

SIMMONS FIRST NATIONAL CORP
Form 10-Q
August 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 June 30, 2016 Commission File Number 000-06253

SIMMONS FIRST NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

870-541-1000

(Registrant's telephone number, including area code)

Not Applicable

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

Edgar Filing: SIMMONS FIRST NATIONAL CORP - Form 10-Q

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 July 31, 2016, was 30,416,627.

Simmons First National Corporation

Quarterly Report on Form 10-Q

June 30, 2016

Table of Contents

| | <u>Page</u> |
|---|---------------------|
| <u>Part I: Financial Information</u> | |
| <u>Item 1. 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>8-48</u> |
| <u>Report of Independent Registered Public Accounting Firm</u> | <u>49</u> |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>50-74</u> |
| <u>Item 3. Quantitative and Qualitative Disclosure About Market Risk</u> | <u>74-76</u> |
| <u>Item 4. Controls and Procedures</u> | <u>77</u> |
| <u>Part II: Other Information</u> | |
| <u>Item 1A. Risk Factors</u> | <u>77</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>77</u> |
| <u>Item 6. Exhibits</u> | <u>78-81</u> |
| <u>Signatures</u> | <u>82</u> |

Part I: Financial Information**Item 1. Financial Statements (Unaudited)****Simmons First National Corporation****Consolidated Balance Sheets****June 30, 2016 and December 31, 2015**

| (In thousands, except share data) | June 30, 2016 | December 31, 2015 |
|--|------------------|-------------------------|
| | (Unaudited) | |
| ASSETS | | |
| Cash and non-interest bearing balances due from banks | \$96,037 | \$97,656 |
| Interest bearing balances due from banks | 151,570 | 154,606 |
| Federal funds sold | 3,000 | - |
| Cash and cash equivalents | 250,607 | 252,262 |
| Interest bearing balances due from banks - time | 9,781 | 14,107 |
| Investment securities | | |
| Held-to-maturity | 632,154 | 705,373 |
| Available-for-sale | 821,372 | 821,407 |
| Total investments | 1,453,526 | 1,526,780 |
| Mortgage loans held for sale | 30,529 | 30,265 |
| Assets held in trading accounts | 7,321 | 4,422 |
| Loans: | | |
| Legacy loans | 3,725,422 | 3,246,454 |
| Allowance for loan losses | (33,523) | (31,351) |
| Loans acquired, net of discount and allowance | 1,288,435 | 1,672,901 |
| Net loans | 4,980,334 | 4,888,004 |
| Premises and equipment | 183,362 | 193,618 |
| Premises held for sale | 6,167 | 923 |
| Foreclosed assets | 30,529 | 44,820 |
| Interest receivable | 24,150 | 25,793 |
| Bank owned life insurance | 130,943 | 131,536 |
| Goodwill | 327,686 | 327,686 |
| Other intangible assets | 50,329 | 53,237 |
| Other assets | 48,955 | 66,205 |
| Total assets | \$7,534,219 | \$7,559,658 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits: | | |
| Non-interest bearing transaction accounts | \$1,283,426 | \$1,280,234 |
| Interest bearing transaction accounts and savings deposits | 3,538,808 | 3,485,845 |
| Time deposits | 1,205,969 | 1,320,017 |

Edgar Filing: SIMMONS FIRST NATIONAL CORP - Form 10-Q

| | | |
|--|-------------|-------------|
| Total deposits | 6,028,203 | 6,086,096 |
| Federal funds purchased and securities sold under agreements to repurchase | 103,038 | 99,398 |
| Other borrowings | 191,827 | 162,289 |
| Subordinated debentures | 60,184 | 60,570 |
| Accrued interest and other liabilities | 60,256 | 74,450 |
| Total liabilities | 6,443,508 | 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; 30,415,980 and 30,278,432 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively | 304 | 303 |
| Surplus | 668,306 | 662,378 |
| Undivided profits | 417,863 | 385,987 |
| Accumulated other comprehensive income (loss) | 4,238 | (2,665) |
| Total stockholders' equity | 1,090,711 | 1,076,855 |
| Total liabilities and stockholders' equity | \$7,534,219 | \$7,559,658 |

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation**Consolidated Statements of Income****Three and Six Months Ended June 30, 2016 and 2015**

| (In thousands, except per share data) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------------|------------------------------|---------------------|
| | 2016 (Unaudited) | 2015 | 2016 (Unaudited) | 2015 (Unaudited) |
| INTEREST INCOME | | | | |
| Loans | \$63,009 | \$70,438 | \$129,688 | \$121,424 |
| Federal funds sold | 17 | 73 | 27 | 102 |
| Investment securities | 8,499 | 8,050 | 17,005 | 13,929 |
| Mortgage loans held for sale | 295 | 375 | 572 | 522 |
| Assets held in trading accounts | 3 | 4 | 9 | 8 |
| Interest bearing balances due from banks | 77 | 229 | 220 | 439 |
| TOTAL INTEREST INCOME | 71,900 | 79,169 | 147,521 | 136,424 |
| INTEREST EXPENSE | | | | |
| Deposits | 3,776 | 4,195 | 7,430 | 7,139 |
| Federal funds purchased and securities sold under agreements to repurchase | 59 | 57 | 125 | 121 |
| Other borrowings | 938 | 1,151 | 2,065 | 2,203 |
| Subordinated debentures | 544 | 559 | 1,087 | 793 |
| TOTAL INTEREST EXPENSE | 5,317 | 5,962 | 10,707 | 10,256 |
| NET INTEREST INCOME | 66,583 | 73,207 | 136,814 | 126,168 |
| Provision for loan losses | 4,616 | 3,006 | 7,439 | 4,177 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 61,967 | 70,201 | 129,375 | 121,991 |
| NON-INTEREST INCOME | | | | |
| Trust income | 3,656 | 2,070 | 7,287 | 4,321 |
| Service charges on deposit accounts | 7,661 | 8,031 | 14,977 | 14,394 |
| Other service charges and fees | 1,571 | 2,766 | 3,480 | 4,430 |
| Mortgage lending income | 5,877 | 3,449 | 9,670 | 5,710 |
| Investment banking income | 1,181 | 593 | 1,865 | 1,487 |
| Debit and credit card fees | 7,688 | 6,486 | 14,888 | 12,134 |
| Bank owned life insurance income | 826 | 746 | 1,824 | 1,318 |
| Gain (loss) on sale of securities | 3,759 | - | 4,088 | (38) |
| Net (loss) on assets covered by FDIC loss share agreements | - | (3,056) | - | (5,727) |
| Other income | 4,669 | 3,863 | 8,318 | 5,253 |
| TOTAL NON-INTEREST INCOME | 36,888 | 24,948 | 66,397 | 43,282 |
| NON-INTEREST EXPENSE | | | | |
| Salaries and employee benefits | 33,103 | 35,111 | 67,877 | 61,721 |

Edgar Filing: SIMMONS FIRST NATIONAL CORP - Form 10-Q

| | | | | |
|--|-----------------|-----------------|-----------------|-----------------|
| Occupancy expense, net | 4,990 | 5,051 | 9,461 | 8,627 |
| Furniture and equipment expense | 4,077 | 3,241 | 8,023 | 6,420 |
| Other real estate and foreclosure expense | 967 | 1,017 | 1,934 | 1,398 |
| Deposit insurance | 1,096 | 1,096 | 2,244 | 1,966 |
| Merger related costs | 372 | 1,247 | 465 | 11,666 |
| Other operating expenses | 19,532 | 18,041 | 35,927 | 30,213 |
| TOTAL NON-INTEREST EXPENSE | 64,137 | 64,804 | 125,931 | 122,011 |
| | | | | |
| INCOME BEFORE INCOME TAXES | 34,718 | 30,345 | 69,841 | 43,262 |
| Provision for income taxes | 11,809 | 10,250 | 23,427 | 14,432 |
| | | | | |
| NET INCOME | 22,909 | 20,095 | 46,414 | 28,830 |
| Preferred stock dividends | - | 77 | 24 | 103 |
| NET INCOME AVAILABLE TO COMMON STOCKHOLDERS | \$22,909 | \$20,018 | \$46,390 | \$28,727 |
| BASIC EARNINGS PER SHARE | \$0.75 | \$0.67 | \$1.53 | \$1.10 |
| DILUTED EARNINGS PER SHARE | \$0.75 | \$0.67 | \$1.52 | \$1.10 |

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation**Consolidated Statements of Comprehensive Income****Three and Six Months Ended June 30, 2016 and 2015**

| (In thousands, except per share data) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|----------|---------------------------|---------------------|
| | 2016 (Unaudited) | 2015 | 2016 (Unaudited) | 2015 (Unaudited) |
| NET INCOME | \$22,909 | \$20,095 | \$46,414 | \$28,830 |
| OTHER COMPREHENSIVE INCOME | | | | |
| Unrealized holding gains (losses) arising during the period on available-for-sale securities | 4,865 | (5,356) | 15,446 | (143) |
| Less: Reclassification adjustment for realized gains (losses) included in net income | 3,759 | - | 4,088 | (38) |
| Other comprehensive gain (loss), before tax effect | 1,106 | (5,356) | 11,358 | (105) |
| Less: Tax effect of other comprehensive gain (loss) | 434 | (2,101) | 4,455 | (41) |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS) | 672 | (3,255) | 6,903 | (64) |
| COMPREHENSIVE INCOME | \$23,581 | \$16,840 | \$53,317 | \$28,766 |

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation**Consolidated Statements of Cash Flows****Six Months Ended June 30, 2016 and 2015**

| (In thousands) | June 30, 2016 (Unaudited) | June 30, 2015 |
|---|---------------------------------|------------------|
| OPERATING ACTIVITIES | | |
| Net income | \$46,414 | \$28,830 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 8,039 | 6,945 |
| Provision for loan losses | 7,439 | 4,177 |
| (Gain) loss on sale of available-for-sale securities | (4,088) | 38 |
| Net accretion of investment securities and assets not covered by FDIC loss share | (7,733) | (9,829) |
| Net amortization on borrowings | 208 | 150 |
| Stock-based compensation expense | 1,719 | 1,077 |
| Net accretion on assets covered by FDIC loss share | - | (119) |
| Loss on sale of premises and equipment, net of impairment | 3,000 | 1,958 |
| Gain on sale of foreclosed assets held for sale | (1,180) | (683) |
| Deferred income taxes | 615 | (1,772) |
| Increase in cash surrender value of bank owned life insurance | (1,824) | (1,318) |
| Originations of mortgage loans held for sale | (293,929) | (466,149) |
| Proceeds from sale of mortgage loans held for sale | 293,665 | 439,320 |
| Changes in assets and liabilities: | | |
| Interest receivable | 1,643 | 2,377 |
| Assets held in trading accounts | (2,899) | 506 |
| Other assets | 17,239 | (3,178) |
| Accrued interest and other liabilities | (11,088) | 8,276 |
| Income taxes payable | (3,142) | 6,846 |
| Net cash provided by operating activities | 54,098 | 17,452 |
| INVESTING ACTIVITIES | | |
| Net originations of loans not covered by FDIC loss share | (98,039) | (176,400) |
| Net collections of loans covered by FDIC loss share | - | 16,888 |
| Decrease in due from banks - time | 4,326 | - |
| Purchases of premises and equipment, net | (4,044) | (7,784) |
| Proceeds from sale of foreclosed assets held for sale | 19,364 | 15,814 |
| Proceeds from sale of foreclosed assets held for sale, covered by FDIC loss share | - | 1,859 |
| Proceeds from sale of available-for-sale securities | 232,806 | 1,662 |
| Proceeds from maturities of available-for-sale securities | 61,164 | 291,688 |
| Purchases of available-for-sale securities | (280,506) | (210,344) |
| Proceeds from maturities of held-to-maturity securities | 79,976 | 116,439 |
| Purchases of held-to-maturity securities | (6,162) | (54,668) |
| Proceeds from bank owned life insurance death benefits | 1,876 | - |
| Purchases of bank owned life insurance | (25) | (25) |
| Cash received on FDIC loss share | - | 3,980 |

Edgar Filing: SIMMONS FIRST NATIONAL CORP - Form 10-Q

| | | |
|--|------------------|------------------|
| Cash received in business combinations, net of cash paid | - | 201,029 |
| Net cash provided by investing activities | 10,736 | 200,138 |
| FINANCING ACTIVITIES | | |
| Net change in deposits | (57,893) | (101,472) |
| Repayments of subordinated debentures | (594) | - |
| Dividends paid on preferred stock | (24) | (103) |
| Dividends paid on common stock | (14,514) | (13,174) |
| Net change in other borrowed funds | 29,538 | (134,106) |
| Net change in federal funds purchased and securities sold under agreements to repurchase | 3,640 | (15,024) |
| Net shares issued under stock compensation plans | 4,210 | 2,850 |
| Redemption of preferred stock | (30,852) | - |
| Net cash used in financing activities | (66,489) | (261,029) |
| DECREASE IN CASH AND CASH EQUIVALENTS | (1,655) | (43,439) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 252,262 | 335,909 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$250,607 | \$292,470 |

