SIMMONS FIRST NATIONAL CORP
Form 10-Q
November 07, 2018

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, 2018 Commission File Number 000-06253
(Exact name of registrant as specified in its charter)

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

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

Not Applicable
Former name, former address and former fiscal year, if changed since last report

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. x 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).
x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, 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 x	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 x No

The number of shares outstanding of the Registrant’s Common Stock as of October 26, 2018, was 92,303,093.

Simmons First National Corporation
Quarterly Report on Form 10-Q
September 30, 2018

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* No reportable information under this item.

Part I: Financial Information
Item 1. Financial Statements (Unaudited)
Simmons First National Corporation
Consolidated Balance Sheets
September 30, 2018 and December 31, 2017

(In thousands, except share data)	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Cash and non-interest bearing balances due from banks	$125,231	$205,025
Interest bearing balances due from banks and federal funds sold	388,573	393,017
Cash and cash equivalents	513,804	598,042
Interest bearing balances due from banks - time	3,954	3,314
Investment securities:		
Held-to-maturity	323,306	368,058
Available-for-sale	1,997,814	1,589,517
Total investments	2,321,120	1,957,575
Mortgage loans held for sale	48,195	24,038
Other assets held for sale	5,136	165,780
Loans:		
Legacy loans	8,123,274	5,705,609
Allowance for loan losses	(55,358)	(41,668)
Loans acquired, net of discount and allowance	3,734,921	5,074,076
Net loans	11,802,837	10,738,017
Premises and equipment	287,246	287,249
Foreclosed assets and other real estate owned	22,664	32,118
Interest receivable	51,509	43,528
Bank owned life insurance	192,680	185,984
Goodwill	845,687	842,651
Other intangible assets	93,975	106,071
Other assets	92,457	71,439
Total assets	$16,281,264	$15,055,806
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing transaction accounts	$2,778,670	$2,665,249
Interest bearing transaction accounts and savings deposits	6,776,330	6,494,896
Time deposits	2,533,506	1,932,730
Total deposits	12,088,506	11,092,875
Federal funds purchased and securities sold under agreements to repurchase	109,213	122,444
Other borrowings	1,420,917	1,380,024
Subordinated notes and debentures	372,934	140,565
Other liabilities held for sale	424	157,366
Accrued interest and other liabilities	105,951	77,968
Total liabilities	14,097,945	12,971,242
Stockholders' equity:		

Common stock, Class A, $0.01 par value; 175,000,000 and 120,000,000 shares authorized at September 30, 2018 and December 31, 2017, respectively [1]; 92,291,070 and 92,029,118 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	923	920
Surplus	1,597,261	1,586,034
Undivided profits	633,175	514,874
Accumulated other comprehensive loss	(48,040)	(17,264)
Total stockholders' equity	2,183,319	2,084,564
Total liabilities and stockholders' equity	$16,281,264	$15,055,806

(1) On April 19, 2018, shareholders of the Company approved an increase in the number of authorized shares from 120,000,000 to 175,000,000.

