SIMMONS FIRST NATIONAL CORP
Form 10-Q
November 08, 2016

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, 2016 Commission File Number 000-06253

SIMMONS FIRST NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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

870-541-1000

(Registrant's telephone number, including area code)

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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, or a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The number of shares outstanding of the Registrant's Common Stock as of October 31, 2016, was 31,270,522.

Simmons First National Corporation

Quarterly Report on Form 10-Q

September 30, 2016

Table of Contents

Part I: Financial Information
Item 1. Financial Statements (Unaudited)

Simmons First National Corporation

Consolidated Balance Sheets

September 30, 2016 and December 31, 2015

(In thousands, except share data)	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Cash and non-interest bearing balances due from banks	$112,572	$97,656
Interest bearing balances due from banks	324,951	154,606
Federal funds sold	17,000	--
Cash and cash equivalents	454,523	252,262
Interest bearing balances due from banks - time	4,393	14,107
Investment securities		
Held-to-maturity	496,594	705,373
Available-for-sale	1,024,206	821,407
Total investments	1,520,800	1,526,780
Mortgage loans held for sale	28,069	30,265
Assets held in trading accounts	2,969	4,422
Loans:		
Legacy loans	3,943,089	3,246,454
Allowance for loan losses	(34,094)	(31,351)
Loans acquired, net of discount and allowance	1,458,198	1,672,901
Net loans	5,367,193	4,888,004
Premises and equipment	192,523	193,618
Premises held for sale	6,732	923
Foreclosed assets	30,396	44,820
Interest receivable	27,390	25,793
Bank owned life insurance	138,298	131,536
Goodwill	348,769	327,686
Other intangible assets	54,268	53,237
Other assets	50,669	66,205
Total assets	$8,226,992	$7,559,658
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing transaction accounts	$1,473,420	$1,280,234
Interest bearing transaction accounts and savings deposits	3,815,939	3,485,845
Time deposits	1,328,022	1,320,017
Total deposits	6,617,381	6,086,096
Federal funds purchased and securities sold under agreements to repurchase	124,289	99,398

Other borrowings	215,276	162,289
Subordinated debentures	60,290	60,570
Accrued interest and other liabilities	62,615	74,450
Total liabilities	7,079,851	6,482,803
Stockholders' equity:		
Preferred stock, 40,040,000 shares authorized; Series A, $0.01 par value, $1,000 liquidation value per share; 30,852 shares issued and outstanding at December 31, 2015	--	30,852
Common stock, Class A, $0.01 par value; 120,000,000 shares authorized; 31,267,614 and 30,278,432 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	313	303
Surplus	710,132	662,378
Undivided profits	434,579	385,987
Accumulated other comprehensive income (loss)	2,117	(2,665)
Total stockholders' equity	1,147,141	1,076,855
Total liabilities and stockholders' equity	$8,226,992	$7,559,658

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Income

Three and Nine Months Ended September 30, 2016 and 2015

(In thousands, except per share data)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
	(Unaudited)		(Unaudited)	
INTEREST INCOME				
Loans	$65,078	$76,432	$194,765	$197,857
Investment securities	7,774	8,335	24,779	22,264
Mortgage loans held for sale	299	291	872	813
Federal funds sold and other	267	141	524	690
TOTAL INTEREST INCOME	73,418	85,199	220,940	221,624
INTEREST EXPENSE				
Deposits	3,732	4,158	11,162	11,297
Federal funds purchased and securities sold under agreements to repurchase	59	55	183	177
Other borrowings	1,048	1,812	3,114	4,014
Subordinated debentures	516	498	1,603	1,292
TOTAL INTEREST EXPENSE	5,355	6,523	16,062	16,780
NET INTEREST INCOME	68,063	78,676	204,878	204,844
Provision for loan losses	8,294	1,615	15,733	5,792
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	59,769	77,061	189,145	199,052
NON-INTEREST INCOME				
Trust income	3,873	2,215	11,160	6,536
Service charges on deposit accounts	8,771	8,488	23,748	22,881
Other service charges and fees	1,840	2,672	5,320	7,102
Mortgage lending income	5,760	3,446	15,429	9,156
Investment banking income	1,131	663	2,999	1,808
Debit and credit card fees	7,825	6,879	22,713	19,013
Bank owned life insurance income	606	748	2,429	2,066
Gain on sale of securities	315	40	4,403	2
Net (loss) on assets covered by FDIC loss share agreements	--	(9,085)	--	(14,812)
Other income	6,755	7,006	15,066	12,262
TOTAL NON-INTEREST INCOME	36,876	23,072	103,267	66,014
NON-INTEREST EXPENSE				
Salaries and employee benefits	31,784	37,000	99,660	98,720
Occupancy expense, net	4,690	4,812	14,151	13,440
Furniture and equipment expense	4,272	4,202	12,296	10,621

Other real estate and foreclosure expense	1,849	2,297	3,782	3,694
Deposit insurance	1,136	1,013	3,380	2,979
Merger related costs	1,524	857	1,989	12,523
Other operating expenses	17,179	17,314	53,102	47,189
TOTAL NON-INTEREST EXPENSE	62,434	67,495	188,360	189,166
INCOME BEFORE INCOME TAXES	34,211	32,638	104,052	75,900
Provision for income taxes	10,782	10,963	34,209	25,395
NET INCOME	23,429	21,675	69,843	50,505
Preferred stock dividends	--	77	24	180
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$23,429	$21,598	$69,819	$50,325
BASIC EARNINGS PER SHARE	$0.77	$0.72	$2.29	$1.84
DILUTED EARNINGS PER SHARE	$0.76	$0.72	$2.28	$1.83

