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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

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

(Exact name of registrant as specified in its charter)

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

870-541-1000

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

Yes No

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

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

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

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

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

Simmons First National Corporation

Quarterly Report on Form 10-Q

September 30, 2017

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

Simmons First National Corporation

Consolidated Balance Sheets

September 30, 2017 and December 31, 2016

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

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

See Condensed Notes to Consolidated Financial Statements.

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Simmons First National Corporation

Consolidated Statements of Income

Three and Nine Months Ended September 30, 2017 and 2016

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

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

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Comprehensive Income

Three and Nine Months Ended September 30, 2017 and 2016

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

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2017 and 2016

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

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

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation

Consolidated Statements of Stockholders' Equity

Nine Months Ended September 30, 2017 and 2016

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

See Condensed Notes to Consolidated Financial Statements.

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SIMMONS FIRST NATIONAL CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

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

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

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

Recently Adopted Accounting Standards

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

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

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

Recently Issued Accounting Standards

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

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

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

Statement of Cash Flows – In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), designed to address the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and distributions received from equity method investees. The amendments also provide guidance on when an entity should separate or aggregate cash flows based on the predominance principle. The effective date is for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new standard is required to be applied retrospectively, but may be applied prospectively if retrospective application would be impracticable. Since the amendment applies to the classification of cash flows, no impact is anticipated on our financial position or results of operations. Additionally, although we do not expect it to have a material impact, we are currently evaluating the impact of this amendment on our financial statement disclosures.

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

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

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

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

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

Acquisition Accounting, Loans Acquired

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

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

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

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

Earnings Per Common Share ("EPS")

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2017	2016	2017	2016
Net income available to common shareholders	$28,852	$23,429	$ 74,037	