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, 2018 and 2017

(In thousands, except per share data [(1)])	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Unaudited)		(Unaudited)	
INTEREST INCOME				
Loans	$162,438	$77,457	$456,041	$219,734
Interest bearing balances due from banks and federal funds sold	1,405	650	3,828	986
Investment securities	14,640	9,218	41,558	28,659
Mortgage loans held for sale	501	159	964	430
TOTAL INTEREST INCOME	178,984	87,484	502,391	249,809
INTEREST EXPENSE				
Deposits	24,390	6,030	58,448	15,050
Federal funds purchased and securities sold under agreements to repurchase	104	83	302	250
Other borrowings	6,240	1,875	16,520	4,628
Subordinated notes and debentures	5,282	677	12,350	1,870
TOTAL INTEREST EXPENSE	36,016	8,665	87,620	21,798
NET INTEREST INCOME	142,968	78,819	414,771	228,011
Provision for loan losses	10,345	5,462	28,528	16,792
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	132,623	73,357	386,243	211,219
NON-INTEREST INCOME				
Trust income	6,277	4,225	17,148	12,550
Service charges on deposit accounts	10,837	8,907	31,245	25,492
Other service charges and fees	1,201	2,433	5,968	7,145
Mortgage and SBA lending income	1,825	3,219	9,400	9,603
Investment banking income	664	680	2,312	2,007
Debit and credit card fees	6,820	8,864	25,721	25,457
Bank owned life insurance income	1,105	725	3,310	2,402
Gain on sale of securities, net	54	3	53	2,302
Other income	4,942	7,276	14,151	15,178
TOTAL NON-INTEREST INCOME	33,725	36,332	109,308	102,136
NON-INTEREST EXPENSE				
Salaries and employee benefits	55,515	35,285	167,550	105,026
Occupancy expense, net	7,713	4,928	22,594	14,459
Furniture and equipment expense	3,761	4,840	12,184	13,833
Other real estate and foreclosure expense	538	1,071	2,940	2,177
Deposit insurance	2,248	1,020	6,232	2,480
Merger related costs	804	752	3,980	7,879
Other operating expenses	29,674	18,263	81,353	58,035
TOTAL NON-INTEREST EXPENSE	100,253	66,159	296,833	203,889

INCOME BEFORE INCOME TAXES	66,095	43,530	198,718	109,466
Provision for income taxes	10,902	14,678	38,651	35,429
NET INCOME	$55,193	$28,852	$160,067	$74,037
BASIC EARNINGS PER SHARE	$0.60	$0.45	$1.74	$1.16
DILUTED EARNINGS PER SHARE	$0.59	$0.44	$1.72	$1.16

(1) All per share amounts have been restated to reflect the effect of the two-for-one stock split on February 8, 2018.

See Condensed Notes to Consolidated Financial Statements.
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Simmons First National Corporation
Consolidated Statements of Comprehensive Income
Three and Nine Months Ended September 30, 2018 and 2017

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2018	2017	2018	2017
	(Unaudited)		(Unaudited)	
NET INCOME	$55,193	$28,852	$160,067	$74,037
OTHER COMPREHENSIVE (LOSS) INCOME				
Unrealized holding (losses) gains arising during the period on available-for-sale securities	(10,583)	1,107	(41,612)	9,807
Less: Reclassification adjustment for realized gains included in net income	54	3	53	2,302
Other comprehensive (loss) gain, before tax effect	(10,637)	1,104	(41,665)	7,505
Less: Tax effect of other comprehensive (loss) income	(2,780)	433	(10,889)	2,944
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(7,857)	671	(30,776)	4,561
COMPREHENSIVE INCOME	$47,336	$29,523	$129,291	$78,598

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2018 and 2017

(In thousands)	September 30, 2018 (Unaudited)	September 30, 2017
OPERATING ACTIVITIES		
Net income	$160,067	$74,037
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	20,810	14,589
Provision for loan losses	28,528	16,792
Gain on sale of investments	(53)	(2,302)
Net accretion of investment securities and assets	(41,423)	(19,472)
Net (accretion) amortization on borrowings	(471)	319
Stock-based compensation expense	8,448	5,675
Gain on sale of premises and equipment, net of impairment	—	(615)
Loss (gain) on sale of foreclosed assets held for sale	150	(801)
Gain on sale of mortgage loans held for sale	(9,675)	(8,809)
Gain on sale of loans	(10)	(18)
Fair value write-down of closed branches	954	325
Deferred income taxes	7,316	4,962
Increase in cash surrender value of bank owned life insurance	(3,310)	(2,402)
Originations of mortgage loans held for sale	(424,751)	(353,714)
Proceeds from sale of mortgage loans held for sale	410,269	377,697
Changes in assets and liabilities:		
Interest receivable	(7,798)	(1,129)
Assets held in trading accounts	—	(8)
Other assets	(24,695)	8,249
Accrued interest and other liabilities	23,821	(9,738)
Income taxes payable	3,956	4,819
Net cash provided by operating activities	152,133	108,456
INVESTING ACTIVITIES		
Net originations of loans	(1,034,175)	(448,476)
Proceeds from sale of loans	24,977	20,705
(Increase) decrease in due from banks - time	(640)	2,488
Purchases of premises and equipment, net	(17,084)	(28,971)
Proceeds from sale of premises and equipment	—	3,475
Purchases of other real estate owned	—	(1,021)
Proceeds from sale of foreclosed assets held for sale	20,739	11,401
Proceeds from sale of available-for-sale securities	7,726	327,218
Proceeds from maturities of available-for-sale securities	197,464	76,615
Purchases of available-for-sale securities	(634,791)	(380,308)
Proceeds from maturities of held-to-maturity securities	46,515	57,896
Purchases of held-to-maturity securities	(1,172)	(860)
Purchases of bank owned life insurance	(4,000)	(143)
Proceeds from bank owned life insurance death benefits	616	—
Proceeds from the sale of insurance lines of business	—	3,707