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Comprehensive Income

Three and Nine Months Ended September 30, 2016 and 2015

(In thousands, except per share data)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
	(Unaudited)		(Unaudited)	
NET INCOME	$23,429	$21,675	$69,843	$50,505
OTHER COMPREHENSIVE INCOME				
Unrealized holding (losses) gains arising during the period on available-for-sale securities	(3,175)	6,816	12,271	6,673
Less: Reclassification adjustment for realized gains included in net income	315	40	4,403	2
Other comprehensive (loss) gain, before tax effect	(3,490)	6,776	7,868	6,671
Less: Tax effect of other comprehensive (loss) gain	(1,369)	2,658	3,086	2,617
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(2,121)	4,118	4,782	4,054
COMPREHENSIVE INCOME	$21,308	$25,793	$74,625	$54,559

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2016 and 2015

(In thousands)	September 30, 2016 (Unaudited)	September 30, 2015
OPERATING ACTIVITIES		
Net income	$69,843	$50,505
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	12,229	10,884
Provision for loan losses	15,733	5,792
Gain on sale of available-for-sale securities	(4,403)	(2)
Net accretion of investment securities and assets not covered by FDIC loss share	(22,863)	(26,760)
Net amortization on borrowings	314	262
Stock-based compensation expense	2,679	2,011
Net accretion on assets covered by FDIC loss share	--	(2,709)
Loss on sale of premises and equipment, net of impairment	2,841	1,958
Gain on sale of foreclosed assets held for sale	(1,731)	(3,205)
Deferred income taxes	1,070	(3,811)
FDIC loss share indemnification loss	--	7,476
Gain on sale of banking operation	--	(2,110)
Increase in cash surrender value of bank owned life insurance	(2,429)	(2,066)
Originations of mortgage loans held for sale	(472,902)	(598,336)
Proceeds from sale of mortgage loans held for sale	475,098	604,045
Changes in assets and liabilities:		
Interest receivable	(799)	(367)
Assets held in trading accounts	1,453	695
Other assets	16,680	(2,528)
Accrued interest and other liabilities	(13,950)	15,528
Income taxes payable	(2,286)	14,993
Net cash provided by operating activities	76,577	72,255
INVESTING ACTIVITIES		
Net originations of loans not covered by FDIC loss share	(140,240)	(230,589)
Net collections of loans covered by FDIC loss share	--	23,646
Decrease in due from banks - time	9,714	7,685
Purchases of premises and equipment, net	(7,950)	(5,388)
Proceeds from sale of foreclosed assets held for sale	24,095	34,387
Proceeds from sale of foreclosed assets held for sale, covered by FDIC loss share	--	2,858
Proceeds from sale of available-for-sale securities	249,079	31,702
Proceeds from maturities of available-for-sale securities	137,832	372,511
Purchases of available-for-sale securities	(498,011)	(264,636)
Proceeds from maturities of held-to-maturity securities	215,846	206,894
Purchases of held-to-maturity securities	(6,162)	(56,073)

Proceeds from bank owned life insurance death benefits	2,043	--
Purchases of bank owned life insurance	(143)	(140)
Settlement of FDIC loss share agreements	--	2,368
Cash received on FDIC loss share	--	3,980
Cash paid on sale of banking operations, net of cash received	--	(68,273)
Cash received in business combinations, net of cash paid	106,419	201,029
Net cash provided by investing activities	92,522	261,961
FINANCING ACTIVITIES		
Net change in deposits	21,428	(103,929)
Repayments of subordinated debentures	(594)	--
Dividends paid on preferred stock	(24)	(180)
Dividends paid on common stock	(21,227)	(20,059)
Net change in other borrowed funds	48,940	(132,001)
Net change in federal funds purchased and securities sold under agreements to repurchase	11,658	(16,379)
Net shares issued under stock compensation plans	3,833	3,421
Redemption of preferred stock	(30,852)	--
Net cash provided by (used in) financing activities	33,162	(269,127)
INCREASE IN CASH AND CASH EQUIVALENTS	202,261	65,089
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	252,262	335,909
CASH AND CASH EQUIVALENTS, END OF PERIOD	$454,523	$400,998

See Condensed Notes to Consolidated Financial Statements.

6

Simmons First National Corporation

Consolidated Statements of Stockholders' Equity

Nine Months Ended September 30, 2016 and 2015

(In thousands, except share data)	Preferred Stock	Common Stock	Surplus	Accumulated Other Comprehensive Income (Loss)	Undivided Profits	Total
Balance, December 31, 2014	$ --	$ 181	$156,568	$ (1,336)	$338,906	$494,319
Comprehensive income	--	--	--	4,054	50,505	54,559
Stock issued for employee stock purchase plan – 6,528 shares	--	--	226	--	--	226
Stock-based compensation plans, net – 144,923 shares	--	1	5,205	--	--	5,206
Stock issued for Community First acquisition – 30,852 preferred shares: 6,552,915 common shares	30,852	65	268,277	--	--	299,194
Stock issued for Liberty Bank acquisition – 5,181,337 common shares	--	52	212,124	--	--	212,176
Dividends on preferred stock	--	--	--	--	(180)	(180)
Dividends on common stock – $0.69 per share	--	--	--	--	(20,059)	(20,059)
Balance, September 30, 2015 (Unaudited)	30,852	299	642,400	2,718	369,172	1,045,441
Comprehensive income	--	--	--	(5,383)	23,859	18,476
Stock-based compensation plans, net –951shares	--	1	2,114	--	--	2,115
Stock issued for Ozark Trust acquisition – 339,290 common shares	--	3	17,864	--	--	17,867
Dividends on preferred stock					(77)	(77)
Cash dividends – $0.23 per share	--	--	--	--	(6,967)	(6,967)
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

See Condensed Notes to Consolidated Financial Statements.