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation**Consolidated Statements of Stockholders' Equity****Six Months Ended June 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: | | | | | | |
| Net income | - | - | - | - | 28,830 | 28,830 |
| Change in unrealized depreciation on available-for-sale securities, net of income taxes of (\$41) | - | - | - | (64) | - | (64) |
| Comprehensive income | | | | | | 28,766 |
| Stock issued as bonus shares – 56,600 shares | - | 1 | 1,564 | - | - | 1,565 |
| Vesting bonus shares, net of forfeitures – (9,500 shares) | - | - | 803 | - | - | 803 |
| Stock issued for employee stock purchase plan – 6,528 shares | - | - | 226 | - | - | 226 |
| Exercise of stock options – 52,929 shares | - | - | 1,201 | - | - | 1,201 |
| Stock granted under stock-based compensation plans | - | - | 274 | - | - | 274 |
| Securities exchanged under stock option plan – (4,350 shares) | - | - | (142) | - | - | (142) |
| 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 | - | - | - | - | (103) | (103) |
| Dividends on common stock – \$0.46 per share | - | - | - | - | (13,174) | (13,174) |
| Balance, June 30, 2015 (Unaudited) | 30,852 | 299 | 640,895 | (1,400) | 354,459 | 1,025,105 |
| Comprehensive income: | | | | | | |
| Net income | - | - | - | - | 45,534 | 45,534 |
| Change in unrealized depreciation on available-for-sale securities, net of income taxes of (\$817) | - | - | - | (1,265) | - | (1,265) |
| Comprehensive income | - | - | - | - | - | 44,269 |
| Stock issued as bonus shares – 38,920 shares | - | - | 268 | - | - | 268 |
| Vesting bonus shares, net of forfeitures – (7,164 shares) | - | - | 1,749 | - | - | 1,749 |
| Exercise of stock options – 18,439 shares | - | 1 | 410 | - | - | 411 |

Edgar Filing: SIMMONS FIRST NATIONAL CORP - Form 10-Q

| | | | | | | |
|--|----------|--------|------------|----------|------------|--------------|
| Stock granted under stock-based compensation plans | - | - | 1,192 | - | - | 1,192 |
| Stock issued for Ozark Trust acquisition – 339,290 common shares | - | 3 | 17,864 | - | - | 17,867 |
| Dividends on preferred stock | - | - | - | - | (154) | (154) |
| Cash dividends – \$0.46 per share | - | - | - | - | (13,852) | (13,852) |
| Balance, December 31, 2015 | 30,852 | 303 | 662,378 | (2,665) | 385,987 | 1,076,855 |
| Comprehensive income: | | | | | | |
| Net income | - | - | - | - | 46,414 | 46,414 |
| Change in unrealized depreciation on available-for-sale securities, net of income taxes of \$4,455 | - | - | - | 6,903 | - | 6,903 |
| Comprehensive income | | | | | | 53,317 |
| Stock issued as bonus shares – 142,827 shares | - | 1 | 4,126 | - | - | 4,127 |
| Vesting bonus shares, net of forfeitures – (53,053 shares) | - | (1) | (259) | - | - | (260) |
| Stock issued for employee stock purchase plan – 6,002 shares | - | - | 231 | - | - | 231 |
| Exercise of stock options – 45,657 shares | - | 1 | 1,367 | - | - | 1,368 |
| Stock granted under stock-based compensation plans | - | - | 638 | - | - | 638 |
| Securities exchanged under stock option plan – (3,885 shares) | | | (175) | | | (175) |
| Preferred stock redeemed | (30,852) | - | - | - | - | (30,852) |
| Dividends on preferred stock | - | - | - | - | (24) | (24) |
| Dividends on common stock – \$0.48 per share | - | - | - | - | (14,514) | (14,514) |
| Balance, June 30, 2016 (Unaudited) | \$- | \$ 304 | \$ 668,306 | \$ 4,238 | \$ 417,863 | \$ 1,090,711 |

See Condensed Notes to Consolidated Financial Statements.

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 2016-13 – *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 faithful 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 six months ended June 30, 2016 and 2015:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------------|----------|------------------------------|----------|
| (In thousands, except per share data) | 2016 | 2015 | 2016 | 2015 |
| Net income available to common shareholders | \$22,909 | \$20,018 | \$46,390 | \$28,727 |
| Average common shares outstanding | 30,353 | 29,867 | 30,340 | 26,084 |
| Average potential dilutive common shares | 99 | 120 | 99 | 120 |

| | | | | |
|--|--------|--------|--------|--------|
| Average diluted common shares | 30,452 | 29,987 | 30,439 | 26,204 |
| Basic earnings per share | \$0.75 | \$0.67 | \$1.53 | \$1.10 |
| Diluted earnings per share ⁽¹⁾ ⁽²⁾ | \$0.75 | \$0.67 | \$1.52 | \$1.10 |

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 (1) common shares differ significantly. For purposes of calculating a roll-forward amount for 2015 year-to-date EPS, diluted EPS for the second quarter of 2015 would require a computed amount of \$0.71, producing a difference of \$.04 from actual second quarter diluted EPS of \$0.67. This difference is based on the direct result of the varying denominator for each period presented.

Stock options to purchase 258,255 and 65,005 shares for the three and six months ended June 30, 2016 and 2015, (2) 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, approximately \$780.7 million in loans including loan discounts and approximately \$874.7 million in deposits. The Company completed the systems conversion and merged LB into Simmons First National Bank ("Simmons Bank" or the "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 will not be 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 |

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

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.

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

Goodwill – The consideration paid as a result of the acquisition exceeded the fair value of the assets acquired, resulting in an intangible asset, goodwill, of \$95.2 million.

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

Other 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. The deferred tax asset, included in other assets, 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 remaining deferred tax assets and liabilities as of the acquisition date.

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 Liberty's certificates of deposits compared to the current market rates. Based on the results of the analysis, the estimated fair value adjustment was immaterial.

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.

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.

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, approximately \$1.1 billion in loans including loan discounts and approximately \$1.5 billion in deposits. The Company completed the systems conversion and merged FSB into Simmons 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 will serve 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 can 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 will not be 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 |

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

Cash and 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.

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, of \$110.4 million. Goodwill established prior to the acquisition was written off.

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

Other intangibles – This intangible asset represents the value of the relationships that Community First’s insurance subsidiary had with their customers. The fair value of this intangible asset was estimated based on a combination of discounted cash flow methodology and a market valuation approach.

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

Other assets – 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 Community First’s certificates of deposits compared to the current market rates and recorded a fair value adjustment for the difference.

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 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.

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 | - | 752 |

Edgar Filing: SIMMONS FIRST NATIONAL CORP - Form 10-Q

| | | | |
|--------------------------------------|----------|-----------|-----------|
| Total assets acquired | \$ 3,875 | \$ 10,151 | \$ 14,026 |
| Liabilities Assumed | | | |
| Deferred tax liability | 63 | 3,982 | 4,045 |
| Accrued and other liabilities | 302 | - | 302 |
| Total liabilities assumed | 365 | 3,982 | 4,347 |
| Equity | 3,510 | (3,510) | - |
| Total equity assumed | 3,510 | (3,510) | - |
| Total liabilities and equity assumed | \$ 3,875 | \$ 472 | \$ 4,347 |
| Net assets acquired | | | 9,679 |
| Purchase price | | | 23,623 |
| Goodwill | | | \$ 13,944 |

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

Cash– 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.

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

Goodwill – The consideration paid as a result of the acquisition exceeded the fair value of the assets acquired, resulting in an intangible asset, goodwill, of \$13.9 million.

Other intangibles – These intangible assets represent the value of the relationships that 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 assets – The carrying amount of these assets was deemed to be a reasonable estimate of fair value.

Deferred tax liability – The deferred tax liability 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 Ozark Trust’s remaining deferred tax assets and liabilities as of the acquisition date.

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.

Citizens National Bank (Pending Acquisition)

On May 18, 2016, the Company entered into a stock purchase agreement (the “Agreement”) with Citizens National Bancorp, Inc. (“Citizens”) and Citizens National Bank (“CNB”) to acquire CNB, headquartered in Athens, Tennessee. CNB had assets of approximately \$552 million at March 31, 2016. According to the terms of the Agreement, the Company will acquire all of the outstanding common stock of CNB. The transaction is valued at \$77.0 million (based on the Company’s May 17, 2016 closing price). The purchase price will be allocated among the net assets of CNB acquired as appropriate, with the remaining balance being reported as goodwill. The transaction has received to the routine regulatory approval, but is subject to other customary closing conditions, including approval by the shareholders of Citizens. The transaction is expected to close during the third quarter of 2016. After closing, CNB is expected to continue operations as a separate bank subsidiary of the Company for an interim period until it is merged into Simmons Bank.

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) | June 30, 2016 | | | | December 31, 2015 | | | |
|----------------------------------|-------------------|------------------------|---------------------------|----------------------|-------------------|------------------------|---------------------------|----------------------|
| | 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 | \$ 199,505 | \$ 549 | \$ (8) | \$ 200,046 | \$ 237,139 | \$ 582 | \$ (1,395) | \$ 236,326 |
| Mortgage-backed securities | 22,612 | 486 | (11) | 23,087 | 24,774 | 86 | (290) | 24,570 |
| State and political subdivisions | 407,273 | 14,128 | (5) | 421,396 | 440,676 | 9,138 | (123) | 449,691 |
| Other securities | 2,764 | - | - | 2,764 | 2,784 | - | - | 2,784 |
| Total HTM | \$ 632,154 | \$ 15,163 | \$ (24) | \$ 647,293 | \$ 705,373 | \$ 9,806 | \$ (1,808) | \$ 713,371 |
| Available-for-Sale | | | | | | | | |
| U.S. Treasury | \$ 4,300 | \$ 5 | \$ - | \$ 4,305 | \$ 4,000 | \$ - | \$ (6) | \$ 3,994 |
| U.S. Government agencies | 58,099 | 14 | - | 58,113 | 121,017 | 118 | (898) | 120,237 |
| Mortgage-backed securities | 643,820 | 8,643 | (38) | 652,425 | 650,619 | 937 | (4,130) | 647,426 |
| State and political subdivisions | 63,825 | 1,070 | (59) | 64,836 | 9,762 | 112 | - | 9,874 |
| Other securities | 41,030 | 685 | (22) | 41,693 | 39,594 | 420 | (138) | 39,876 |
| Total AFS | \$ 811,074 | \$ 10,417 | \$ (119) | \$ 821,372 | \$ 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 June 30, 2016, was \$65.4 million, which is approximately 4.5% 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 June 30, 2016:

| (In thousands) | Less Than 12 Months | | 12 Months or More | | Total | |
|----------------------------------|----------------------------|-------------------|----------------------------|-------------------|----------------------------|-------------------|
| | Estimated Gross Fair Value | Unrealized Losses | Estimated Gross Fair Value | Unrealized Losses | Estimated Gross Fair Value | Unrealized Losses |
| Held-to-Maturity | | | | | | |
| U.S. Government agencies | \$- | \$ - | \$19,992 | \$ (8) | \$19,992 | \$ (8) |
| Mortgage-backed securities | 1,336 | (3) | 2,898 | (8) | 4,234 | (11) |
| State and political subdivisions | 2,056 | (4) | 670 | (1) | 2,726 | (5) |
| Total HTM | \$3,392 | \$ (7) | \$23,560 | \$ (17) | \$26,952 | \$ (24) |
| Available-for-Sale | | | | | | |
| Mortgage-backed securities | \$26,441 | \$ (38) | \$- | \$ - | \$26,441 | \$ (38) |
| State and political subdivisions | 11,928 | (59) | - | - | 11,928 | (59) |
| Other securities | 60 | (22) | - | - | 60 | (22) |
| Total AFS | \$38,429 | \$ (119) | \$- | \$ - | \$38,429 | \$ (119) |

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 June 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 June 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 \$102.5 million and \$96.8 million for June 30, 2016 and December 31, 2015, respectively.

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

| (In thousands) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------|-----------------------------|---------|---------------------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| Taxable: | | | | |
| Held-to-maturity | \$1,446 | \$1,307 | \$2,323 | \$2,696 |
| Available-for-sale | 4,492 | 3,172 | 8,926 | 4,755 |
| Non-taxable: | | | | |
| Held-to-maturity | 2,399 | 2,732 | 5,545 | 5,334 |
| Available-for-sale | 162 | 839 | 211 | 1,144 |
| Total | \$8,499 | \$8,050 | \$17,005 | \$13,929 |

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

| (In thousands) | Held-to-Maturity | | Available-for-Sale | |
|--|------------------|------------|--------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| One year or less | \$87,294 | \$87,350 | \$9,409 | \$9,417 |
| After one through five years | 219,404 | 221,094 | 56,352 | 56,393 |
| After five through ten years | 116,567 | 120,081 | 4,144 | 4,314 |
| After ten years | 186,277 | 195,681 | 57,619 | 58,429 |
| Securities not due on a single maturity date | 22,612 | 23,087 | 643,820 | 652,425 |
| Other securities (no maturity) | - | - | 39,730 | 40,394 |
| Total | \$632,154 | \$647,293 | \$811,074 | \$821,372 |

The carrying value, which approximates the fair value, of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$866.3 million at June 30, 2016 and \$840.4 million at December 31, 2015.