Cash paid in business combinations, net of cash received	—	(22,000)
Disposition of assets and liabilities held for sale	(58,295)	—
Net cash used in investing activities	(1,452,120)	(378,274)
FINANCING ACTIVITIES		
Net change in deposits	995,631	201,395
Proceeds from issuance of subordinated notes	326,355	—
Repayments of subordinated debentures	(94,915)	—
Dividends paid on common stock	(41,766)	(23,986)
Net change in other borrowed funds	40,893	246,382
Net change in federal funds purchased and securities sold under agreements to repurchase	(13,231)	(10,505)
Net shares issued under stock compensation plans	1,756	2,545
Shares issued under employee stock purchase plan	1,026	618
Net cash provided by financing activities	1,215,749	416,449
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(84,238)	146,631
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	598,042	285,659
CASH AND CASH EQUIVALENTS, END OF PERIOD	$513,804	$432,290

See Condensed Notes to Consolidated Financial Statements.

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Simmons First National Corporation
Consolidated Statements of Stockholders' Equity
Nine Months Ended September 30, 2018 and 2017

(In thousands, except share data [1])	Common Stock	Surplus	Accumulated Other Comprehensive Income (Loss)	Undivided Profits	Total
Balance at, December 31, 2016	$ 626	$711,663	$ (15,212)	$454,034	$1,151,111
Comprehensive income	—	—	4,561	74,037	78,598
Stock issued for employee stock purchase plan – 26,002 shares	—	618	—	—	618
Stock-based compensation plans, net – 243,096	2	8,218	—	—	8,220
Stock issued for Hardeman acquisition – 1,599,940 common shares	16	42,622	—	—	42,638
Dividends on common stock – $0.375 per share	—	—	—	(23,986)	(23,986)
Balance, September 30, 2017 (Unaudited)	644	763,121	(10,651)	504,085	1,257,199
Comprehensive income	—	—	(3,597)	18,903	15,306
Reclassify stranded tax effects due to 2017 tax law changes	—	—	(3,016)	3,016	—
Stock-based compensation plans, net – 116,190	1	4,720	—	—	4,721
Stock issued for OKSB acquisition – 14,488,604 common shares	145	431,253	—	—	431,398
Stock issued for First Texas acquisition – 12,999,840 common shares	130	386,940	—	—	387,070
Dividends on common stock – $0.125 per share	—	—	—	(11,130)	(11,130)
Balance, December 31, 2017	920	1,586,034	(17,264)	514,874	2,084,564
Comprehensive income	—	—	(30,776)	160,067	129,291
Stock issued for employee stock purchase plan – 39,782 shares	—	1,026	—	—	1,026
Stock-based compensation plans, net – 226,715	3	10,201	—	—	10,204
Dividends on common stock – $0.45 per share	—	—	—	(41,766)	(41,766)
Balance, September 30, 2018 (Unaudited)	$ 923	$1,597,261	$ (48,040)	$633,175	$2,183,319

(1) All share and per share amounts have been restated to reflect the effect of the two-for-one stock split on February 8, 2018.