7

SIMMONS FIRST NATIONAL CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Simmons First National Corporation (the “Company”) and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

All adjustments made to the unaudited financial statements were of a normal recurring nature. In the opinion of management, all adjustments necessary for a fair presentation of the results of interim periods have been made. Certain prior year amounts are reclassified to conform to current year classification. The consolidated balance sheet of the Company as of December 31, 2015, has been derived from the audited consolidated balance sheet of the Company as of that date. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

Certain information and note disclosures normally included in the Company’s annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Form 10-K Annual Report for 2015 filed with the U.S. Securities and Exchange Commission (the “SEC”).

Recently Issued Accounting Pronouncements

ASU 2016-15 – *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”). ASU 2016-15 is designed to address the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard also provides guidance on when an entity should separate or aggregate cash flows based on the predominance principle. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact this standard will have on the Company’s results of operations, financial position or disclosures.

ASU 2016-13 – *Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 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 in ASU 2016-13 replace the incurred loss impairment methodology in current GAAP ("Accounting Principles Generally Accepted in the United States of America") 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. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the impact this standard will have on the Company's results of operations, financial position or disclosures.

ASU 2016-09 – *Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). ASU 2016-09 simplifies the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently evaluating the impact this standard will have on the Company's results of operations, financial position or disclosures.

ASU 2016-02 – *Leases* ("ASU 2016-02"). ASU 2016-02 establishes 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. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact this standard will have on the Company's results of operations, financial position or disclosures.

ASU 2016-01 – *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). ASU 2016-01 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. ASU 2016-01 is effective for fiscal periods beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact this standard will have on the Company's results of operations, financial position or disclosures.

ASU 2015-16 – *Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments* ("ASU 2015-16"). ASU 2015-16 requires entities to recognize measurement period adjustments during the reporting period in which the adjustments are determined. The income effects, if any, of a measurement period adjustment are cumulative and are to be reported in the period in which the adjustment to a provisional amount is determined. Also, ASU 2015-16 requires presentation on the face of the income statement or in the notes, the effect of the measurement period adjustment as if the adjustment had been recognized at acquisition date. ASU 2015-16 is effective for fiscal periods beginning after December 15, 2016 and should be applied prospectively to measurement period adjustments that occur after the effective date. The Company is currently evaluating the impact this standard will have on the Company's results of operations, financial position or disclosures.

ASU 2015-14 – *Revenue from Contracts with Customers: Deferral of the Effective Date* ("ASU 2015-14"). ASU 2015-14 is an update to the effective date in ASU 2014-09 – Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 provides guidance that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14 is effective prospectively, for annual and interim periods, beginning after December 15, 2017. The Company is currently evaluating the impact this standard will have on the Company's results of operations, financial position or disclosures.

ASU 2015-08 – *Business Combinations: Pushdown Accounting – Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115* ("ASU 2015-08"). ASU 2015-08 removes references to the SEC's Staff Accounting Bulletin (SAB) Topic 5.J on pushdown accounting from ASC 805-50, thereby conforming the FASB's guidance on pushdown accounting with the SEC's guidance on this topic. ASU 2015-08 became effective upon issuance. The adoption of this standard has not had a material effect on the Company's results of operations, financial position or disclosures.

ASU 2015-02 – *Consolidation (Topic 810): Amendments to the Consolidation Analysis* ("ASU 2015-02"). ASU 2015-02 amends the consolidation requirements of ASU 810 by changing the consolidation analysis required under GAAP. The revised guidance amends the consolidation analysis based on certain fee arrangements or relationships to the reporting entity and, for limited partnerships, requires entities to consider the limited partner's rights relative to the general partner. ASU 2015-02 became effective for annual and interim periods beginning after December 15, 2015. The adoption of this standard has not had a material effect on the Company's results of operations, financial position or disclosures.

There have been no other significant changes to the Company's accounting policies from the 2015 Form 10-K. Presently, the Company is not aware of any other changes to the Accounting Standards Codification that will have a material impact on the Company's present or future financial position or results of operations.

Acquisition Accounting, Acquired Loans

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

The Company evaluates loans acquired, 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, recognize a provision for loan loss in our 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.

Covered Loans and Related Indemnification Asset

In September 2015, we entered into an agreement with the FDIC to terminate all loss share agreements which were entered into in 2010 and 2012 in conjunction with the Company’s acquisition of substantially all of the assets (“covered assets”) and assumption of substantially all of the liabilities of four failed banks in FDIC-assisted transactions. Under the early termination, all rights and obligations of the Company and the FDIC under the FDIC loss share agreements, including the clawback provisions and the settlement of loss share and expense reimbursement claims, have been resolved and terminated.