There were \$3.8 million of gross realized gains and no realized losses from the sale of available for sale securities during the three months ended June 30, 2016 and there were \$4.1 million of realized gains and no realized losses from the sale of available for sale securities during the six months ended June 30, 2016. There were no realized gains and no realized losses for the three months ended June 30, 2015 and there were \$2,000 of gross realized gains and \$40,000 of realized losses from the sale of available for sale securities during the six months ended June 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.

NOTE 4: LOANS AND ALLOWANCE FOR LOAN LOSSES

At June 30, 2016, the Company's loan portfolio was \$5.014 billion, compared to \$4.919 billion at December 31, 2015. The various categories of loans are summarized as follows:

| (In thousands) | June 30, 2016 | December 31, 2015 |
|--|------------------|-------------------------|
| Consumer: | | |
| Credit cards | \$ 171,468 | \$ 177,288 |
| Other consumer | 248,018 | 208,380 |
| Total consumer | 419,486 | 385,668 |
| Real Estate: | | |
| Construction | 330,666 | 279,740 |
| Single family residential | 785,289 | 696,180 |
| Other commercial | 1,414,663 | 1,229,072 |
| Total real estate | 2,530,618 | 2,204,992 |
| Commercial: | | |
| Commercial | 577,771 | 500,116 |
| Agricultural | 187,047 | 148,563 |
| Total commercial | 764,818 | 648,679 |
| Other | 10,500 | 7,115 |
| Loans | 3,725,422 | 3,246,454 |
| Loans acquired, net of discount and allowance ⁽¹⁾ | 1,288,435 | 1,672,901 |
| Total loans | \$5,013,857 | \$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) | June 30, 2016 | December 31, 2015 |
|----------------|------------------|-------------------------|
| Consumer: | | |
| Credit cards | \$266 | \$ 212 |
| Other consumer | 1,205 | 442 |
| Total consumer | 1,471 | 654 |

Real estate:

| | | |
|---------------------------|--------|--------|
| Construction | 5,312 | 4,955 |
| Single family residential | 10,353 | 5,453 |
| Other commercial | 21,522 | 4,420 |
| Total real estate | 37,187 | 14,828 |

Commercial:

| | | |
|------------------|----------|-----------|
| Commercial | 2,985 | 1,968 |
| Agricultural | 1,662 | 264 |
| Total commercial | 4,647 | 2,232 |
| Total | \$43,305 | \$ 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 |
|---------------------------|------------------------------------|--------------------------------|-------------------|-------------|----------------|--------------------------------------|
| June 30, 2016 | | | | | | |
| Consumer: | | | | | | |
| Credit cards | \$631 | \$434 | \$1,065 | \$170,403 | \$171,468 | \$ 168 |
| Other consumer | 1,529 | 800 | 2,329 | 245,689 | 248,018 | 36 |
| Total consumer | 2,160 | 1,234 | 3,394 | 416,092 | 419,486 | 204 |
| Real estate: | | | | | | |
| Construction | 761 | 2,413 | 3,174 | 327,492 | 330,666 | - |
| Single family residential | 5,034 | 5,430 | 10,464 | 774,825 | 785,289 | 23 |
| Other commercial | 3,267 | 3,441 | 6,708 | 1,407,955 | 1,414,663 | - |
| Total real estate | 9,062 | 11,284 | 20,346 | 2,510,272 | 2,530,618 | 23 |
| Commercial: | | | | | | |
| Commercial | 2,712 | 1,120 | 3,832 | 573,939 | 577,771 | - |
| Agricultural | 1,189 | 840 | 2,029 | 185,018 | 187,047 | - |
| Total commercial | 3,901 | 1,960 | 5,861 | 758,957 | 764,818 | - |
| Other | - | - | - | 10,500 | 10,500 | - |
| Total | \$15,123 | \$14,478 | \$29,601 | \$3,695,821 | \$3,725,422 | \$ 227 |
| 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.

Edgar Filing: SIMMONS FIRST NATIONAL CORP - Form 10-Q

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 June 30, 2016 | Interest Income Recognized Three Months Ended June 30, 2016 | Average Investment in Impaired Loans Six Months Ended June 30, 2016 | Interest Income Recognized Six Months Ended June 30, 2016 |
|---------------------------|--------------------------------------|---------------------------------------|------------------------------------|---------------------------|-------------------|---|---|---|---|
| June 30, 2016 | | | | | | | | | |
| Consumer: | | | | | | | | | |
| Credit cards | \$ 433 | \$ 433 | \$ - | \$ 433 | \$ - | \$ 216 | \$ - | \$ 304 | \$ 10 |
| Other consumer | 1,257 | 1,225 | 17 | 1,242 | 6 | 841 | 12 | 708 | 18 |
| Total consumer | 1,690 | 1,658 | 17 | 1,675 | 6 | 1,057 | 12 | 1,012 | 28 |
| Real estate: | | | | | | | | | |
| Construction | 6,209 | 2,414 | 2,898 | 5,312 | 155 | 5,089 | 61 | 5,044 | 126 |
| Single family residential | 10,879 | 8,946 | 1,510 | 10,456 | 115 | 9,032 | 110 | 7,904 | 197 |
| Other commercial | 22,990 | 7,484 | 14,393 | 21,877 | 2,810 | 19,976 | 220 | 14,789 | 370 |
| Total real estate | 40,078 | 18,844 | 18,801 | 37,645 | 3,080 | 34,097 | 391 | 27,737 | 693 |
| Commercial: | | | | | | | | | |
| Commercial | 4,116 | 2,477 | 369 | 2,846 | 63 | 2,539 | 31 | 2,355 | 59 |
| Agricultural | 2,634 | 1,625 | - | 1,625 | - | 1,084 | 15 | 810 | 20 |
| Total commercial | 6,750 | 4,102 | 369 | 4,471 | 63 | 3,623 | 46 | 3,165 | 79 |
| Total | \$ 48,518 | \$ 24,604 | \$ 19,187 | \$ 43,791 | \$ 3,149 | \$ 38,777 | \$ 449 | \$ 31,914 | \$ 800 |
| | | | | | | Three Months Ended June 30, 2015 | | Six Months Ended June 30, 2015 | |
| December 31, 2015 | | | | | | | | | |
| Consumer: | | | | | | | | | |
| Credit cards | \$ 479 | \$ 479 | \$ - | \$ 479 | \$ 7 | \$ 459 | \$ 7 | \$ 372 | \$ 12 |
| Other consumer | 459 | 423 | 19 | 442 | 85 | 538 | 11 | 565 | 19 |
| Total consumer | 938 | 902 | 19 | 921 | 92 | 997 | 18 | 937 | 31 |
| Real estate: | | | | | | | | | |
| Construction | 5,678 | 1,636 | 3,318 | 4,954 | 441 | 5,066 | 107 | 5,717 | 197 |
| Single family residential | 5,938 | 4,702 | 945 | 5,647 | 1,034 | 5,251 | 93 | 4,942 | 170 |
| Other commercial | 5,688 | 4,328 | 88 | 4,416 | 832 | 3,104 | 48 | 2,563 | 88 |
| Total real estate | 17,304 | 10,666 | 4,351 | 15,017 | 2,307 | 13,421 | 248 | 13,222 | 455 |
| Commercial: | | | | | | | | | |
| Commercial | 2,656 | 1,654 | 334 | 1,988 | 387 | 2,054 | 29 | 1,558 | 54 |
| Agricultural | 264 | 264 | - | 264 | 45 | 166 | 5 | 264 | 9 |
| Total commercial | 2,920 | 1,918 | 334 | 2,252 | 432 | 2,220 | 34 | 1,822 | 63 |
| Total | \$ 21,162 | \$ 13,486 | \$ 4,704 | \$ 18,190 | \$ 2,831 | \$ 16,638 | \$ 300 | \$ 15,981 | \$ 549 |

At June 30, 2016, and December 31, 2015, impaired loans, net of government guarantees and excluding loans acquired, totaled \$43.8 million and \$18.2 million, respectively. Allocations of the allowance for loan losses relative to

impaired loans were \$3.1 million and \$2.8 million at June 30, 2016 and December 31, 2015, respectively. Approximately \$449,000 and \$800,000 of interest income was recognized on average impaired loans of \$38.8 million and \$31.9 million for the three and six months ended June 30, 2016. Interest income recognized on impaired loans on a cash basis during the three and six months ended June 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.

| (Dollars in thousands) | Accruing TDR Loans | | Nonaccrual TDR Loans | | Total TDR Loans | |
|---------------------------|-----------------------|----------|-------------------------|---------|--------------------|----------|
| | Number | Balance | Number | Balance | Number | Balance |
| June 30, 2016 | | | | | | |
| Consumer: | | | | | | |
| Other consumer | -- | \$-- | 2 | \$15 | 2 | \$15 |
| Total consumer | -- | -- | 2 | 15 | 2 | 15 |
| Real estate: | | | | | | |
| Construction | -- | -- | 1 | 139 | 1 | 139 |
| Single-family residential | 3 | 184 | 18 | 1,870 | 21 | 2,054 |
| Other commercial | 25 | 10,302 | 2 | 1,769 | 27 | 12,071 |
| Total real estate | 28 | 10,486 | 21 | 3,778 | 49 | 14,264 |
| Commercial: | | | | | | |
| Commercial | 10 | 401 | 5 | 312 | 15 | 713 |
| Total commercial | 10 | 401 | 5 | 312 | 15 | 713 |
| Total | 38 | \$10,887 | 28 | \$4,105 | 66 | \$14,992 |
| 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 |

Edgar Filing: SIMMONS FIRST NATIONAL CORP - Form 10-Q

The following table presents loans that were restructured as TDRs during the three and six months ended June 30, 2016 and 2015, excluding loans acquired, segregated by class of loans.

| (Dollars in thousands) | Number of Loans | Balance Prior to TDR | Balance at June 30 | Modification Type Change in Maturity Date | Change in Rate | Financial Impact on Date of Restructure |
|---|-----------------|----------------------|--------------------|---|----------------|---|
| Three Months Ended June 30, 2016 | | | | | | |
| Consumer: | | | | | | |
| Other consumer | 1 | \$3 | \$3 | \$3 | \$ -- | \$ -- |
| Total consumer | 1 | 3 | 3 | 3 | -- | -- |
| Real Estate: | | | | | | |
| Single-family residential | 7 | 618 | 615 | 61 | 554 | -- |
| Other commercial | 1 | 348 | 364 | -- | 364 | -- |
| Total real estate | 8 | 966 | 979 | 61 | 918 | -- |
| Commercial: | | | | | | |
| Commercial | 9 | 426 | 399 | 399 | -- | -- |
| Total commercial | 9 | 426 | 399 | 399 | -- | -- |
| Total | 18 | \$1,395 | \$1,381 | \$463 | \$ 918 | \$ -- |
| Three Months Ended June 30, 2015 | | | | | | |
| Real Estate: | | | | | | |
| Single-family residential | 4 | \$361 | \$361 | \$361 | \$ -- | \$ -- |
| Other commercial | 1 | 19 | 19 | 19 | -- | -- |
| Total real estate | 5 | 380 | 380 | 380 | -- | -- |
| Total | 5 | \$380 | \$380 | \$380 | \$ -- | \$ -- |
| Six Months Ended June 30, 2016 | | | | | | |
| Consumer: | | | | | | |
| Other consumer | 1 | \$3 | \$3 | \$3 | \$ -- | \$ -- |
| Total consumer | 1 | 3 | 3 | 3 | -- | -- |
| Real estate: | | | | | | |
| Single-family residential | 9 | 796 | 793 | 239 | 554 | -- |
| Other commercial | 25 | 8,962 | 8,931 | 8,567 | 364 | -- |
| Total real estate | 34 | 9,758 | 9,724 | 8,806 | 918 | -- |
| Commercial: | | | | | | |
| Commercial | 11 | 600 | 572 | 572 | -- | -- |
| Total commercial | 11 | 600 | 572 | 572 | -- | -- |
| Total | 46 | \$10,361 | \$10,299 | \$9,381 | \$ 918 | \$ -- |
| Six Months Ended June 30, 2015 | | | | | | |
| Real estate: | | | | | | |
| Single-family residential | 6 | \$709 | \$701 | \$701 | \$ -- | \$ -- |
| Other commercial | 1 | 19 | 19 | 19 | -- | -- |

| | | | | | | |
|-------------------|---|-------|-------|-------|------|------|
| Total real estate | 7 | 728 | 720 | 720 | -- | -- |
| Total | 7 | \$728 | \$720 | \$720 | \$-- | \$-- |

During the three months ended June 30, 2016, the Company modified 18 loans with a recorded investment of \$1.4 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 \$31,000 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 six months ended June 30, 2016, the Company modified 46 loans with a recorded investment of \$10.4 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 \$324,000 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 June 30, 2015, the Company modified five loans with a recorded investment of \$380,000 and during the six months ended June 30, 2015, the Company modified seven loans with a total recorded investment of \$728,000 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, no specific reserve was determined necessary for these loans. Also, there was no immediate financial impact from the restructuring of these loans, as it was not considered necessary to charge-off interest or principal on the date of restructure.

There were no loans for which a payment default occurred during the six months ended June 30, 2016 and 2015, and that had been modified as a TDR within 12 months or less of the payment default, excluding loans acquired. We define a payment default as a payment received more than 90 days after its due date.