See Condensed Notes to Consolidated Financial Statements.
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SIMMONS FIRST NATIONAL CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: PREPARATION OF INTERIM FINANCIAL STATEMENTS

Organizational Structure

Simmons First National Corporation (the “Company”) is a publicly traded financial holding company that trades on the NASDAQ Global Select Market (“NASDAQ”) under the ticker symbol “SFNC” and the parent of Simmons Bank, an Arkansas state-chartered bank that began as a community bank in 1903. Simmons Bank is the parent of Simmons First Investment Group, Inc. (a dually registered broker-dealer and investment adviser), Simmons First Insurance Services, Inc. (an insurance agency), and Simmons First Insurance Services of TN, LLC (an insurance agency).

Description of Business

The Company is headquartered in Pine Bluff, Arkansas and conducts banking operations in communities throughout Arkansas, Colorado, Kansas, Missouri, Oklahoma, Tennessee and Texas. The Company, through its subsidiaries, offers consumer, real estate and commercial loans, checking, savings and time deposits from 191 financial centers conveniently located throughout its market areas. Additionally, the Company offers specialized products and services such as credit cards, trust and fiduciary services, investments, agricultural finance lending, equipment lending, insurance and small business administration (“SBA”) lending.

Basis of Presentation

The accompanying unaudited consolidated financial statements 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, 2017, 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 the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on February 28, 2018.

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, the Company’s allowance for loan losses.

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation. These changes and reclassifications did not impact previously reported net income or comprehensive income.

Recently Adopted Accounting Standards

Reporting Comprehensive Income – In February 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220) (“ASU 2018-02”), that allows a reclassification from accumulated other comprehensive income (“AOCI”) to retained earnings for stranded tax effects resulting from the tax reform legislation signed into law in December 2017 (“2017 Act”). Current US GAAP requires the remeasurement of deferred tax assets and liabilities as a result of a change in tax laws or rates to be presented in net income from continuing operations. Consequently, the original deferred tax amount recorded through AOCI at the old rate will remain in AOCI despite the fact that its related deferred tax asset/liability will be reduced through continuing operations to reflect the new rate, resulting in “stranded” tax effects in AOCI. ASU 2018-02 requires a reclassification from AOCI to retained earnings for those stranded tax effects resulting from the newly enacted federal corporate income tax rate. The amount of reclassification would be the difference between 1) the amount initially charged or credited directly to other comprehensive income at the previous enacted federal corporate income tax rate that remains in AOCI and 2) the amount that would have been charged or credited using the newly enacted federal corporate income tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations. The effective date is for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. As permitted, the Company elected to early adopt the provisions of ASU 2018-02 during the fourth quarter 2017, which resulted in a reclassification from AOCI to retained earnings in the amount of $3.0 million related to the change in federal corporate tax rate.

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 and the guidance should be applied prospectively to an award modified on or after the adoption date. ASU 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. Currently, the Company has not modified any existing awards nor has any plans to do so, therefore the adoption of ASU 2017-09 has not had a material effect on the Company’s results of operations, financial position or disclosures.

Premium Amortization on Purchased Callable Debt Securities – In March 2017, the FASB issued 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, the Company 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 the Company’s 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. The adoption of 2016-15 did not have a material impact on the Company’s results of operations, financial position or disclosures since the amendment applies to the classification of cash flows. The adoption did not have a material impact on the consolidated statement of cash flows.

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. In February 2018, the FASB issued 2018-03 that clarified certain guidance and contained narrow scope amendments. The effective date is for fiscal periods beginning after December 15, 2017, including interim periods within those fiscal years. ASU 2016-01 did not have a material impact on the Company's results of operations or financial position. However, this new guidance requires the disclosed estimated fair value of the Company's loan portfolio to be based on an exit price calculation, which considers liquidity, credit and nonperformance risk of its loans. The adoption of 2016-01 did not have a material impact on the Company's fair value disclosures.