Under the terms of the agreement, the FDIC made a net payment of $2,368,000 to the Bank as consideration for the early termination of the loss share agreements. The early termination was recorded in the Company’s financial statements by removing the FDIC Indemnification Asset, receivable from FDIC, the FDIC True-up liability and recording a one-time, pre-tax charge of $7,476,000. As a result, the Company reclassified loans previously covered by FDIC loss share to loans acquired, not covered by FDIC loss share. Foreclosed assets previously covered by FDIC loss share were reclassified to foreclosed assets not covered by FDIC loss share.

For further discussion of our acquisition and loan accounting, see Note 2, Acquisitions, and Note 5, 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 earnings per common share for the three and nine months ended September 30, 2016 and 2015:

(In thousands, except per share data)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Net income available to common shareholders	$23,429	$21,598	$69,819	$50,325
Average common shares outstanding	30,621	29,927	30,434	27,379
Average potential dilutive common shares	223	119	223	119
Average diluted common shares	30,844	30,046	30,657	27,498
Basic earnings per share	$0.77	$0.72	$2.29	$1.84
Diluted earnings per share (1) (2)	$0.76	$0.72	$2.28	$1.83

(1) EPS are computed independently for each quarter and therefore the sum of each quarterly EPS may not equal the year-to-date EPS. As a result of the large stock issuances during 2015 as part of the Company's acquisitions, the computed independent quarterly average common shares outstanding and the computed year-to-date average common shares differ significantly. For purposes of calculating a roll-forward amount for 2015 year-to-date EPS, diluted EPS for the third quarter of 2015 would require a computed amount of $0.74, producing a difference of $.02 from actual third quarter 2015 diluted EPS of $0.72. This difference is based on the direct result of the varying denominator for each period presented.

(2) Stock options to purchase 61,395 and 326,565 shares for the three and nine months ended September 30, 2016 and 2015, respectively, were not included in the diluted EPS calculation because the exercise price of those options exceeded the average market price.

NOTE 2: ACQUISITIONS

Liberty Bancshares, Inc.

On February 27, 2015, Simmons First National Corporation completed the acquisition of Liberty Bancshares, Inc. (“Liberty”), headquartered in Springfield, Missouri, including its wholly-owned bank subsidiary Liberty Bank (“LB”). The Company issued 5,181,337 shares of its common stock valued at approximately $212.2 million as of February 27, 2015 in exchange for all outstanding shares of Liberty common stock.

Prior to the acquisition, Liberty conducted banking business from 24 branches located in southwest Missouri. Including the effects of the acquisition method accounting adjustments, the Company acquired approximately $1.1 billion in assets, including approximately $780.7 million in loans (inclusive of loan discounts) and approximately $874.7 million in deposits. The Company completed the systems conversion and merged LB into Simmons First National Bank on April 24, 2015.

Goodwill of $95.2 million was recorded as a result of the transaction. The merger strengthened the Company’s position in the southwest Missouri 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 is not deductible for tax purposes.

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

(In thousands)	Acquired from Liberty	Fair Value Adjustments	Fair Value
Assets Acquired			
Cash and due from banks, including time deposits	$102,637	$(14)	$102,623
Federal funds sold	7,060	--	7,060
Investment securities	99,123	(335)	98,788
Loans acquired, not covered by FDIC loss share	790,493	(9,835)	780,658
Allowance for loan losses	(10,422)	10,422	--
Premises and equipment	34,239	(3,215)	31,024
Bank owned life insurance	16,972	--	16,972
Core deposit intangible	699	13,857	14,556
Other intangibles	3,063	(3,063)	--
Other assets	17,703	(3,112)	14,591
Total assets acquired	$1,061,567	$4,705	$1,066,272

Liabilities Assumed			
Deposits:			
Non-interest bearing transaction accounts	$146,618	$ --	$146,618
Interest bearing transaction accounts and savings deposits	543,183	--	543,183
Time deposits	184,913	--	184,913
Total deposits	874,714	--	874,714
FHLB borrowings	46,128	223	46,351
Subordinated debentures	20,620	(510)	20,110
Accrued interest and other liabilities	7,828	300	8,128
Total liabilities assumed	949,290	13	949,303
Equity	112,277	(112,277)	--
Total equity assumed	112,277	(112,277)	--
Total liabilities and equity assumed	$1,061,567	$ (112,264)	$949,303
Net assets acquired			116,969
Purchase price			212,176
Goodwill			$95,207

11

During 2015 the Company finalized its analysis of the acquired loans and subordinated debentures along with the other acquired assets and assumed liabilities.

The Company's operating results for 2015 include the operating results of the acquired assets and assumed liabilities of Liberty subsequent to the acquisition date.

Community First Bancshares, Inc.

On February 27, 2015, Simmons First National Corporation completed the acquisition of Community First Bancshares, Inc. ("Community First"), headquartered in Union City, Tennessee, including its wholly-owned bank subsidiary First State Bank ("FSB"). The Company issued 6,552,915 shares of its common stock valued at approximately $268.3 million as of February 27, 2015, plus $9,974 in cash in exchange for all outstanding shares of Community First common stock. The Company also issued $30.9 million of preferred stock in exchange for all outstanding shares of Community First preferred stock. On January 29, 2016, the Company redeemed all of the preferred stock, including accrued and unpaid dividends.

Prior to the acquisition, Community First conducted banking business from 33 branches located across Tennessee. Including the effects of the acquisition method accounting adjustments, the Company acquired approximately $1.9 billion in assets, including approximately $1.1 billion in loans (inclusive of loan discounts) and approximately $1.5 billion in deposits. The Company completed the systems conversion and merged FSB into Simmons First National Bank on September 4, 2015.

