's property and casualty insurance lines of business further discussed below. The 2016 non-core items primarily related to branch right sizing initiatives and acquisitions. Excluding all non-core items, core earnings for the three months ended September 30, 2017 were \$27.7 million, or \$0.86 diluted core earnings per share, compared to \$24.4 million, or \$0.79 diluted core earnings per share for the same period in 2016. Diluted core earnings per share increased by \$0.07, or 8.9%. Year-to-date core earnings were \$77.0 million, an increase of \$4.4 million, or 6.0%, compared with the same period in 2016. Year-to-date diluted core earnings per share were \$2.41, an increase of \$0.04, or 1.7%. See Reconciliation of Non-GAAP Measures for additional discussion of non-GAAP measures.

On January 17, 2017, we merged Simmons First Finance Company, a wholly-owned subsidiary of Simmons Bank, into Simmons Bank to reduce regulatory risks related to its operations relative to the size of its assets. At September 30, 2017, the loan balance of this portfolio was \$33 million.

In February 2017, we executed the sale of 11 substandard loans, which were primarily loans acquired, with a net principal balance of \$11 million. We recognized a loss of \$676,000 on this sale.

During March 2017, we exited the indirect lending market as this is a low-margin unit and we made a financial decision to reallocate our capital resources. At September 30, 2017, the loan balance of this portfolio was \$192 million.

On May 15, 2017, we closed the transaction to acquire Hardeman County Investment Company, Inc. ("Hardeman") including its wholly-owned bank subsidiary, First South Bank. The Company completed the systems conversion and merged First South Bank into Simmons Bank in September 2017. As a result of this acquisition, we recognized \$7.9 million in pretax merger related expenses during the nine-month period ended September 30, 2017.

In June 2017, we executed a sale of thirty-five classified loans with a discounted principal balance of \$13.8 million, which included \$7.3 million of legacy loans and \$6.5 million of loans acquired. The loans acquired portion of the sale resulted in a benefit of \$1.4 million accretion income and \$714,000 increase in provision expense for loans acquired, resulting in a net pretax benefit of approximately \$700,000.

During August 2017, we were the successful bidder at public auction held to discharge certain indebtedness owed to Simmons Bank and became the sole shareholder of Heartland Bank in Little Rock, Arkansas. Heartland Bank remains a separately chartered state bank, and we are currently evaluating next steps with respect to the institution. See Note 4 for additional information related to assets and liabilities held for sale related to Heartland Bank as of September 30, 2017.

In September 2017, we completed the sale of our property and casualty insurance business lines and an after-tax gain of \$1.8 million was recognized on the transaction. Tangible common equity was positively impacted by \$7.2 million due to a reduction in intangible assets related to the sold business.

Additionally, we completed the conversion and integration of First South Bank in September. Subsequent to the third quarter 2017, we completed the acquisitions of Southwest Bancorp, Inc., including its wholly-owned bank subsidiary, Bank SNB, and First Texas BHC, Inc., including its wholly-owned bank subsidiary, Southwest Bank. The systems conversions are planned during the first half of 2018, at which time the subsidiary banks will be merged into Simmons Bank. See Note 22 for additional information related to these acquisitions.

Furthermore, we had record results in the third quarter. We continue to experience good loan demand although the rate of growth is lower than we experienced in the first two quarters of 2017. Our net interest income for the quarter increased by 15.8% from third quarter last year while our net interest margin decreased 17 basis points. Our efficiency ratio for the third quarter was 55.06%.

Total loans, including loans acquired, were \$6.303 billion at September 30, 2017, compared to \$5.633 billion at December 31, 2016 and \$5.401 billion at September 30, 2016. Total loans increased \$78.0 million during the quarter primarily due to growth in our legacy portfolio partially offset by the repayment of loans acquired and loans in our liquidating portfolios.

Stockholders' equity as of September 30, 2017 was \$1.257 billion, book value per share was \$39.03 and tangible book value per share was \$25.64. Our ratio of stockholders' equity to total assets was 13.2% and the ratio of tangible stockholders' equity to tangible assets was 9.1% at September 30, 2017. See Reconciliation of Non-GAAP Measures for additional discussion of non-GAAP measures. The Company's Tier I leverage ratio of 10.6%, as well as our other regulatory capital ratios, remain significantly above the "well capitalized" levels (see Table 12 in the Capital section of this Item).

Simmons First National Corporation is a \$14.7 billion Arkansas based financial holding company conducting financial operations throughout Arkansas, Colorado, Kansas, Missouri, Oklahoma, Tennessee and Texas.

CRITICAL ACCOUNTING POLICIES

Overview

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

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

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

Allowance for Loan Losses on Loans Not Acquired

The allowance for loan losses is management's estimate of probable losses in the loan portfolio. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is calculated monthly based on management's assessment of several factors such as (1) historical loss experience based on volumes and types, (2) volume and trends in delinquencies and nonaccruals, (3) lending policies and procedures including those for loan losses, collections and recoveries, (4) national, state and local economic trends and conditions, (5) external factors and pressure from competition, (6) the experience, ability and depth of lending management and staff, (7) seasoning of new products obtained and new markets entered through acquisition and (8) other factors and trends that will affect specific loans and categories of loans. We establish general allocations for each major loan category. This category also includes allocations to loans which are collectively evaluated for loss such as credit cards, one-to-four family owner occupied residential real estate loans and other consumer loans. General reserves have been established, based upon the aforementioned factors and allocated to the individual loan categories. Allowances are accrued for probable losses on specific loans evaluated for impairment for which the basis of each loan, including accrued interest, exceeds the discounted amount of expected future collections of interest and principal or, alternatively, the fair value of loan collateral.