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 \$4.8 million at June 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 June 30, 2016, the Company had \$2,215,000 of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process. At June 30, 2016, the Company had \$5,648,000 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.

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 \$20.7 million and \$23.5 million that are accounted for under ASC Topic 310-30 and are classified as substandard (Risk Rating 6) as of June 30, 2016 and December 31, 2015, respectively. Of the remaining loans acquired and accounted for under ASC Topic 310-20, \$36.0 million and \$49.9 million were classified (Risk Ratings 6, 7 and 8 – see classified loans discussion below) at June 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 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 \$161.4 million and \$153.7 million, as of June 30, 2016 and December 31, 2015, respectively.

The following table presents a summary of loans by credit risk rating as of June 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 |
|---------------------------|------------------|-------------------|----------------|-------------------|-------------------|-------------|
| June 30, 2016 | | | | | | |
| Consumer: | | | | | | |
| Credit cards | \$ 171,035 | \$-- | \$433 | \$-- | \$ -- | \$ 171,468 |
| Other consumer | 246,491 | 44 | 1,463 | 20 | -- | 248,018 |
| Total consumer | 417,526 | 44 | 1,896 | 20 | -- | 419,486 |
| Real estate: | | | | | | |
| Construction | 319,592 | 103 | 10,955 | 16 | -- | 330,666 |
| Single family residential | 761,813 | 3,605 | 19,707 | 164 | -- | 785,289 |
| Other commercial | 1,351,541 | 7,127 | 55,995 | -- | -- | 1,414,663 |
| Total real estate | 2,432,946 | 10,835 | 86,657 | 180 | -- | 2,530,618 |
| Commercial: | | | | | | |
| Commercial | 558,439 | 5,140 | 14,162 | 30 | -- | 577,771 |
| Agricultural | 185,028 | 228 | 1,791 | -- | -- | 187,047 |
| Total commercial | 743,467 | 5,368 | 15,953 | 30 | -- | 764,818 |
| Other | 10,500 | -- | -- | -- | -- | 10,500 |
| Loans acquired | 1,212,261 | 19,520 | 54,740 | 1,914 | -- | 1,288,435 |
| Total | \$4,816,700 | \$35,767 | \$ 159,246 | \$2,144 | \$ -- | \$5,013,857 |

| (In thousands) | Risk Rate 1-4 | Risk Rate 5 | Risk Rate 6 | Risk Rate 7 | Risk Rate 8 | Total |
|---------------------------|------------------|-------------------|----------------|-------------------|-------------------|------------|
| December 31, 2015 | | | | | | |
| Consumer: | | | | | | |
| Credit cards | \$ 176,809 | \$-- | \$479 | \$-- | \$-- | \$ 177,288 |
| Other consumer | 207,069 | -- | 1,262 | 49 | -- | 208,380 |
| Total consumer | 383,878 | -- | 1,741 | 49 | -- | 385,668 |
| Real estate: | | | | | | |
| Construction | 270,386 | 319 | 9,019 | 16 | -- | 279,740 |
| Single family residential | 679,484 | 2,701 | 13,824 | 171 | -- | 696,180 |
| Other commercial | 1,178,817 | 5,404 | 44,261 | 590 | -- | 1,229,072 |
| Total real estate | 2,128,687 | 8,424 | 67,104 | 777 | -- | 2,204,992 |
| Commercial: | | | | | | |
| Commercial | 487,563 | 2,760 | 9,787 | 6 | -- | 500,116 |
| Agricultural | 147,788 | -- | 775 | -- | -- | 148,563 |
| Total commercial | 635,351 | 2,760 | 10,562 | 6 | -- | 648,679 |

Edgar Filing: SIMMONS FIRST NATIONAL CORP - Form 10-Q

| | | | | | | |
|----------------|-------------|----------|-----------|---------|-------|-------------|
| Other | 7,022 | -- | 93 | -- | -- | 7,115 |
| Loans acquired | 1,590,384 | 9,150 | 69,219 | 3,689 | 459 | 1,672,901 |
| Total | \$4,745,322 | \$20,334 | \$148,719 | \$4,521 | \$459 | \$4,919,355 |

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) concentrations of credit within the loan portfolio, (6) the experience, ability and depth of lending management and staff and (7) other factors and trends that will affect specific loans and categories of loans. The Company establishes general allocations for each major loan category. This category also includes allocations to loans which are collectively evaluated for loss such as credit cards, one-to-four family owner occupied residential real estate loans and other consumer loans.

The following table details activity in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2016. 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 June 30, 2016</u> | | | | | |
| Balance, beginning of period ⁽²⁾ | \$ 7,083 | \$ 19,925 | \$ 3,757 | \$ 1,916 | \$ 32,681 |
| Provision for loan losses ⁽¹⁾ | 2,714 | 423 | 440 | 732 | 4,309 |
| Charge-offs | (2,283) | (824) | (702) | (489) | (4,298) |
| Recoveries | 318 | 111 | 253 | 149 | 831 |
| Net recoveries (charge-offs) | (1,965) | (713) | (449) | (340) | (3,467) |
| Balance, June 30, 2016 ⁽²⁾ | \$ 7,832 | \$ 19,635 | \$ 3,748 | \$ 2,308 | \$ 33,523 |
| <u>Six Months Ended June 30, 2016</u> | | | | | |
| Balance, beginning of period ⁽²⁾ | \$ 5,985 | \$ 19,522 | \$ 3,893 | \$ 1,951 | \$ 31,351 |
| Provision for loan losses ⁽¹⁾ | 4,281 | 943 | 921 | 987 | 7,132 |
| Charge-offs | (2,759) | (1,053) | (1,561) | (882) | (6,255) |
| Recoveries | 325 | 223 | 495 | 252 | 1,295 |
| Net charge-offs | (2,434) | (830) | (1,066) | (630) | (4,960) |
| Balance, June 30, 2016 ⁽²⁾ | \$ 7,832 | \$ 19,635 | \$ 3,748 | \$ 2,308 | \$ 33,523 |
| Period-end amount allocated to: | | | | | |
| Loans individually evaluated for impairment | \$ 63 | \$ 3,080 | \$ -- | \$ 6 | \$ 3,149 |
| Loans collectively evaluated for impairment | 7,769 | 16,555 | 3,748 | 2,302 | 30,374 |
| Balance, June 30, 2016 ⁽²⁾ | \$ 7,832 | \$ 19,635 | \$ 3,748 | \$ 2,308 | \$ 33,523 |

Provision for loan losses of \$307,000 attributable to loans acquired was excluded from this table for the three and six months ended June 30, 2016 (total provision for loan losses for the three and six months ended June 30, 2016 was \$4,616,000 and \$7,439,000). The \$307,000 was subsequently charged-off, resulting in no ending balance in the allowance related to loans acquired.

Allowance for loan losses at June 30, 2016, March 31, 2016 and December 31, 2015 includes \$954,000 allowance for loans acquired. The total allowance for loan losses at June 30, 2016, March 31, 2016 and December 31, 2015 was \$34,477,000, \$33,635,000 and \$32,305,000, respectively.

Activity in the allowance for loan losses for the three and six months ended June 30, 2015 was as follows:

| (In thousands) | Commercial | Real Estate | Credit Card | Other Consumer and Other | Total |
|---|------------|----------------|----------------|--------------------------------|-----------|
| <u>Three Months Ended June 30, 2015</u> | | | | | |
| Balance, beginning of period ⁽⁴⁾ | \$ 6,870 | \$ 15,553 | \$ 5,527 | \$ 1,233 | \$ 29,183 |
| Provision for loan losses ⁽³⁾ | (1,569) | 3,311 | 352 | 308 | 2,402 |
| Charge-offs | -- | (333) | (802) | (366) | (1,501) |
| Recoveries | 9 | 46 | 241 | 187 | 483 |
| Net charge-offs | 9 | (287) | (561) | (179) | (1,018) |
| Balance, June 30, 2015 ⁽⁴⁾ | \$ 5,310 | \$ 18,577 | \$ 5,318 | \$ 1,362 | \$ 30,567 |
| <u>Six Months Ended June 30, 2015</u> | | | | | |
| Balance, beginning of period ⁽⁴⁾ | \$ 6,962 | \$ 15,161 | \$ 5,445 | \$ 1,460 | \$ 29,028 |
| Provision for loan losses ⁽³⁾ | (1,585) | 3,984 | 1,006 | 168 | 3,573 |
| Charge-offs | (245) | (626) | (1,587) | (586) | (3,044) |
| Recoveries | 178 | 58 | 454 | 320 | 1,010 |
| Net charge-offs | (67) | (568) | (1,133) | (266) | (2,034) |
| Balance, June 30, 2015 ⁽⁴⁾ | \$ 5,310 | \$ 18,577 | \$ 5,318 | \$ 1,362 | \$ 30,567 |
| Period-end amount allocated to: | | | | | |
| Loans individually evaluated for impairment | \$ 396 | \$ 1,513 | \$ 14 | \$ 89 | \$ 2,012 |
| Loans collectively evaluated for impairment | 4,914 | 17,064 | 5,304 | 1,273 | 28,555 |
| Balance, June 30, 2015 ⁽⁴⁾ | \$ 5,310 | \$ 18,577 | \$ 5,318 | \$ 1,362 | \$ 30,567 |
| Period-end amount allocated to: | | | | | |
| Loans individually evaluated for impairment | \$ 432 | \$ 2,307 | \$ 7 | \$ 85 | \$ 2,831 |
| Loans collectively evaluated for impairment | 5,553 | 17,215 | 3,886 | 1,866 | 28,520 |
| Balance, December 31, 2015 ⁽⁵⁾ | \$ 5,985 | \$ 19,522 | \$ 3,893 | \$ 1,951 | \$ 31,351 |

(3) Provision for loan losses of \$604,000 attributable to loans acquired, not covered by loss share, was excluded from this table for the three and six months ended June 30, 2015 (total provision for loan losses for the three and six months ended June 30, 2015 was \$3,006,000 and \$4,177,000). The \$604,000 was subsequently charged-off, resulting in no ending balance in the allowance related to loans acquired.

(4) Allowance for loan losses at June 30, 2015, March 31, 2015 and December 31, 2014 includes \$954,000 allowance for loans acquired, covered by loss share. The total allowance for loan losses at June 30, 2015, March 31, 2015 and December 31, 2014 was \$31,521,000, \$30,137,000 and \$29,982,000, respectively.

(5) Allowance for loan losses at December 31, 2015 includes \$954,000 allowance for loans acquired (not shown in the table above). The total allowance for loan losses December 31, 2015 was \$32,305,000.

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 |
|---|------------|-------------|-------------|--------------------------|-------------|
| June 30, 2016 | | | | | |
| Loans individually evaluated for impairment | \$ 4,471 | \$37,645 | \$433 | \$ 1,242 | \$43,791 |
| Loans collectively evaluated for impairment | 760,347 | 2,492,973 | 171,035 | 257,276 | 3,681,631 |
| Balance, end of period | \$ 764,818 | \$2,530,618 | \$ 171,468 | \$ 258,518 | \$3,725,422 |
| December 31, 2015 | | | | | |
| Loans individually evaluated for impairment | \$ 2,252 | \$15,017 | \$479 | \$ 442 | \$18,190 |
| Loans collectively evaluated for impairment | 646,427 | 2,189,975 | 176,809 | 215,053 | 3,228,264 |
| Balance, end of period | \$ 648,679 | \$2,204,992 | \$ 177,288 | \$ 215,495 | \$3,246,454 |

NOTE 5: LOANS ACQUIRED

On September 15, 2015, the Company 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.

During the first quarter of 2015, the Company evaluated \$769.9 million of net loans (\$774.8 million gross loans less \$4.9 million discount) purchased in conjunction with the acquisition of Liberty, 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 \$10.7 million of net loans (\$15.7 million gross loans less \$5.0 million discount) purchased in conjunction with the acquisition of Liberty 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.

Also during the first quarter of 2015, the Company evaluated \$1.13 billion of net loans (\$1.15 billion gross loans less \$23.7 million discount) purchased in conjunction with the acquisition of Community First, described in Note 2, Acquisitions, in accordance with the provisions of ASC Topic 310-20. 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 \$7.0 million of net loans (\$10.1 million gross loans less \$3.1 million discount) purchased in conjunction with the acquisition of Community First for impairment in accordance with the provisions of ASC Topic 310-30.

The following table reflects the carrying value of all acquired loans as of June 30, 2016 and December 31, 2015:

| (in thousands) | Loans Acquired | |
|-------------------------------------|------------------|-------------------------|
| | June 30, 2016 | December 31, 2015 |
| Consumer: | | |
| Other consumer | \$53,072 | \$75,606 |
| Total consumer | 53,072 | 75,606 |
| Real estate: | | |
| Construction | 38,509 | 77,119 |
| Single family residential | 406,161 | 501,002 |
| Other commercial | 685,124 | 854,068 |
| Total real estate | 1,129,794 | 1,432,189 |
| Commercial: | | |
| Commercial | 101,984 | 154,533 |
| Agricultural | 3,585 | 10,573 |
| Total commercial | 105,569 | 165,106 |
| Total loans acquired ⁽¹⁾ | \$1,288,435 | \$1,672,901 |

(1) Loans acquired are reported net of a \$954,000 allowance at June 30, 2016 and December 31, 2015.