Goodwill of $110.4 million was recorded as a result of the transaction. The merger allowed the Company's entrance into the Tennessee market and served as a launching platform for possible expansion into adjacent areas. The Company is able to achieve cost savings by integrating the two companies and combining accounting, data processing, and other administrative functions. Further the Company will benefit from the addition of Community First's small-business lending platform while cross-selling its trust products in Community First's market. This combination of factors gave rise to the goodwill recorded. The goodwill is not deductible for tax purposes.

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

(In thousands)	Acquired from Community First	Fair Value Adjustments	Fair Value
Assets Acquired			
Cash and due from banks	$39,848	$--	$39,848
Federal funds sold	76,508	--	76,508
Investment securities	570,199	(3,381)	566,818
Loans acquired, not covered by FDIC loss share	1,163,398	(26,855)	1,136,543
Allowance for loan losses	(14,635)	14,635	--
Foreclosed assets not covered by FDIC loss share	747	--	747
Premises and equipment	44,837	(2,794)	42,043
Bank owned life insurance	22,149	--	22,149
Goodwill	100	(100)	--
Core deposit intangible	--	11,273	11,273
Other intangibles	--	420	420
Deferred tax asset	3,700	3,538	7,238
Other assets	11,474	--	11,474
Total assets acquired	$1,918,325	$(3,264)	$1,915,061
Liabilities Assumed			
Deposits:			
Non-interest bearing transaction accounts	$103,825	$--	$103,825
Interest bearing transaction accounts and savings deposits	995,207	--	995,207
Time deposits	436,181	849	437,030
Total deposits	1,535,213	849	1,536,062
Federal funds purchased and securities sold under agreement to repurchase	16,230	--	16,230
FHLB borrowings	143,047	674	143,721
Subordinated debentures	21,754	(840)	20,914
Accrued interest and other liabilities	8,769	601	9,370
Total liabilities assumed	1,725,013	1,284	1,726,297
Equity	193,312	(193,312)	--
Total equity assumed	193,312	(193,312)	--
Total liabilities and equity assumed	$1,918,325	$(192,028)	$1,726,297
Net assets acquired			188,764
Purchase price			299,204
Goodwill			$110,440

During 2015 the Company finalized its analysis of the acquired loans and subordinated debentures along with the other acquired assets and assumed liabilities.

The Company’s operating results for 2015 include the operating results of the acquired assets and assumed liabilities of Community First subsequent to the acquisition date.

Ozark Trust & Investment Corporation

On October 29, 2015, Simmons First National Corporation completed the acquisition of Ozark Trust & Investment Corporation ("Ozark Trust"), headquartered in Springfield, Missouri, including its wholly-owned non-deposit trust company, Trust Company of the Ozarks ("TCO"). Simmons issued 339,290 shares of its common stock valued at approximately $17.9 million as of October 29, 2015, plus $5.8 million in cash in exchange for all outstanding shares of Ozark Trust common stock.

Prior to the acquisition, Ozark Trust had over $1 billion in assets under management. The Company owned 1,000 shares of Ozark Trust's common stock, which it acquired through its acquisition of Liberty in February 2015. The purchase price is allocated among the net assets of Ozark Trust acquired as appropriate, with the remaining balance being reported as goodwill.

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

(In thousands)	Acquired from Ozark Trust	Fair Value Adjustments	Fair Value
Assets Acquired			
Cash	$ 1,756	$ --	$ 1,756
Investment securities	241	--	241
Premises and equipment	1,126	418	1,544
Other intangibles	--	9,733	9,733
Other assets	752	869	1,621
Total assets acquired	$ 3,875	$ 11,020	$ 14,895
Liabilities Assumed			
Deferred tax liability	63	4,175	4,238
Accrued and other liabilities	302	--	302
Total liabilities assumed	365	4,175	4,540
Equity	3,510	(3,510)	--
Total equity assumed	3,510	(3,510)	--
Total liabilities and equity assumed	$ 3,875	$ 665	$ 4,540
Net assets acquired			10,355
Purchase price			23,623
Goodwill			$ 13,268

During 2016 the Company finalized its analysis of the acquired loans and subordinated debentures along with the other acquired assets and assumed liabilities.

The Company's operating results for 2015 include the operating results of the acquired assets and assumed liabilities of Ozark Trust subsequent to the acquisition date.

Citizens National Bank

On September 9, 2016, Simmons First National Corporation 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 $585.2 million in assets, including approximately $340.8 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 on October 21, 2016.

Goodwill of $21.8 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	$ --	$131,467
Federal funds sold	10,000	--	10,000
Investment securities	61,987	1	61,988
Loans acquired	350,361	(9,538)	340,823
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	--	4,941	4,941
Other intangibles	--	500	500
Other assets	17,364	(12)	17,352
Total assets acquired	$585,204	$ 26	$585,230
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	--	3,558
Total liabilities assumed	530,648	47	530,695
Equity	54,556	(54,556)	--
Total equity assumed	54,556	(54,556)	--
Total liabilities and equity assumed	$585,204	$ (54,509)	$530,695
Net assets acquired			54,535
Purchase price			76,300
Goodwill			$21,765

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 to 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 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. Due from banks – time were acquired with an adjustment to fair value based on rates currently available to the Company for deposits in banks with similar maturities.