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 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 the Company's revenue stream. However, the updated guidance affects the revenue recognition pattern for certain revenue streams, including service charges on deposit accounts, gains/losses on sale of other real estate owned ("OREO"), and trust income. The adoption of this standard did not have a material effect on the Company's results of operations, financial position or disclosures. See below "Revenue from Contracts with Customers" for additional information.

Recently Issued Accounting Standards

Cloud Computing Arrangements – In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract ("ASU 2018-15"), that amends the definition of a hosting arrangement and requires a customer in a hosting arrangement that is a service contract to capitalize certain implementation costs as if the arrangement was an internal-use software project. The internal-use software guidance states that only qualifying costs incurred during the application development stage can be capitalized. The effective date is for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. Entities have the option to apply the guidance prospectively to all implementation costs incurred after the date of adoption or retrospectively in accordance with the applicable guidance. At the time of adoption, entities will be required to disclose the nature of its hosting arrangements that are service contracts and provide disclosures as if the deferred implementation costs were a separate, major depreciable asset class. The Company is beginning to evaluate its cloud computing arrangements and has not yet determined how it will apply or the impact of this new standard.

Fair Value Measurement Disclosures – In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"), that eliminates, amends and adds disclosure requirements for fair value measurements. These amendments are part of FASB's disclosure review project and they are expected to reduce costs for preparers while providing more decision-useful information for financial statement users. The eliminated disclosure requirements include the 1) the amount of, and reasons for, transfers between Level 1 and Level 2 of the fair value hierarchy; 2) the policy of timing of transfers between levels of the fair value hierarchy; and 3) the valuation processes for Level 3 fair value measurements. Among other modifications, the amended disclosure requirements remove the term "at a minimum" from the phrase "an entity shall disclose at a minimum" to promote the appropriate exercise of discretion by entities and clarifies that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. Under the new disclosure requirements, entities must disclose the changes in unrealized gains or losses included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact this standard will have on its fair value disclosures.

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. The Company has evaluated the impact this standard will have on its results of operations, financial position or disclosures, and it is not expected to have a material impact.

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 the Company’s results of operations, financial position or 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. The Company has formed a cross functional team that continues to assess its data and system needs and evaluate the potential impact of adopting the new guidance. The Company anticipates a significant change in the processes and procedures to calculate the loan losses, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. The Company expects 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 has not yet determined the magnitude of any such one-time adjustment or the overall impact on its results of operations, financial position or disclosures. However, the Company is continuing its efforts in developing processes and procedures to ensure it is fully compliant at the required adoption date. Among other things, the Company continues to gather data and develop forecast models for asset quality, loan balances, and portfolio net charge-offs and has chosen a software vendor in preparation for the implementation of this standard. Model development and testing is projected to take place during the fourth quarter 2018 in anticipation of developing a range of potential impact as well as allowing parallel model calculations through 2019 up to the date of adoption.

Leases – In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), that establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. The new guidance results in a more consistent representation of the rights and obligations arising from leases by requiring lessees to recognize the lease asset and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. The effective date is for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. ASU 2016-02 requires entities to adopt the new lease standard using a modified retrospective transition method, meaning an entity initially applies the new lease standard at the beginning of the earliest period presented in the financial statements. Due to complexities associated with using this method, in July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, to relieve entities of the requirement to present prior comparative years' results when they adopt the new lease standard and giving entities the option to recognize the cumulative effect of applying the new standard as an adjustment to the opening balance of retained earnings. The Company has substantially completed the identification of all of its leases that will need to be measured and reported in the statement of financial position and is currently working with its selected lease implementation vendor to set up and test the accounting for the lease contracts on the lease administrative system. Based upon leases that were outstanding as of September 30, 2018, the Company does not expect the new standard to have a material impact on its results of operations, but anticipates increases in its assets and liabilities. Decisions to repurchase, modify or renew leases prior to the implementation date will impact the level of materiality.