Nonaccrual acquired loans, excluding purchased credit impaired loans accounted for under ASC Topic 310-30, segregated by class of loans, are as follows (see Note 4, Loans and Allowance for Loan Losses, for discussion of nonaccrual loans):

| (In thousands) | Nonaccrual Acquired Loans | |
|---------------------------|---------------------------|-------------------------|
| | June 30, 2016 | December 31, 2015 |
| Consumer: | | |
| Other consumer | \$86 | \$71 |
| Total consumer | 86 | 71 |
| Real estate: | | |
| Construction | 992 | 783 |
| Single family residential | 8,340 | 7,795 |
| Other commercial | 3,319 | 6,435 |
| Total real estate | 12,651 | 15,013 |
| Commercial: | | |

| | | |
|------------------|----------|----------|
| Commercial | 1,453 | 3,859 |
| Agricultural | 52 | 8 |
| Total commercial | 1,505 | 3,867 |
| Total | \$14,242 | \$18,951 |

Edgar Filing: SIMMONS FIRST NATIONAL CORP - Form 10-Q

An age analysis of past due acquired loans segregated by class of loans, is as follows (see Note 4, 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 |
|---------------------------|------------------------------------|--------------------------------|-------------------|-------------|----------------|--------------------------------------|
| June 30, 2016 | | | | | | |
| Consumer: | | | | | | |
| Other consumer | \$635 | \$24 | \$659 | \$52,413 | \$53,072 | \$ -- |
| Total consumer | 635 | 24 | 659 | 52,413 | 53,072 | -- |
| Real estate: | | | | | | |
| Construction | 69 | 6,833 | 6,902 | 31,607 | 38,509 | -- |
| Single family residential | 4,980 | 4,205 | 9,185 | 396,976 | 406,161 | -- |
| Other commercial | 10,616 | 12,081 | 22,697 | 662,427 | 685,124 | -- |
| Total real estate | 15,665 | 23,119 | 38,784 | 1,091,010 | 1,129,794 | -- |
| Commercial: | | | | | | |
| Commercial | 664 | 2,686 | 3,350 | 98,634 | 101,984 | -- |
| Agricultural | 53 | 52 | 105 | 3,480 | 3,585 | -- |
| Total commercial | 717 | 2,738 | 3,455 | 102,114 | 105,569 | -- |
| Total | \$17,017 | \$25,881 | \$42,898 | \$1,245,537 | \$1,288,435 | \$ -- |
| December 31, 2015 | | | | | | |
| Consumer: | | | | | | |
| Other consumer | \$826 | \$122 | \$948 | \$74,658 | \$75,606 | \$ 57 |
| Total consumer | 826 | 122 | 948 | 74,658 | 75,606 | 57 |
| Real estate: | | | | | | |
| Construction | 736 | 9,449 | 10,185 | 66,934 | 77,119 | 410 |
| Single family residential | 9,493 | 4,850 | 14,343 | 486,659 | 501,002 | 1,246 |
| Other commercial | 12,910 | 7,810 | 20,720 | 833,348 | 854,068 | 203 |
| Total real estate | 23,139 | 22,109 | 45,248 | 1,386,941 | 1,432,189 | 1,859 |
| Commercial: | | | | | | |
| Commercial | 1,999 | 2,334 | 4,333 | 150,200 | 154,533 | 912 |
| Agricultural | 114 | 396 | 510 | 10,063 | 10,573 | 396 |
| Total commercial | 2,113 | 2,730 | 4,843 | 160,263 | 165,106 | 1,308 |
| Total | \$26,078 | \$24,961 | \$51,039 | \$1,621,862 | \$1,672,901 | \$ 3,224 |

The following table presents a summary of acquired loans by credit risk rating, segregated by class of loans (see Note 4, 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 |
|---------------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------|
| June 30, 2016 | | | | | | |
| Consumer: | | | | | | |
| Other consumer | \$52,857 | \$18 | \$197 | \$-- | \$-- | \$53,072 |
| Total consumer | 52,857 | 18 | 197 | -- | -- | 53,072 |
| Real estate: | | | | | | |
| Construction | 32,341 | 69 | 6,099 | -- | -- | 38,509 |
| Single family residential | 389,529 | 1,482 | 13,489 | 1,661 | -- | 406,161 |
| Other commercial | 642,307 | 16,202 | 26,615 | -- | -- | 685,124 |
| Total real estate | 1,064,177 | 17,753 | 46,203 | 1,661 | -- | 1,129,794 |
| Commercial: | | | | | | |
| Commercial | 91,957 | 1,698 | 8,076 | 253 | -- | 101,984 |
| Agricultural | 3,270 | 51 | 264 | -- | -- | 3,585 |
| Total commercial | 95,227 | 1,749 | 8,340 | 253 | -- | 105,569 |
| Total | \$1,212,261 | \$19,520 | \$54,740 | \$1,914 | \$-- | \$1,288,435 |
| December 31, 2015 | | | | | | |
| Consumer: | | | | | | |
| Other consumer | \$75,330 | \$-- | \$276 | \$-- | \$-- | \$75,606 |
| Total consumer | 75,330 | -- | 276 | -- | -- | 75,606 |
| Real estate: | | | | | | |
| Construction | 68,775 | -- | 8,344 | -- | -- | 77,119 |
| Single family residential | 479,193 | 1,490 | 18,640 | 1,675 | 4 | 501,002 |
| Other commercial | 812,537 | 7,328 | 33,748 | -- | 455 | 854,068 |
| Total real estate | 1,360,505 | 8,818 | 60,732 | 1,675 | 459 | 1,432,189 |
| Commercial: | | | | | | |
| Commercial | 144,239 | 332 | 7,948 | 2,014 | -- | 154,533 |
| Agricultural | 10,310 | -- | 263 | -- | -- | 10,573 |
| Total commercial | 154,549 | 332 | 8,211 | 2,014 | -- | 165,106 |
| Total | \$1,590,384 | \$9,150 | \$69,219 | \$3,689 | \$459 | \$1,672,901 |

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. This has resulted in increased interest income that is spread on a level-yield basis over the remaining expected lives of the loans. For those loans previously covered by FDIC loss share, the increases in expected cash flows also reduced the amount of expected reimbursements under the loss sharing agreements with the FDIC, which was recorded as indemnification assets. The estimated adjustments to the indemnification assets were amortized on a level-yield basis over the remainder of the loss-sharing agreements or the remaining expected lives of the loans, whichever was shorter. Because the Company's loss share agreements with the FDIC have been terminated, there will be no further indemnification asset amortization in future quarters.

The impact of the adjustments on the Company's financial results for the three and six months ended June 30, 2016 and 2015 is shown below:

| (In thousands) | Three Months Ended | | Six Months Ended | |
|------------------------------------|--------------------|---------|------------------|---------|
| | June 30, 2016 | 2015 | June 30, 2016 | 2015 |
| Impact on net interest income | \$80 | \$3,223 | \$1,175 | \$9,325 |
| Non-interest income ⁽¹⁾ | -- | (2,941) | -- | (5,686) |
| Net impact to pre-tax income | 80 | 282 | 1,175 | 3,639 |
| Net impact, net of taxes | \$49 | \$171 | \$714 | \$2,212 |

Negative non-interest income resulted from the amortization of the FDIC indemnification assets. Because the (1)Company's loss share agreements with the FDIC have been terminated, there will be no further indemnification asset amortization.

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 six months ended June 30, 2016 and 2015.

| (In thousands) | Three Months Ended | | Six Months Ended | |
|------------------------------------|--------------------|---------------|------------------|---------------|
| | June 30, 2016 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| | Carrying | Carrying | Carrying | Carrying |
| | Amount | Amount | Amount | Amount |
| | of | of | of | of |
| | Yield | Yield | Yield | Yield |
| | Loans | Loans | Loans | Loans |
| Beginning balance | \$2,034 | \$21,259 | \$954 | \$23,469 |
| Additions | -- | -- | -- | -- |
| Accretable yield adjustments | 642 | -- | 3,074 | -- |
| Accretion | (311) | 311 | (1,663) | 1,663 |
| Payments and other reductions, net | -- | (907) | -- | (4,469) |
| Balance, ending | \$2,365 | \$20,663 | \$2,365 | \$20,663 |

Edgar Filing: SIMMONS FIRST NATIONAL CORP - Form 10-Q

| (In thousands) | Three Months Ended June 30, 2015 | | Six Months Ended June 30, 2015 | |
|------------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | Accretible Yield | Carrying Amount of Loans | Accretible Yield | Carrying Amount of Loans |
| Beginning balance | \$17,226 | \$177,691 | \$20,635 | \$169,098 |
| Additions | -- | -- | (116) | 17,750 |
| Accretible yield adjustments | 2,369 | -- | 5,443 | -- |
| Accretion | (4,547) | 4,547 | (10,914) | 10,914 |
| Payments and other reductions, net | -- | (22,144) | -- | (37,668) |
| Balance, ending | \$15,048 | \$160,094 | \$15,048 | \$160,094 |

Purchased impaired loans are evaluated on an individual borrower basis. Because some loans evaluated by the Company, previously covered by loss share agreements, were determined to have experienced impairment in the estimated credit quality or cash flows during 2014, the Company recorded a provision to establish a \$954,000 allowance for loan losses for covered purchased impaired loans. During 2015, the Company recorded a provision totaling \$736,000 to cover impairment in the estimated credit quality of acquired loans, not covered by loss share. Non-covered loans were subsequently charged-off and the allowance was used during 2015. Because of the termination of the loss share agreements, the allowance for previously covered loans was reclassified to allowance for acquired non-covered loans, resulting in a total allowance on acquired non-covered loans of \$954,000 at June 30, 2016 and December 31, 2015.

The purchase and assumption agreements for the FDIC-assisted acquisitions allowed for the FDIC to recover a portion of the funds previously paid out under the indemnification agreement in the event losses failed to reach the expected loss level under a claw back provision (“true-up provision”). The amount of the true-up provision for each acquisition was measured and recorded at Day 1 fair values. It was calculated as the difference between management’s estimated losses on covered loans and covered foreclosed assets and the loss threshold contained in each loss share agreement, multiplied by the applicable clawback provisions contained in each loss share agreement, then discounted back to net present value. Due to the termination of the FDIC agreements in September 2015 there was no amortization expense recorded for the three or six months ended June 30, 2016. For the three and six months ended June 30, 2015, amortization expense of \$40,000 and \$80,000, respectively and an adjustment related to changes in expected losses of \$279,000 and \$533,000, respectively was recorded.

NOTE 6: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is tested annually, or more often than annually, if circumstances warrant, for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated, and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements. Goodwill totaled \$327.7 million at June 30, 2016 and December 31, 2015. Goodwill impairment was neither indicated nor recorded during the six months ended June 30, 2016 or the year ended December 31, 2015.

Core deposit premiums are amortized over a ten year period and are periodically evaluated, at least annually, as to the recoverability of their carrying value. Core deposit premiums of \$11.3 million and \$14.6 million were recorded during the first quarter of 2015 as part of the Community First and Liberty acquisitions, respectively.

Intangible assets are being amortized over various periods ranging from 10 to 15 years. The Community First acquisition on February 27, 2015 included an insurance line of business and the Company recorded an intangible asset of \$420,000 during the first quarter of 2015.

The Company’s goodwill and other intangibles (carrying basis and accumulated amortization) at June 30, 2016 and December 31, 2015, were as follows:

| (In thousands) | June 30, 2016 | December 31, 2015 |
|------------------------|------------------|-------------------------|
| Goodwill | \$327,686 | \$327,686 |
| Core deposit premiums: | | |
| Gross carrying amount | 43,617 | 43,648 |

Edgar Filing: SIMMONS FIRST NATIONAL CORP - Form 10-Q

| | | |
|--|-----------|-----------|
| Accumulated amortization | (8,349) | (6,217) |
| Core deposit premiums, net | 35,268 | 37,431 |
| Purchased credit card relationships: | | |
| Gross carrying amount | 2,068 | 2,068 |
| Accumulated amortization | (1,138) | (931) |
| Purchased credit card relationships, net | 930 | 1,137 |
| Books of business intangible: | | |
| Gross carrying amount | 15,293 | 15,293 |
| Accumulated amortization | (1,162) | (624) |
| Books of business intangible, net | 14,131 | 14,669 |
| Other intangible assets, net | 50,329 | 53,237 |
| Total goodwill and other intangible assets | \$378,015 | \$380,923 |

The Company's estimated remaining amortization expense on intangibles as of June 30, 2016 is as follows:

| (In thousands) Year | Amortization Expense |
|---------------------|-------------------------|
| Remainder of 2016 | \$ 2,907 |
| 2017 | 5,815 |
| 2018 | 5,711 |
| 2019 | 5,401 |
| 2020 | 5,389 |
| Thereafter | 25,106 |
| Total | \$ 50,329 |

NOTE 7: TIME DEPOSITS

Time deposits include approximately \$562,888,000 and \$625,775,000 of certificates of deposit of \$100,000 or more at June 30, 2016, and December 31, 2015, respectively. Of this total approximately \$170,616,000 and \$186,352,000 of certificates of deposit were over \$250,000 at June 30, 2016 and December 31, 2015, respectively.