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

Premises and equipment – Bank premises and equipment were acquired with an adjustment to fair value, which represents the difference between the Company's current analysis of property 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 Community First's insurance subsidiary and Ozark Trust had with their customers. The fair value of these intangible assets was estimated based on a combination of discounted cash flow methodology and a market valuation approach. Other intangibles established prior to the acquisitions, if applicable, was written off.

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

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

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

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

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.

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.

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:

	September 30, 2016				December 31, 2015			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Held-to-Maturity								
U.S. Government agencies	$80,849	$217	$ (41)	$81,025	$237,139	$582	$ (1,395)	$236,326
Mortgage-backed securities	21,453	361	(12)	21,802	24,774	86	(290)	24,570
State and political subdivisions	391,495	11,813	(22)	403,286	440,676	9,138	(123)	449,691
Other securities	2,797	--	--	2,797	2,784	--	--	2,784
Total HTM	$496,594	$12,391	$ (75)	$508,910	$705,373	$9,806	$ (1,808)	$713,371
Available-for-Sale								
U.S. Treasury	$63,974	$11	$ --	$63,985	$4,000	$ --	$ (6)	$3,994
U.S. Government agencies	148,244	670	(133)	148,781	121,017	118	(898)	120,237
Mortgage-backed securities	694,589	5,644	(485)	699,748	650,619	937	(4,130)	647,426
State and political subdivisions	67,080	468	(529)	67,019	9,762	112	--	9,874
Other securities	43,825	863	(15)	44,673	39,594	420	(138)	39,876
Total AFS	$1,017,712	$7,656	$ (1,162)	$1,024,206	$824,992	$1,587	$ (5,172)	$821,407

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

Certain investment securities are valued at less than their historical cost. Total fair value of these investments at September 30, 2016, was $339.7 million, which is approximately 22.3% of the Company's combined available-for-sale and held-to-maturity 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, 2016:

	Less Than 12 Months		12 Months or More		Total	
(In thousands)	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Held-to-Maturity						
U.S. Government agencies	$ 30,987	$ (13)	$ 19,972	$ (28)	$ 50,959	$ (41)
Mortgage-backed securities	339	(1)	1,618	(11)	1,957	(12)
State and political subdivisions	14,982	(21)	330	(1)	15,312	(22)
Total HTM	$ 46,308	$ (35)	$ 21,920	$ (40)	$ 68,228	$ (75)
Available-for-Sale						
U.S. Government agencies	$ 102,360	$ (133)	$ --	$ --	$ 102,360	$ (133)
Mortgage-backed securities	134,133	(485)			134,133	(485)
State and political subdivisions	34,900	(529)	--	--	34,900	(529)
Other securities	--	--	60	(15)	60	(15)
Total AFS	$ 271,393	$ (1,147)	$ 60	$ (15)	$ 271,453	$ (1,162)

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

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company expects to receive full value for the securities. Furthermore, as of September 30, 2016, management also had the ability and intent to hold the securities classified as available-for-sale for a period of time sufficient for a recovery of cost. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of September 30, 2016, 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.

The book value of securities sold under agreements to repurchase equaled $123.8 million and $96.8 million for September 30, 2016 and December 31, 2015, respectively.

Income earned on securities for the three and nine months ended September 30, 2016 and 2015, is as follows:

(In thousands)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Taxable:				
Held-to-maturity	$771	$1,531	$3,094	$4,227
Available-for-sale	4,005	3,369	12,931	8,124
Non-taxable:				
Held-to-maturity	2,617	2,942	8,162	8,276
Available-for-sale	381	493	592	1,637
Total	$7,774	$8,335	$24,779	$22,264

Maturities of investment securities at September 30, 2016, are as follows:

(In thousands)	Held-to-Maturity Amortized Cost	Fair Value	Available-for-Sale Amortized Cost	Fair Value
One year or less	$34,442	$34,478	$68,882	$68,895
After one through five years	149,702	150,779	97,523	97,451
After five through ten years	116,101	119,142	16,274	16,452
After ten years	174,896	182,709	97,719	98,087
Securities not due on a single maturity date	21,453	21,802	694,589	699,748
Other securities (no maturity)	--	--	42,725	43,573
Total	$496,594	$508,910	$1,017,712	$1,024,206

The carrying value, which approximates the fair value, of securities pledged as collateral, to secure public deposits and for other purposes, amounted to $915.7 million at September 30, 2016 and $840.4 million at December 31, 2015.

There were $315,000 of gross realized gains and no realized losses from the sale of available for sale securities during the three months ended September 30, 2016 and there were $4.4 million of realized gains and no realized losses from the sale of available for sale securities during the nine months ended September 30, 2016. There were $43,000 of gross realized gains and $3,000 of realized losses for the three months ended September 30, 2015 and there were $45,000 of gross realized gains and $43,000 of realized losses from the sale of available for sale securities during the nine months ended September 30, 2015.

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.

19

NOTE 4: LOANS AND ALLOWANCE FOR LOAN LOSSES

At September 30, 2016, the Company's loan portfolio was $5.401 billion, compared to $4.919 billion at December 31, 2015. The various categories of loans are summarized as follows:

(In thousands)	September 30, 2016	December 31, 2015
Consumer:		
Credit cards	$175,032	$177,288
Other consumer	275,947	208,380
Total consumer	450,979	385,668
Real Estate:		
Construction	304,082	279,740
Single family residential	841,958	696,180
Other commercial	1,521,132	1,229,072
Total real estate	2,667,172	2,204,992
Commercial:		
Commercial	607,738	500,116
Agricultural	203,529	148,563
Total commercial	811,267	648,679
Other	13,671	7,115
Loans	3,943,089	3,246,454
Loans acquired, net of discount and allowance (1)	1,458,198	1,672,901
Total loans	$5,401,287	$4,919,355

---

(1) See Note 5, 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 all commercial loans, particularly as they relate to closely-held or limited liability entities.