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

Acquisition Accounting, Loans Acquired

We account for our acquisitions under ASC Topic 805, *Business Combinations*, which requires the use of the purchase method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the loans acquired is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

We evaluate loans acquired in accordance with the provisions of ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. The fair value discount on these loans is accreted into interest income over the weighted average life of the loans using a constant yield method. These loans are not considered to be impaired loans. We evaluate purchased impaired loans accordance with the provisions of ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. All loans acquired are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected.

For impaired loans accounted for under ASC Topic 310-30, we continue to estimate cash flows expected to be collected on purchased credit impaired loans. We evaluate at each balance sheet date whether the present value of our purchased credit impaired loans determined using the effective interest rates has decreased significantly and if so, recognize a provision for loan loss in our consolidated statement of income. For any significant increases in cash flows expected to be collected, we adjust the amount of accretable yield recognized on a prospective basis over the remaining life of the purchased credit impaired loans.

Goodwill and Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be separately distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. We perform an annual goodwill impairment test, and more than annually if circumstances warrant, in accordance with ASC Topic 350, *Intangibles – Goodwill and Other*, as amended by ASU 2011-08 – *Testing Goodwill for Impairment*. ASC Topic 350 requires that goodwill and intangible assets that have indefinite lives be reviewed for impairment annually or more frequently if certain conditions occur. Impairment losses on recorded goodwill, if any, will be recorded as operating expenses.

Stock-based Compensation Plans

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

In accordance with ASC Topic 718, *Compensation – Stock Compensation*, the fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that uses various assumptions. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. For additional information, see Note 15, Stock Based Compensation, in the accompanying Condensed Notes to Consolidated Financial Statements included elsewhere in this report.

Income Taxes

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

The adoption of ASU 2016-09 – *Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting* decreased the effective tax rate during the year as the new standard impacted how the income tax effects associated with stock-based compensation are recognized.

IMPACTS OF GROWTH

We completed the acquisitions of Southwest Bancorp, Inc. and First Texas BHC, Inc. in October 2017, previously discussed above and Note 22: Subsequent Events (hereinafter referred to as the “Completed Transactions”). With the completion of these acquisitions, our total assets exceed \$10 billion.

The Dodd-Frank Act and associated Federal Reserve regulations cap the interchange rate on debit card transactions that can be charged by banks that, together with their affiliates, have at least \$10 billion in assets at \$0.21 per transaction plus five basis points multiplied by the value of the transaction. The cap goes into effect July 1st of the year following the year in which a bank reaches the \$10 billion asset threshold. Due to the closing of the Completed Transactions, Simmons Bank, when viewed together with its affiliates, has assets in excess of \$10 billion as of October 2017, and therefore, will be subject to the interchange rate cap effective July 1, 2018. Because of the cap, Simmons Bank estimates that it will receive approximately \$3.8 million less in debit card fees on an after-tax basis in 2018 and \$7.5 million less on an after-tax basis in 2019.

The Dodd-Frank Act also requires banks and bank holding companies with more than \$10 billion in assets to conduct annual stress tests. In anticipation of becoming subject to this requirement, the Company and Simmons Bank have begun the necessary preparations, including undertaking a gap analysis, implementing enhancements to the audit and compliance departments, and investing in various information technology systems. However, the Company believes that significant, additional expenditures will be required in order to fully comply with the stress testing requirements. The Company and Simmons Bank will be required to report the first stress test in July 2020 for the fiscal year 2019.

Additionally, the Dodd-Frank Act established the Bureau of Consumer Financial Protection (the “CFPB”) and granted it supervisory authority over banks with total assets of more than \$10 billion. After the closing of the bank mergers associated with the Completed Transactions, Simmons Bank will become subject to CFPB oversight with respect to its compliance with federal consumer financial laws. Simmons Bank will continue to be subject to the oversight of its other regulators with respect to matters outside the scope of the CFPB’s jurisdiction. While the CFPB has broad rule-making, supervisory and examination authority, as well as expanded data collecting and enforcement powers, its ultimate impact on the operations of Simmons Bank remains uncertain.

It is also important to note that the Dodd-Frank Act changed how the FDIC calculates deposit insurance premiums payable by insured depository institutions. The Dodd-Frank Act directed the FDIC to amend its assessment regulations so that assessments are generally based upon a depository institution’s average total consolidated assets less the average tangible equity of the insured depository institution during the assessment period. Assessments were

previously based on the amount of an institution's insured deposits. When Simmons Bank exceeds \$10 billion in total assets, it will become subject to the assessment rates assigned to larger banks which may result in higher deposit insurance premiums.

NET INTEREST INCOME

Overview

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors that determine the level of net interest income include the volume of earning assets and interest bearing liabilities, yields earned and rates paid, the level of non-performing loans and the amount of non-interest bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate of 39.225%.

Our practice is to limit exposure to interest rate movements by maintaining a significant portion of earning assets and interest bearing liabilities in short-term repricing. Historically, approximately 70% of our loan portfolio and approx