There have been no other significant changes to the Company's accounting policies from the 2017 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 its present or future financial position or results of operations.

Revenue from Contracts with Customers

Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers, applies to all contracts with customers to provide goods or services in the ordinary course of business. However, Topic 606 specifically does not apply to revenue related to financial instruments, guarantees, insurance contracts, leases, or nonmonetary exchanges. Given these scope exceptions, interest income recognition and measurement related to loans and investments securities, the Company’s two largest sources of revenue, are not accounted for under Topic 606. Also, the Company does not use Topic 606 to account for gains or losses on its investments in securities, loans, and derivatives due to the scope exceptions.

Certain revenue streams, such as service charges on deposit accounts, gains or losses on the sale of OREO, and trust income, fall under the scope of Topic 606 and the Company must recognize revenue at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. Topic 606 is applied using five steps: 1) identify the contract with the customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue when (or as) the entity satisfies a performance obligation.

The Company has evaluated the nature of all contracts with customers that fall under the scope of Topic 606 and determined that further disaggregation of revenue from contracts with customers into categories was not necessary. There has not been significant revenue recognized in the current reporting periods resulting from performance obligations satisfied in previous periods. In addition, there has not been a significant change in timing of revenues received from customers.

A description of performance obligations for each type of contract with customers is as follows:

Service charges on deposit accounts – The Company's primary source of funding comes from deposit accounts with its customers. Customers pay certain fees to access their cash on deposit including, but not limited to, non-transactional fees such as account maintenance, dormancy or statement rendering fees, and certain transaction-based fees such as ATM, wire transfer, overdraft or returned check fees. The Company generally satisfies its performance obligations as services are rendered. The transaction prices are fixed, and are charged either on a periodic basis or based on activity.

Sale of OREO – In the normal course of business, the Company will enter into contracts with customers to sell OREO, which has generally been foreclosed upon by the Company. The Company generally satisfies its performance obligation upon conveyance of property from the Company to the customer, generally by way of an executed agreement. The transaction price is fixed, and on occasion the Company will finance a portion of the proceeds the customers uses to purchase the property. These properties are generally sold without recourse or warranty.

Trust Income – The Company enters into contracts with its customers to manage assets for investment, and/or transact on their accounts. The Company generally satisfies its performance obligations as services are rendered. The management fee is a fixed percentage-based fee calculated upon the average balance of assets under management and is charged to customers on a monthly basis.

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, Fair Value Measurement. 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 non-impaired 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. 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 purchased credit impaired loans. The Company evaluates, at each balance sheet date, whether the present value of the purchased credit impaired loans determined using the effective interest rates has decreased significantly and if so, recognize 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 purchased credit impaired loan.

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

NOTE 2: ACQUISITIONS

Southwest Bancorp, Inc.

On October 19, 2017, the Company completed the acquisition of Southwest Bancorp, Inc. ("OKSB") headquartered in Stillwater, Oklahoma, including its wholly-owned bank subsidiary, Bank SNB. The Company issued 14,488,604 shares of its common stock valued at approximately $431.4 million as of October 19, 2017, plus $94.9 million in cash in exchange for all outstanding shares of OKSB common stock.

Prior to the acquisition, OKSB conducted banking business from 29 branches located in Texas, Oklahoma, Kansas and Colorado. In addition, OKSB owned a loan production office in Denver, Colorado. Including the effects of the acquisition method accounting adjustments, the Company acquired approximately $2.7 billion in assets, including approximately $2.0 billion in loans (inclusive of loan discounts) and approximately $2.0 billion in deposits. The Company completed the systems conversion and merged Bank SNB into Simmons Bank in May 2018.