Nonaccrual and Past Due Loans – Loans are considered past due if the required principal and interest payments have not been received as of 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, 2016	December 31, 2015
Consumer:		
Credit cards	$ 310	$ 212
Other consumer	1,406	442
Total consumer	1,716	654
Real estate:		
Construction	3,636	4,955
Single family residential	11,084	5,453
Other commercial	15,721	4,420
Total real estate	30,441	14,828
Commercial:		
Commercial	3,404	1,968
Agricultural	1,582	264
Total commercial	4,986	2,232
Total	$ 37,143	$ 17,714

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, 2016						
Consumer:						
Credit cards	$ 694	$ 446	$ 1,140	$ 173,892	$ 175,032	$ 137
Other consumer	1,741	865	2,606	273,341	275,947	--
Total consumer	2,435	1,311	3,746	447,233	450,979	137
Real estate:						
Construction	2,230	1,150	3,380	300,702	304,082	--
Single family residential	3,919	5,501	9,420	832,538	841,958	7
Other commercial	9,118	3,999	13,117	1,508,015	1,521,132	--
Total real estate	15,267	10,650	25,917	2,641,255	2,667,172	7
Commercial:						
Commercial	1,369	1,886	3,255	604,483	607,738	--
Agricultural	284	1,507	1,791	201,738	203,529	--
Total commercial	1,653	3,393	5,046	806,221	811,267	--
Other	--	--	--	13,671	13,671	--
Total	$ 19,355	$ 15,354	$ 34,709	$ 3,908,380	$ 3,943,089	$ 144
December 31, 2015						
Consumer:						
Credit cards	$ 639	$ 479	$ 1,118	$ 176,170	$ 177,288	$ 267
Other consumer	1,879	648	2,527	205,853	208,380	374
Total consumer	2,518	1,127	3,645	382,023	385,668	641
Real estate:						
Construction	1,328	4,511	5,839	273,901	279,740	--
Single family residential	4,856	3,342	8,198	687,982	696,180	364
Other commercial	869	3,302	4,171	1,224,901	1,229,072	25
Total real estate	7,053	11,155	18,208	2,186,784	2,204,992	389
Commercial:						
Commercial	3,427	637	4,064	496,052	500,116	90
Agricultural	285	243	528	148,035	148,563	56
Total commercial	3,712	880	4,592	644,087	648,679	146
Other	108	93	201	6,914	7,115	15
Total	$ 13,391	$ 13,255	$ 26,646	$ 3,219,808	$ 3,246,454	$ 1,191

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

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

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

(In thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
September 30, 2016						Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
Consumer:									
Credit cards	$ 446	$ 446	$ --	$ 446	$ --	$ 439	$ --	$ 340	$ 10
Other consumer	1,469	1,404	3	1,407	1	1,324	14	882	32
Total consumer	1,915	1,850	3	1,853	1	1,763	14	1,222	42
Real estate:									
Construction	4,472	3,056	579	3,635	155	4,474	44	4,692	170
Single family residential	11,813	9,610	1,728	11,338	259	10,897	119	8,762	317
Other commercial	23,130	15,934	151	16,085	101	18,981	178	15,113	547
Total real estate	39,415	28,600	2,458	31,058	515	34,352	341	28,567	1,034
Commercial:									
Commercial	7,174	3,325	2,633	5,958	64	4,402	59	3,256	118
Agricultural	2,594	1,582	--	1,582	--	1,604	16	1,003	36
Total commercial	9,768	4,907	2,633	7,540	64	6,006	75	4,259	154
Total	$ 51,098	$ 35,357	$ 5,094	$ 40,451	$ 580	$ 42,121	$ 430	$ 34,048	$ 1,230
December 31, 2015						Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
Consumer:									
Credit cards	$ 479	$ 479	$ --	$ 479	$ 7	$ 450	$ 8	$ 394	$ 20
Other consumer	459	423	19	442	85	612	13	592	33
Total consumer	938	902	19	921	92	1,062	21	986	53
Real estate:									
Construction	5,678	1,636	3,318	4,954	441	6,230	109	5,532	306
Single family residential	5,938	4,702	945	5,647	1,034	4,945	108	5,023	278
Other commercial	5,688	4,328	88	4,416	832	3,175	68	2,830	157
Total real estate	17,304	10,666	4,351	15,017	2,307	14,350	285	13,385	741
Commercial:									
Commercial	2,656	1,654	334	1,988	387	1,488	39	1,673	93
Agricultural	264	264	--	264	45	180	5	252	14
Total commercial	2,920	1,918	334	2,252	432	1,668	44	1,925	107
Total	$ 21,162	$ 13,486	$ 4,704	$ 18,190	$ 2,831	$ 17,080	$ 350	$ 16,296	$ 901

At September 30, 2016, and December 31, 2015, impaired loans, net of government guarantees and excluding loans acquired, totaled $40.5 million and $18.2 million, respectively. Allocations of the allowance for loan losses relative to impaired loans were $580,000 and $2.8 million at September 30, 2016 and December 31, 2015, respectively. Approximately $430,000 and $1.2 million of interest income was recognized on average impaired loans of $42.1 million and $34.0 million for the three and nine months ended September 30, 2016. Interest income recognized on impaired loans on a cash basis during the three and nine months ended September 30, 2016 and 2015 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.