NOTE 8: INCOME TAXES

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

| (In thousands) | June 30, 2016 | June 30, 2015 |
|--------------------------------|------------------|------------------|
| Income taxes currently payable | \$22,812 | \$16,204 |
| Deferred income taxes | 615 | (1,772) |
| Provision for income taxes | \$23,427 | \$14,432 |

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

| (In thousands) | June 30, 2016 | December 31, 2015 |
|----------------|------------------|-------------------------|
|----------------|------------------|-------------------------|

Deferred tax assets:

Edgar Filing: SIMMONS FIRST NATIONAL CORP - Form 10-Q

| | | |
|--|----------|----------|
| Loans acquired | \$11,644 | \$14,716 |
| Allowance for loan losses | 13,515 | 12,700 |
| Valuation of foreclosed assets | 11,183 | 11,212 |
| Tax NOLs from acquisition | 14,593 | 14,593 |
| Deferred compensation payable | 2,769 | 2,767 |
| Vacation compensation | 2,204 | 2,250 |
| Accrued equity and other compensation | 5,903 | 5,197 |
| Acquired securities | 1,766 | 1,770 |
| Other accrued liabilities | 1,938 | 1,943 |
| Unrealized loss on available-for-sale securities | -- | 1,655 |
| Other | 3,054 | 3,006 |
| Gross deferred tax assets | 68,569 | 71,809 |
| Deferred tax liabilities: | | |
| Goodwill and other intangible amortization | (29,709) | (30,550) |
| Limitations under IRC Sec 382 | (3,481) | (3,478) |
| Accumulated depreciation | (3,893) | (3,914) |
| Unrealized gain on available-for-sale securities | (2,733) | -- |
| Other | (4,076) | (4,187) |
| Gross deferred tax liabilities | (43,892) | (42,129) |
| Net deferred tax asset, included in other assets | \$24,677 | \$29,680 |

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense for the six months ended June 30, 2016 and 2015 is shown below:

| (In thousands) | June 30, 2016 | June 30, 2015 |
|--|------------------|------------------|
| Computed at the statutory rate (35%) | \$24,444 | \$15,142 |
| Increase (decrease) in taxes resulting from: | | |
| State income taxes, net of federal tax benefit | 1,369 | 1,432 |
| Tax exempt interest income | (2,048) | (2,284) |
| Tax exempt earnings on BOLI | (519) | (364) |
| Merger related expenses | -- | 569 |
| Federal tax credits | (53) | (276) |
| Other differences, net | 234 | 213 |
| Actual tax provision | \$23,427 | \$14,432 |

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 \$37.5 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 2012 tax year and forward. The Company's various state income tax returns are generally open from the 2009 and later tax return years based on individual state statute of limitations.

NOTE 9: 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 \$102.5 million and \$96.8 million at June 30, 2016 and December 31, 2015, respectively. The remaining contractual maturity of the securities sold under agreements to repurchase in the consolidated balance sheets as of June 30, 2016 and December 31, 2015 is presented in the following tables.

| (In thousands) | Remaining Contractual Maturity of the Agreements | | | | |
|--------------------------|--|---------------|------------|----------------------|-----------|
| | Overnight and Continuous | Up to 30 Days | 30-90 Days | Greater than 90 Days | Total |
| June 30, 2016 | | | | | |
| Repurchase agreements: | | | | | |
| U.S. Government agencies | \$95,209 | \$ -- | \$ -- | \$7,329 | \$102,538 |
| December 31, 2015 | | | | | |
| Repurchase agreements: | | | | | |
| U.S. Government agencies | \$89,512 | \$ -- | \$ -- | \$7,326 | \$96,838 |

NOTE 10: OTHER BORROWINGS AND SUBORDINATED DEBENTURES

Debt at June 30, 2016 and December 31, 2015 consisted of the following components:

| (In thousands) | June 30, 2016 | December 31, 2015 |
|--|---------------|-------------------|
| Other Borrowings | | |
| FHLB advances, net of discount, due 2016 to 2033, 0.83% to 7.37% secured by residential real estate loans | \$141,691 | \$109,989 |
| Notes payable, due 10/15/2020, 3.85%, fixed rate, unsecured | 50,136 | 52,300 |
| Total other borrowings | 191,827 | 162,289 |
| 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 | 9,175 | 9,723 |
| Trust preferred securities, net of discount, due 9/15/2037, floating rate of 1.37% above the three month LIBOR rate, reset quarterly | 10,052 | 9,975 |
| 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 | 5,164 | 5,167 |
| | 5,084 | 5,063 |

Edgar Filing: SIMMONS FIRST NATIONAL CORP - Form 10-Q

| | | |
|---|-----------|-----------|
| 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 | | |
| 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 | 10,089 | 10,022 |
| Total subordinated debentures | 60,184 | 60,570 |
| Total other borrowings and subordinated debentures | \$252,011 | \$222,859 |

During October 2015, the Company borrowed \$52.3 million from correspondent banks at a rate of 3.85% with quarterly principal and interest payments. The debt has a 10 year amortization with a 5 year balloon payment due in October 2020.

At June 30, 2016, the Company had \$90.8 million of Federal Home Loan Bank (“FHLB”) advances with original maturities of one year or less.

The Company had total FHLB advances of \$141.7 million at June 30, 2016, with approximately \$962.7 million of additional advances available from the FHLB. The FHLB advances are secured by mortgage loans and investment securities totaling approximately \$1.086 billion at June 30, 2016.

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 June 30, 2016, are:

| (In thousands) Year | Annual Maturities |
|---------------------|-------------------|
| 2016 | \$97,276 |
| 2017 | 14,016 |
| 2018 | 24,682 |
| 2019 | 7,765 |
| 2020 | 36,435 |
| Thereafter | 71,837 |
| Total | \$252,011 |

NOTE 11: CONTINGENT LIABILITIES

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

NOTE 12: COMMON STOCK

During 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. The Company suspended its stock repurchases in August of 2013, with 154,136 shares remaining available for repurchase under the program.

On March 4, 2014 the Company filed a shelf registration statement with the Securities and Exchange Commission (“SEC”). Subsequently, on June 18, 2014 the Company filed Amendment No. 1 to the shelf registration statement. After becoming effective, the shelf registration statement allows the Company to raise capital from time to time, up to an aggregate of \$300 million, through the sale of common stock, preferred stock, stock warrants, stock rights or a combination thereof, subject to market conditions. Specific terms and prices are determined at the time of any offering under a separate prospectus supplement that the Company is required to file with the SEC at the time of the specific offering.

NOTE 13: 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 June 30, 2016, the Company’s subsidiary bank had approximately \$4.1 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 newly adopted Basel III Rules, the criteria for a well-capitalized institution are: a 5% "Tier 1 leverage capital" ratio, an 8% "Tier 1 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 June 30, 2016, 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 14.08% at June 30, 2016.

NOTE 14: 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 six months ended June 30, 2016:

| | Stock Options Outstanding | | Non-Vested Stock Awards Outstanding | |
|----------------------------|------------------------------|--|--|---|
| | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Grant-Date Fair-Value |
| Balance, January 1, 2016 | 484,497 | \$ 40.59 | 183,101 | \$ 35.65 |
| Granted | 58,090 | 47.02 | 142,827 | 47.51 |
| Stock Options Exercised | (45,657) | 29.96 | -- | -- |
| Stock Awards Vested | -- | -- | (122,753) | 41.39 |
| Forfeited/Expired | (5,145) | 35.25 | (30,579) | 33.35 |
| Balance, June 30, 2016 | 491,785 | \$ 42.39 | 172,596 | \$ 41.79 |
| Exercisable, June 30, 2016 | 215,556 | \$ 38.83 | | |

Edgar Filing: SIMMONS FIRST NATIONAL CORP - Form 10-Q

The following table summarizes information about stock options under the plans outstanding at June 30, 2016:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | | |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|--|
| | Number of Shares | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price | |
| \$17.55-\$21.29 | 17,350 | 4.91 | \$ 19.78 | 11,500 | \$ 19.48 | |
| 21.51 -21.51 | 2,050 | 3.55 | 21.51 | 2,050 | 21.51 | |
| 28.42 -28.42 | 24,600 | 0.80 | 28.42 | 24,600 | 28.42 | |
| 30.31 -30.31 | 28,090 | 1.79 | 30.31 | 28,090 | 30.31 | |
| 40.57 -40.57 | 43,720 | 7.91 | 40.57 | 43,720 | 40.57 | |
| 40.72 -40.72 | 1,500 | 8.38 | 40.72 | 300 | 40.72 | |
| 44.40 -44.40 | 54,825 | 8.35 | 44.40 | 26,877 | 44.40 | |
| 45.50 -45.50 | 258,255 | 9.11 | 45.50 | 77,161 | 45.50 | |
| 47.02 -47.02 | 58,090 | 9.56 | 47.02 | -- | -- | |
| 48.13 -48.13 | 3,305 | 9.21 | 48.13 | 1,258 | 48.13 | |
| \$17.55-\$48.13 | 491,785 | 7.96 | \$ 42.39 | 215,556 | \$ 38.83 | |

Total stock-based compensation expense was \$2,097,000 and \$1,077,000 during the six months ended June 30, 2016 and 2015, respectively. Stock-based compensation expense is recognized ratably over the requisite service period for all stock-based awards. There was \$1,480,000 of unrecognized stock-based compensation expense related to stock options at June 30, 2016. Unrecognized stock-based compensation expense related to non-vested stock awards was \$7,715,000 at June 30, 2016. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 3.2 years.

The intrinsic value of stock options outstanding and stock options exercisable at June 30, 2016 was \$1,920,000 and \$1,589,000. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the period, which was \$46.19 as of June 30, 2016, 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 six months ended June 30, 2016 and June 30, 2015, was \$741,000 and \$1,270,000, 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. The weighted-average fair value of stock options granted during the six months ended June 30, 2016 and June 30, 2015 was \$11.64 and \$8.81 per share, respectively. 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:

| | Six Months Ended June 30, 2016 | | Six Months Ended June 30, 2015 | |
|----------------------------------|-----------------------------------|---|-----------------------------------|---|
| Expected dividend yield | 1.96 | % | 2.15 | % |
| Expected stock price volatility | 27.34 | % | 21.08 | % |
| Risk-free interest rate | 2.01 | % | 2.01 | % |
| Expected life of options (years) | 7 | | 10 | |

NOTE 15: ADDITIONAL CASH FLOW INFORMATION

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

| | Six Months Ended June 30, | |
|----------------|------------------------------|------|
| (In thousands) | 2016 | 2015 |

Edgar Filing: SIMMONS FIRST NATIONAL CORP - Form 10-Q

| | | |
|--|----------|---------|
| Interest paid | \$10,817 | \$9,413 |
| Income taxes paid | 21,610 | 13,981 |
| Transfers of loans not covered by FDIC loss share to foreclosed assets held for sale | 2,970 | 7,426 |
| Transfers of loans acquired covered by FDIC loss share to foreclosed assets covered by FDIC loss share | -- | 2,288 |
| Transfers of premises and equipment to premises held for sale | 6,167 | -- |
| Transfers of premises held for sale to foreclosed assets held for sale | 923 | 6,126 |

NOTE 16: OTHER OPERATING EXPENSES

Other operating expenses consist of the following:

| (In thousands) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------|-----------------------------------|----------|------------------------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| Professional services | \$2,911 | \$2,261 | \$6,404 | \$4,135 |
| Postage | 1,074 | 1,085 | 2,309 | 2,017 |
| Telephone | 1,041 | 1,321 | 2,100 | 2,175 |
| Credit card expense | 2,542 | 2,280 | 5,372 | 4,271 |
| Operating supplies | 458 | 612 | 817 | 1,092 |
| Amortization of intangibles | 1,451 | 996 | 2,908 | 2,287 |
| Branch right sizing expense | 3,219 | 2,745 | 3,233 | 2,780 |
| Other expense | 6,836 | 6,741 | 12,784 | 11,456 |
| Total other operating expenses | \$19,532 | \$18,041 | \$35,927 | \$30,213 |

NOTE 17: CERTAIN TRANSACTIONS

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

NOTE 18: 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 June 30, 2016, the Company had outstanding commitments to extend credit aggregating approximately \$639,407,000 and \$926,432,000 for credit card commitments and other loan commitments. At December 31, 2015, the Company had outstanding commitments to extend credit aggregating approximately \$497,961,000 and \$805,673,000 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 \$25,961,000 and \$23,515,000 at June 30, 2016, and December 31, 2015, respectively, with terms ranging from 9 months to 15 years. At June 30, 2016 and December 31, 2015, the Company had no deferred revenue under standby letter of credit agreements.

NOTE 19: 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 is 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 qualifies 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 20: 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 trading account investment in the AIM Fund is reported at fair value utilizing Level 1 inputs. The remainder of the Company's assets held in trading accounts are reported at fair value utilizing Level 2 inputs.