Goodwill of $229.1 million was recorded as a result of the transaction. The acquisition allowed the Company to enter the Texas, Oklahoma, and Colorado banking markets and it also strengthened the Company's Kansas franchise and its product offerings in the healthcare and real estate industries, 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 OKSB transaction, as of the acquisition date, is as follows:

(In thousands)	Acquired from OKSB	Fair Value Adjustments	Fair Value
Assets Acquired			
Cash and due from banks	$79,517	$ —	$79,517
Investment securities	485,468	(1,295)	484,173
Loans acquired	2,039,524	(43,071)	1,996,453
Allowance for loan losses	(26,957)	26,957	—
Foreclosed assets	6,284	(1,127)	5,157
Premises and equipment	21,210	5,457	26,667
Bank owned life insurance	28,704	—	28,704
Goodwill	13,545	(13,545)	—
Core deposit intangible	1,933	40,191	42,124
Other intangibles	3,806	—	3,806
Other assets	33,455	(9,141)	24,314
Total assets acquired	$2,686,489	$ 4,426	$2,690,915

Liabilities Assumed			
Deposits:			
Non-interest bearing transaction accounts	$485,971	$—	$485,971
Interest bearing transaction accounts and savings deposits	869,252	—	869,252
Time deposits	613,345	(2,213)	611,132
Total deposits	1,968,568	(2,213)	1,966,355
Securities sold under agreement to repurchase	11,256	—	11,256
Other borrowings	347,000	—	347,000
Subordinated debentures	46,393	—	46,393
Accrued interest and other liabilities	17,440	5,364	22,804
Total liabilities assumed	2,390,657	3,151	2,393,808
Equity	295,832	(295,832)	—
Total equity assumed	295,832	(295,832)	—
Total liabilities and equity assumed	$2,686,489	$(292,681)	$2,393,808
Net assets acquired			297,107
Purchase price			526,251
Goodwill			$229,144

During 2018, the Company finalized its analysis of the loans acquired along with other acquired assets and assumed liabilities.

The Company’s operating results for all periods presented include the operating results of the acquired assets and assumed liabilities of OKSB subsequent to the acquisition date.

First Texas BHC, Inc.

On October 19, 2017, the Company completed the acquisition of First Texas BHC, Inc. (“First Texas”) headquartered in Fort Worth, Texas, including its wholly-owned bank subsidiary, Southwest Bank. The Company issued 12,999,840 shares of its common stock valued at approximately $387.1 million as of October 19, 2017, plus $70.0 million in cash in exchange for all outstanding shares of First Texas common stock.

Prior to the acquisition, First Texas operated 15 banking centers, a trust office and a limited service branch in north Texas and a loan production office in Austin, Texas. Including the effects of the acquisition method accounting adjustments, the Company acquired approximately $2.4 billion in assets, including approximately $2.2 billion in loans (inclusive of loan discounts) and approximately $1.9 billion in deposits. The Company completed the systems conversion and merged Southwest Bank into Simmons Bank in February 2018.

Goodwill of $240.8 million was recorded as a result of the transaction. The acquisition allowed the Company to enter the Texas banking markets and it also strengthened the Company’s specialty product offerings in the area of SBA lending and trust services, 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 First Texas transaction, as of the acquisition date, is as follows:

(In thousands)	Acquired from First Texas	Fair Value Adjustments	Fair Value
Assets Acquired			
Cash and due from banks	$59,277	$—	$59,277
Investment securities	81,114	(596)	80,518
Loans acquired	2,246,212	(37,834)	2,208,378
Allowance for loan losses	(20,864)	20,664	(200)
Premises and equipment	24,864	10,123	34,987
Bank owned life insurance	7,190	—	7,190
Goodwill	37,227	(37,227)	—
Core deposit intangible	—	7,328	7,328
Other assets	18,263	11,485	29,748
Total assets acquired	$2,453,283	$(26,057)	$2,427,226
Liabilities Assumed			
Deposits:			
Non-interest bearing transaction accounts	$74,410	$—	$74,410
Interest bearing transaction accounts and savings deposits	1,683,298	—	1,683,298
Time deposits	124,233	(283)	123,950
Total deposits	1,881,941	(283)	1,881,658
Securities sold under agreement to repurchase	50,000	—	50,000
Other borrowings	235,000	—	235,000
Subordinated debentures	30,323	589	30,912
Accrued interest and other liabilities	11,727	1,669	13,396
Total liabilities assumed	2,208,991	1,975	2,210,966
Equity	244,292	(244,292)	—
Total equity assumed	244,292	(244,292)	—
Total liabilities and equity assumed	$2,453,283	$(242,317)	$2,210,966
Net assets acquired			216,260
Purchase price			457,103
Goodwill			$240,843