	Accruing TDR Loans		Nonaccrual TDR Loans		Total TDR Loans	
(Dollars in thousands)	Number	Balance	Number	Balance	Number	Balance
September 30, 2016						
Consumer:						
Other consumer	--	$ --	2	$ 11	2	$ 11
Total consumer	--	--	2	11	2	11
Real estate:						
Construction	--	--	1	22	1	22
Single-family residential	2	136	31	2,543	33	2,679
Other commercial	27	11,683	1	66	28	11,749
Total real estate	29	11,819	33	2,631	62	14,450
Commercial:						
Commercial	14	1,785	5	303	19	2,088
Total commercial	14	1,785	5	303	19	2,088
Total	43	$ 13,604	40	$ 2,945	83	$ 16,549
December 31, 2015						
Consumer:						
Other consumer	--	$ --	1	$ 13	1	$ 13
Total consumer	--	--	1	13	1	13
Real estate:						
Construction	--	--	1	253	1	253
Single-family residential	2	137	11	1,335	13	1,472
Other commercial	4	2,894	1	597	5	3,491
Total real estate	6	3,031	13	2,185	19	5,216
Commercial:						
Commercial	--	--	5	332	5	332
Total commercial	--	--	5	332	5	332

Total	6	$ 3,031	19	$ 2,530	25	$ 5,561

24

The following table presents loans that were restructured as TDRs during the three and nine months ended September 30, 2016 and 2015, 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
Three Months Ended September 30, 2016						
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	$ --
Three Months Ended September 30, 2015						
Consumer:						
Other consumer	1	$ 14	$ 14	$ 14	$ --	$ --
Total consumer	1	14	14	14	--	--
Real Estate:						
Single-family residential	2	249	207	207	--	--
Other commercial	5	347	339	339	--	--
Total real estate	7	596	546	546	--	--
Total	8	$ 610	$ 560	$ 560	$ --	$ --
Nine Months Ended September 30, 2016						
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:						
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	$ --

Nine Months Ended September 30, 2015						
Consumer:						
Other consumer	1	$ 14	$ 14	$ 14	$ --	$ --
Total consumer	1	14	14	14	--	--
Real estate:						
Single-family residential	8	958	914	914	--	--
Other commercial	6	366	339	339	--	--
Total real estate	14	1,324	1,253	1,253	--	--
Total	15	$ 1,338	$ 1,267	$ 1,267	$ --	$ --

25

During the three months ended September 30, 2016, the Company modified 21 loans with a recorded investment of $3.0 million prior to modification which were deemed troubled debt restructuring. The restructured loans were modified by deferring amortized principal payments, changing the maturity date, changing the interest rate and requiring interest only payments for a period of 12 months. Based on the fair value of the collateral, a specific reserve of $78,000 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 nine months ended September 30, 2016, the Company modified 67 loans with a recorded investment of $13.4 million prior to modification which was deemed troubled debt restructuring. The restructured loans were modified by deferring amortized principal payments, changing the maturity date, changing the interest rate 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.

During the three months ended September 30, 2015, the Company modified eight loans with a recorded investment of $610,000 and during the nine months ended September 30, 2015, the Company modified fifteen loans with a total recorded investment of $1,338,000 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 $113,000 specific reserve was determined necessary for these loans. Also, there was no immediate financial impact from the restructuring of these loans, as it was not considered necessary to charge-off interest or principal on the date of restructure.

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. A charge off of $39,000 was recorded for this loan. There were no loans during the nine months ended September 30, 2015 for which there was a payment default. 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 $166,500 and $167,000 at September 30, 2016 and 2015, 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, 2016, the Company had $2,034,000 of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process. At September 30, 2016, the Company had $5,875,000 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.

26

- *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 $20.4 million and $23.5 million that are accounted for under ASC Topic 310-30 and are classified as substandard (Risk Rating 6) as of September 30, 2016 and December 31, 2015, respectively. Of the remaining loans acquired and accounted for under ASC Topic 310-20, $52.8 million and $49.9 million were classified (Risk Ratings 6, 7 and 8 – see classified loans discussion below) at September 30, 2016 and December 31, 2015, respectively.

Loans acquired, covered by loss share agreements, had additional protection provided by the FDIC prior to the termination of the loss share agreements. During the 2014 quarterly impairment testing on the estimated cash flows of the credit impaired loans, the Company established that some of the loans covered by loss share from our FDIC-assisted transactions had experienced material projected credit deterioration. As a result, the Company established a $954,000 allowance for loan losses on covered loans by recording a provision for loan losses of $0.4

million (net of FDIC-loss share adjustments) during the period ended December 31, 2014. There was no further projected credit deterioration and no addition to the allowance for covered loans during 2015. The $954,000 allowance was reclassified to allowance on acquired non-covered loans subsequent to the agreement with the FDIC to terminate the loss share agreements. See Note 5, Loans Acquired, for further discussion of the acquired loans and loss sharing agreements.

Purchased credit impaired loans are loans that showed evidence of deterioration of credit quality prior to acquisition 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 $178.7 million and $153.7 million, as of September 30, 2016 and December 31, 2015, respectively.

The following table presents a summary of loans by credit risk rating as of September 30, 2016 and December 31, 2015, 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
September 30, 2016						