The following table sets forth the Company's financial assets by level within the fair value hierarchy that were measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015.

| (In thousands) | Fair Value | Fair Value Measurements Using | | |
|----------------------------------|------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| June 30, 2016 | | | | |
| ASSETS | | | | |
| Available-for-sale securities | | | | |
| U.S. Treasury | \$4,305 | \$4,305 | \$ -- | \$ -- |
| U.S. Government agencies | 58,113 | -- | 58,113 | -- |
| Mortgage-backed securities | 652,425 | -- | 652,425 | -- |
| State and political subdivisions | 64,836 | -- | 64,836 | -- |
| Other securities | 41,693 | -- | 41,693 | -- |
| Assets held in trading accounts | 7,321 | 2,073 | 5,248 | -- |

December 31, 2015

ASSETS

Available-for-sale securities

| | | | | |
|-----------------------------------|---------|---------|---------|------|
| U.S. Treasury | \$3,994 | \$3,994 | \$-- | \$-- |
| U.S. Government agencies | 120,237 | -- | 120,237 | -- |
| Mortgage-backed securities | 647,426 | -- | 647,426 | -- |
| States and political subdivisions | 9,874 | -- | 9,874 | -- |
| Other securities | 39,876 | -- | 39,876 | -- |
| Assets held in trading accounts | 4,422 | 2,409 | 2,013 | -- |

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 held for sale – Foreclosed assets held for sale are reported at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company’s recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed assets held for sale is estimated using Level 3 inputs based on unobservable market data. As of June 30, 2016 and December 31, 2015, the fair value of foreclosed assets held for sale less estimated costs to sell was \$30.5 million and \$44.9 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 June 30, 2016 and December 31, 2015, 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 June 30, 2016 and December 31, 2015.

| | | |
|----------------|------------|---|
| (In thousands) | Fair Value | Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1) Significant Other Observable Inputs (Level 2) Significant Unobservable Inputs (Level 3) |
|----------------|------------|---|

1)

June 30, 2016

ASSETS

| | | | | |
|---|----------|------|-------|-----------|
| Impaired loans ⁽¹⁾ ⁽²⁾ (collateral dependent) | \$13,160 | \$-- | \$ -- | \$ 13,160 |
| Foreclosed assets held for sale ⁽¹⁾ | 13,329 | -- | -- | 13,329 |

December 31, 2015

ASSETS

| | | | | |
|---|----------|------|-------|-----------|
| Impaired loans ⁽¹⁾ ⁽²⁾ (collateral dependent) | \$19,027 | \$-- | \$ -- | \$ 19,027 |
| Foreclosed assets held for sale ⁽¹⁾ | 14,459 | -- | -- | 14,459 |

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

(2) Specific allocations of \$2,350,000 and \$1,136,000 were related to the impaired collateral dependent loans for which fair value re-measurements took place during the periods ended June 30, 2016 and December 31, 2015, respectively.

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

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

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.

Edgar Filing: SIMMONS FIRST NATIONAL CORP - Form 10-Q

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 | |
| June 30, 2016 | | | | | |
| Financial assets: | | | | | |
| Cash and cash equivalents | \$250,607 | \$250,607 | \$-- | \$-- | \$250,607 |
| Interest bearing balances due from banks - time | 9,781 | -- | 9,781 | -- | 9,781 |
| Held-to-maturity securities | 632,154 | -- | 647,293 | -- | 647,293 |
| Mortgage loans held for sale | 30,529 | -- | -- | 30,529 | 30,529 |
| Interest receivable | 24,150 | -- | 24,150 | -- | 24,150 |
| Legacy loans (net of allowance) | 3,691,899 | -- | -- | 3,676,447 | 3,676,447 |
| Loans acquired (net of allowance) | 1,288,435 | -- | -- | 1,283,042 | 1,283,042 |
| Financial liabilities: | | | | | |
| Non-interest bearing transaction accounts | 1,283,426 | -- | 1,283,426 | -- | 1,283,426 |
| Interest bearing transaction accounts and savings deposits | 3,538,808 | -- | 3,538,808 | -- | 3,538,808 |
| Time deposits | 1,205,969 | -- | -- | 1,204,164 | 1,204,164 |
| Federal funds purchased and securities sold under agreements to repurchase | 103,038 | -- | 103,038 | -- | 103,038 |
| Other borrowings | 191,827 | -- | 201,124 | -- | 201,124 |
| Subordinated debentures | 60,184 | -- | 54,683 | -- | 54,683 |
| Interest payable | 1,690 | -- | 1,690 | -- | 1,690 |
| December 31, 2015 | | | | | |
| Financial assets: | | | | | |
| Cash and cash equivalents | \$252,262 | \$252,262 | \$-- | \$-- | \$252,262 |
| Interest bearing balances due from banks - time | 14,107 | -- | 14,105 | -- | 14,105 |
| Held-to-maturity securities | 705,373 | -- | 713,371 | -- | 713,371 |
| Mortgage loans held for sale | 30,265 | -- | -- | 30,265 | 30,265 |
| Interest receivable | 25,793 | -- | 25,793 | -- | 25,793 |
| Legacy loans (net of allowance) | 3,215,103 | -- | -- | 3,204,153 | 3,204,153 |
| Loans acquired (net of allowance) | 1,672,901 | -- | -- | 1,667,204 | 1,667,204 |
| Financial liabilities: | | | | | |
| Non-interest bearing transaction accounts | 1,280,234 | -- | 1,280,234 | -- | 1,280,234 |
| Interest bearing transaction accounts and savings deposits | 3,485,845 | -- | 3,485,845 | -- | 3,485,845 |
| Time deposits | 1,320,017 | -- | -- | 1,315,254 | 1,315,254 |
| Federal funds purchased and securities sold under agreements to repurchase | 99,398 | -- | 99,398 | -- | 99,398 |
| Other borrowings | 162,289 | -- | 168,254 | -- | 168,254 |
| Subordinated debentures | 60,570 | -- | 55,954 | -- | 55,954 |
| Interest payable | 1,800 | -- | 1,800 | -- | 1,800 |

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee, Board of Directors and Stockholders

Simmons First National Corporation

Pine Bluff, Arkansas

We have reviewed the accompanying condensed consolidated balance sheet of **SIMMONS FIRST NATIONAL CORPORATION** as of June 30, 2016, and the related condensed consolidated statements of income and comprehensive income for the three and six months ended June 30, 2016 and 2015 and the related consolidated statements of stockholders' equity and cash flows for the six month periods ended June 30, 2016 and 2015. 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, 2015, 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 29, 2016, 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, 2015, 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

August 8, 2016

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

OVERVIEW

Our net income for the three months ended June 30, 2016 was \$22.9 million and diluted earnings per share were \$0.75, compared to net income of \$20.0 million and \$0.67 diluted earnings per share for the same period of 2015. Diluted earnings per share increased by \$0.08, or 11.9%. Net income for the six months ended June 30, 2016, was \$46.4 million and diluted earnings per share were \$1.52, compared to net income of \$28.7 million and \$1.10 diluted earnings per share for the same period in 2015. Year-to-date diluted earnings per share increased by \$0.42, or 38.2%

Net income for the first and second quarters in both 2016 and 2015 included nonrecurring items that impacted net income. The 2016 nonrecurring items primarily related to branch right sizing initiatives. The 2015 nonrecurring items were significant and related mainly to our acquisitions. Excluding all nonrecurring items, core earnings for the three months ended June 30, 2016 were \$25.1 million, or \$0.82 diluted core earnings per share, compared to \$22.4 million, or \$0.75 diluted core earnings per share for the same period in 2015. Diluted core earnings per share increased by \$0.07, or 9.3%. Year-to-date core earnings were \$48.3 million, an increase of \$10.1 million, or 26.6%, compared with the same period in 2015. Year-to-date diluted core earnings per share were \$1.59, an increase of \$0.13, or 8.9%. See Reconciliation of Non-GAAP Measures and Table 13 – Reconciliation of Core Earnings (non-GAAP) for additional discussion of non-GAAP measures.

On February 19, 2016, we merged Simmons First Trust Company and Trust Company of the Ozarks with and into Simmons First National Bank. We believe this will allow us to offer our trust services in an efficient and consistent manner throughout our footprint.

During the second quarter we entered into a stock purchase agreement with Citizens National Bancorp, Inc. ("Citizens") and Citizens National Bank ("CNB") to acquire CNB, headquartered in Athens, Tennessee. CNB has assets of approximately \$550 million. The transaction is expected to close during the third quarter of 2016 and after closing, CNB is expected to continue operations as a separate bank subsidiary of the Company for an interim period until it is merged into Simmons Bank.

On February 27, 2015, we closed the transactions to acquire Community First Bancshares, Inc. ("Community First") and Liberty Bancshares, Inc. ("Liberty") and at March 31, 2015 Liberty Bank and First State Bank operated as independently chartered banks. Liberty Bank was subsequently merged into our lead bank, Simmons First National Bank, on April 24, 2015 with a simultaneous systems conversion. First State Bank was subsequently merged into our lead bank, Simmons First National Bank, on September 4, 2015 with a simultaneous systems conversion. As a result of these acquisitions, we recognized \$7.7 million in after tax merger related expenses during the six month period ended June 30, 2015.

We are pleased with the results from the second quarter as we continue to absorb the acquisitions from the previous two years. Competitive pressures and artificially low interest rates continue to put pressure on our net interest income but we have done a good job of diversifying our revenue through other lines of business such as our trust operations, mortgage lending, credit card services, and other wealth management offerings. We will continue to focus on improving our efficiency throughout the remainder of the year. We continue to pursue growth opportunities and focus on improvement in our core operating income.

We are also pleased with the positive trends in our balance sheet, as reflected in our organic loan growth as well as in our growth from acquisitions.

Stockholders' equity as of June 30, 2016 was \$1.091 billion, book value per share was \$35.86 and tangible book value per share was \$23.43. Our ratio of stockholders' equity to total assets was 14.5% and the ratio of tangible stockholders' equity to tangible assets was 10.0% at June 30 2016. See Table 14 – Reconciliation of Tangible Book Value per Share (non-GAAP) and Table 15 – Reconciliation of Tangible Common Equity and the Ratio of Tangible Common Equity to Tangible Assets (non-GAAP) for additional discussion of non-GAAP measures. The Company's Tier I leverage ratio of 11.3%, as well as our other regulatory capital ratios, remain significantly above the "well capitalized" levels (see Table 12 in the Capital section of this Item).

Total assets were \$7.534 billion at June 30, 2016, compared to \$7.560 billion at December 31, 2015 and \$7.614 billion at June 30, 2015. Total loans, including loans acquired, were \$5.014 billion at June 30, 2016, compared to \$4.919 billion at December 31, 2015 and \$4.813 billion at June 30, 2015. We continue to have good asset quality.

Effective April 1, 2016, our wholly-owned subsidiary, Simmons First National Bank converted from a national banking association to an Arkansas state-chartered bank. The bank's name changed to Simmons Bank. Simmons Bank is a member bank of the Federal Reserve System through the Federal Reserve Bank of St. Louis. The charter conversion was a strategic undertaking that we believe will enhance our operations in the long term.

Simmons First National Corporation is a \$7.5 billion Arkansas based financial holding company conducting financial operations throughout Arkansas, Kansas, Missouri and Tennessee.

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 employee benefit plans and (e) income taxes.

Allowance for Loan Losses on Loans Not Acquired

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

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

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

Acquisition Accounting, Acquired Loans

We account for our acquisitions under ASC Topic 805, *Business Combinations*, which requires the use of the 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. 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, whether or not previously covered by FDIC loss share agreements, are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected.

For impaired loans accounted for under ASC Topic 310-30, we continue to estimate cash flows expected to be collected on 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.

Covered Loans and Related Indemnification Asset

In September 2015, the Bank entered into an agreement with the FDIC to terminate all of its remaining loss-sharing agreements. As a result, all FDIC-acquired assets are now classified as non-covered. All acquired loans are recorded at their discounted net present value; therefore, they are excluded from the computations of the asset quality ratios for the legacy loan portfolio, except for their inclusion in total assets. Under the early termination, all rights and obligations of the Bank 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.

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

Goodwill and Intangible Assets

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

Employee Benefit Plans

We have adopted various stock-based compensation plans. The plans provide for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, 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 satisfaction of the conditions in the awards of the restricted or performance stock 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 14, Stock Based Compensation, in the accompanying Condensed Notes to Consolidated Financial Statements included elsewhere in this report.

Income Taxes

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

NET INTEREST INCOME

Overview

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

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

Net Interest Income Quarter-to-Date Analysis

For the three month period ended June 30, 2016, net interest income on a fully taxable equivalent basis was \$68.7 million, a decrease of \$6.8 million, or 9.0%, over the same period in 2015. The decrease in net interest income was the result of a \$7.5 million decrease in interest income and a \$645,000 decrease in interest expense.

The decrease in interest income primarily resulted from a \$7.4 million decrease in interest income on loans, consisting of legacy loans and acquired loans. The increase in loan volume during 2016 generated \$4 million of additional interest income, while a 92 basis point decline in yield resulted in an \$11.3 million decrease in interest income. The interest income increase from loan volume was primarily due to our legacy loan growth from the same period last year.

Included in interest income is the effect of yield accretion recognized as a result of updated estimates of the cash flows of our acquired loans, as discussed in Note 5, Loans Acquired, in the accompanying Notes to Consolidated Financial Statements included elsewhere in this report. Each quarter, we estimate the cash flows expected to be collected from the acquired loans, and adjustments may or may not be required. The cash flow estimate may increase or decrease based on payment histories and loss expectations of the loans. The resulting adjustment to interest income is spread on a level-yield basis over the remaining expected lives of the loans. For loans previously covered by FDIC loss sharing agreements, any increases in expected cash flows also reduced the amount of expected reimbursements under the loss sharing agreements, which were recorded as indemnification assets. The estimated adjustments to the indemnification assets were amortized on a level-yield basis over the remainder of the loss sharing agreements or the remaining expected life of the loans, whichever was shorter, and were recorded in non-interest expense.

For the three months ended June 30, 2016, interest income was less by \$3.1 million and non-interest income was greater by \$2.9 million, compared to the same period in 2015, due to the adjustments discussed above. The net effect lowered 2016 second quarter pre-tax income by \$202,000 from 2015. The accretable yield adjustments recorded in future periods will change as we continue to evaluate expected cash flows from the acquired loans. With the termination of the loss sharing agreements in 2015, there will be no future adjustments to non-interest income.

The \$645,000 million decrease in interest expense is primarily from a \$340.2 million decrease in interest bearing deposit accounts.

Net Interest Income Year-to-Date Analysis

For the six month period ended June 30, 2016, net interest income on a fully taxable equivalent basis was \$141.0 million, an increase of \$10.7 million, or 8.2%, over the same period in 2015. The increase in net interest income was the result of an \$11.1 million increase in interest income and a \$451,000 increase in interest expense.

The increase in interest income primarily resulted from an \$8.3 million increase in interest income on loans and a \$3.1 million increase in interest income on investment securities. The increase in loan volume during 2016 generated \$24.5 million of additional interest income, while a 77 basis point decline in yield resulted in a \$16.2 million decrease in interest income. The increase in loan volume was primarily due to our acquisitions in early 2015. \$1.8 million of the increase in interest income on investment securities was due to volume increases while \$1.2 million was a result of an increase in yield on the security portfolio.

For the six months ended June 30, 2016, the acquired loan cash flow adjustments resulted in a decrease to interest income by \$8.2 million and non-interest income was greater by \$5.7 million compared to the same period in 2015. The net increase to year-to-date 2016 pre-tax income was \$2.5 million compared with 2015.

The \$451,000 increase in interest expense is primarily from the growth in deposit accounts and other debt, primarily from Liberty and Community First.

Net Interest Margin

Our net interest margin decreased 30 basis points to 4.17% for the three month period ended June 30, 2016, when compared to 4.47% for the same period in 2015. For the six month period ended June 30, 2016, net interest margin decreased 13 basis points to 4.29% when compared to 4.42% for the same period in 2015. The most significant factor in the decreasing margin during the three month period ended June 30, 2016 is the impact of the lower accretable yield adjustments discussed. Normalized for all accretion on acquired loans, our core net interest margin at June 30, 2016 and 2015 was 3.90% and 3.74%, respectively. See Reconciliation of Non-GAAP Measures and Table 16 – Reconciliation of Core Net Interest Margin (non-GAAP) for additional discussion of non-GAAP measures.

Net Interest Income Tables

Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the three and six months ended June 30, 2016 and 2015, respectively, as well as changes in fully taxable equivalent net interest margin for the three and six months ended June 30, 2016, versus June 30, 2015.

Table 1: Analysis of Net Interest Margin

(FTE = Fully Taxable Equivalent)

| (In thousands) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------------|--------------------------------|----------|------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Interest income | \$71,900 | \$79,169 | \$147,521 | \$136,424 |
| FTE adjustment | 2,106 | 2,303 | 4,189 | 4,160 |
| Interest income – FTE | 74,006 | 81,472 | 151,710 | 140,584 |
| Interest expense | 5,317 | 5,962 | 10,707 | 10,256 |
| Net interest income – FTE | \$68,689 | \$75,510 | \$141,003 | \$130,328 |
| Yield on earning assets – FTE | 4.49 % | 4.82 % | 4.61 % | 4.77 % |
| Cost of interest bearing liabilities | 0.42 % | 0.44 % | 0.42 % | 0.43 % |
| Net interest spread – FTE | 4.07 % | 4.38 % | 4.19 % | 4.34 % |
| Net interest margin – FTE | 4.17 % | 4.47 % | 4.29 % | 4.42 % |

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

| (In thousands) | Three Months Ended June 30, 2016 vs. 2015 | Six Months Ended June 30, 2016 vs. 2015 |
|---|--|--|
| Increase due to change in earning assets | \$3,541 | \$25,921 |
| Decrease due to change in earning asset yields | (11,007) | (14,794) |
| Increase (decrease) due to change in interest bearing liabilities | 472 | (460) |
| Increase due to change in interest rates paid on interest bearing liabilities | 173 | 9 |
| (Decrease) increase in net interest income | \$(6,821) | \$10,676 |

Table 3 shows, for each major category of earning assets and interest bearing liabilities, the average (computed on a daily basis) amount outstanding, the interest earned or expensed on such amount and the average rate earned or expensed for the three months ended June 30, 2016 and 2015. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Nonaccrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

Table 3: Average Balance Sheets and Net Interest Income Analysis

| (\$ in thousands) | Three Months Ended June 30, | | | | | |
|---|-----------------------------|--------------------|-----------------------|--------------------|--------------------|-----------------------|
| | 2016 | | | 2015 | | |
| | Average Balance | Income/ Expense | Yield/ Rate (%) | Average Balance | Income/ Expense | Yield/ Rate (%) |
| ASSETS | | | | | | |
| Earning assets: | | | | | | |
| Interest bearing balances due from banks | \$ 126,114 | \$ 77 | 0.25 | \$ 308,756 | \$ 229 | 0.30 |
| Federal funds sold | 2,570 | 17 | 2.66 | 75,922 | 73 | 0.39 |
| Investment securities - taxable | 1,087,179 | 5,273 | 1.95 | 1,295,466 | 4,479 | 1.39 |
| Investment securities - non-taxable | 416,115 | 5,300 | 5.12 | 360,360 | 5,849 | 6.51 |
| Mortgage loans held for sale | 28,844 | 295 | 4.11 | 37,656 | 375 | 3.99 |
| Assets held in trading accounts | 6,932 | 3 | 0.17 | 6,592 | 4 | 0.24 |
| Loans | 4,957,888 | 63,041 | 5.11 | 4,689,941 | 70,463 | 6.03 |
| Total interest earning assets | 6,625,642 | 74,006 | 4.49 | 6,774,693 | 81,472 | 4.82 |
| Non-earning assets | 896,491 | | | 920,999 | | |
| Total assets | \$ 7,522,133 | | | \$ 7,695,692 | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Liabilities: | | | | | | |
| Interest bearing liabilities | | | | | | |
| Interest bearing transaction and savings accounts | \$ 3,526,278 | \$ 2,035 | 0.23 | \$ 3,621,060 | \$ 2,131 | 0.24 |
| Time deposits | 1,242,805 | 1,741 | 0.56 | 1,488,208 | 2,064 | 0.56 |
| Total interest bearing deposits | 4,769,083 | 3,776 | 0.32 | 5,109,268 | 4,195 | 0.33 |
| Federal funds purchased and securities sold under agreement to repurchase | 104,668 | 59 | 0.23 | 116,258 | 57 | 0.20 |
| Other borrowings | 172,268 | 938 | 2.19 | 179,080 | 1,151 | 2.58 |
| Subordinated debentures | 60,132 | 544 | 3.64 | 62,981 | 559 | 3.56 |
| Total interest bearing liabilities | 5,106,151 | 5,317 | 0.42 | 5,467,587 | 5,962 | 0.44 |
| Non-interest bearing liabilities: | | | | | | |
| Non-interest bearing deposits | 1,271,878 | | | 1,088,474 | | |
| Other liabilities | 57,486 | | | 70,312 | | |
| Total liabilities | 6,435,515 | | | 6,626,373 | | |
| Stockholders' equity | 1,086,618 | | | 1,069,319 | | |
| Total liabilities and stockholders' equity | \$ 7,522,133 | | | \$ 7,695,692 | | |
| Net interest spread | | | 4.07 | | | 4.38 |

| | | | | |
|---------------------|----------|------|----------|------|
| Net interest margin | \$68,689 | 4.17 | \$75,510 | 4.47 |
|---------------------|----------|------|----------|------|

| (\$ in thousands) | Six Months Ended June 30, | | | | | |
|---|---------------------------|--------------------|-------------------|--------------------|--------------------|-------------------|
| | 2016 | | | 2015 | | |
| | Average Balance | Income/ Expense | Yield/ Rate(%) | Average Balance | Income/ Expense | Yield/ Rate(%) |
| ASSETS | | | | | | |
| Earning assets: | | | | | | |
| Interest bearing balances due from banks | \$146,748 | \$220 | 0.30 | \$339,976 | \$439 | 0.26 |
| Federal funds sold | 2,204 | 27 | 2.46 | 66,384 | 102 | 0.31 |
| Investment securities - taxable | 1,082,017 | 10,583 | 1.97 | 1,124,923 | 7,451 | 1.34 |
| Investment securities - non-taxable | 422,966 | 10,549 | 5.02 | 345,743 | 10,602 | 6.18 |
| Mortgage loans held for sale | 27,730 | 572 | 4.15 | 26,155 | 522 | 4.02 |
| Assets held in trading accounts | 6,064 | 9 | 0.30 | 6,687 | 8 | 0.24 |
| Loans | 4,923,787 | 129,750 | 5.30 | 4,038,397 | 121,460 | 6.07 |
| Total interest earning assets | 6,611,516 | 151,710 | 4.61 | 5,948,265 | 140,584 | 4.77 |
| Non-earning assets | 899,141 | | | 786,715 | | |
| Total assets | \$7,510,657 | | | \$6,734,980 | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Liabilities: | | | | | | |
| Interest bearing liabilities | | | | | | |
| Interest bearing transaction and savings accounts | \$3,505,424 | \$4,053 | 0.23 | \$3,111,053 | \$3,478 | 0.23 |
| Time deposits | 1,273,209 | 3,377 | 0.53 | 1,321,350 | 3,661 | 0.56 |
| Total interest bearing deposits | 4,778,633 | 7,430 | 0.31 | 4,432,403 | 7,139 | 0.32 |
| Federal funds purchased and securities sold under agreement to repurchase | 109,109 | 125 | 0.23 | 118,913 | 121 | 0.21 |
| Other borrowings | 178,134 | 2,065 | 2.33 | 181,517 | 2,203 | 2.45 |
| Subordinated debentures | 60,121 | 1,087 | 3.64 | 49,334 | 793 | 3.24 |
| Total interest bearing liabilities | 5,125,997 | 10,707 | 0.42 | 4,782,167 | 10,256 | 0.43 |
| Non-interest bearing liabilities: | | | | | | |
| Non-interest bearing deposits | 1,248,595 | | | 1,019,388 | | |
| Other liabilities | 55,362 | | | 57,173 | | |
| Total liabilities | 6,429,954 | | | 5,858,728 | | |
| Stockholders' equity | 1,080,703 | | | 876,252 | | |
| Total liabilities and stockholders' equity | \$7,510,657 | | | \$6,734,980 | | |
| Net interest spread | | | 4.19 | | | 4.34 |
| Net interest margin | | \$141,003 | 4.29 | | \$130,328 | 4.42 |

Table 4 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the three and six month periods ended June 30, 2016, as compared to the same periods of the prior year. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

Table 4: Volume/Rate Analysis

| (In thousands, on a fully taxable equivalent basis) | Three Months Ended June 30, 2016 over 2015 | | | Six Months Ended June 30, 2016 over 2015 | | |
|--|--|----------------|----------|--|----------------|----------|
| | Volume | Yield/ Rate | Total | Volume | Yield/ Rate | Total |
| Increase (decrease) in: | | | | | | |
| Interest income: | | | | | | |
| Interest bearing balances due from banks | \$(117) | \$(35) | \$(152) | \$(281) | \$62 | \$(219) |
| Federal funds sold | (130) | 74 | (56) | (183) | 108 | (75) |
| Investment securities - taxable | (803) | 1,597 | 794 | (294) | 3,427 | 3,133 |
| Investment securities - non-taxable | 823 | (1,372) | (549) | 2,127 | (2,180) | (53) |
| Mortgage loans held for sale | (90) | 10 | (80) | 32 | 18 | 50 |
| Assets held in trading accounts | -- | (1) | (1) | (1) | 2 | 1 |
| Loans | 3,858 | (11,280) | (7,422) | 24,521 | (16,231) | 8,290 |
| Total | 3,541 | (11,007) | (7,466) | 25,921 | (14,794) | 11,127 |
| Interest expense: | | | | | | |
| Interest bearing transaction and savings accounts | (55) | (41) | (96) | 453 | 122 | 575 |
| Time deposits | (343) | 20 | (323) | (130) | (154) | (284) |
| Federal funds purchased and securities sold under agreements to repurchase | (6) | 8 | 2 | (10) | 14 | 4 |
| Other borrowings | (43) | (170) | (213) | (40) | | |