During 2018, the Company finalized its analysis of the loans acquired along with other acquired assets and assumed liabilities.

The Company’s operating results for all periods presented include the operating results of the acquired assets and assumed liabilities of First Texas subsequent to the acquisition date.

Summary of Unaudited Pro forma Information

The unaudited pro forma information below for the years ended December 31, 2017 and 2016 gives effect to the OKSB and First Texas acquisitions as if the acquisitions had occurred on January 1, 2016. Pro forma earnings for the year ended December 31, 2017 were adjusted to exclude $9.4 million of acquisition-related costs, net of tax, incurred by Simmons during 2017. The pro forma financial information is not necessarily indicative of the results of operations if the acquisitions had been effective as of this date.

(In thousands, except per share data)	2017	2016
Revenue [(1)]	$654,358	$620,461
Net income	$130,947	$136,199
Diluted earnings per share	$1.43	$1.52

(1) Net interest income plus non-interest income.

Consolidated year-to-date 2017 results included approximately $29.2 million of revenue and $10.5 million of net income attributable to the OKSB acquisition and $27.6 million of revenue and $5.7 million of net income attributable to the First Texas acquisition.

Hardeman County Investment Company, Inc.

On May 15, 2017, the Company completed the acquisition of Hardeman County Investment Company, Inc. (“Hardeman”), headquartered in Jackson, Tennessee, including its wholly-owned bank subsidiary, First South Bank. The Company issued 1,599,940 shares of its common stock valued at approximately $42.6 million as of May 15, 2017, plus $30.0 million in cash in exchange for all outstanding shares of Hardeman common stock.

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

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

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

(In thousands)	Acquired from Hardeman	Fair Value Adjustments	Fair Value
Assets Acquired			
Cash and due from banks	$8,001	$ —	$8,001
Interest bearing balances due from banks - time	1,984	—	1,984
Investment securities	170,654	(285)	170,369
Loans acquired	257,641	(5,992)	251,649
Allowance for loan losses	(2,382)	2,382	—
Foreclosed assets	1,083	(452)	631
Premises and equipment	9,905	1,258	11,163
Bank owned life insurance	7,819	—	7,819
Goodwill	11,485	(11,485)	—
Core deposit intangible	—	7,840	7,840
Other intangibles	—	830	830
Other assets	2,639	(1)	2,638
Total assets acquired	$468,829	$ (5,905)	$462,924
Liabilities Assumed			
Deposits:			
Non-interest bearing transaction accounts	$76,555	$—	$76,555
Interest bearing transaction accounts and savings deposits	214,872	—	214,872
Time deposits	97,917	(368)	97,549
Total deposits	389,344	(368)	388,976
Securities sold under agreement to repurchase	17,163	—	17,163
Other borrowings	3,000	—	3,000
Subordinated debentures	6,702	—	6,702
Accrued interest and other liabilities	1,891	1,924	3,815
Total liabilities assumed	418,100	1,556	419,656
Equity	50,729	(50,729)	—
Total equity assumed	50,729	(50,729)	—
Total liabilities and equity assumed	$468,829	$(49,173)	$419,656
Net assets acquired			43,268
Purchase price			72,639
Goodwill			$29,371

During 2018, the Company finalized its analysis of the loans acquired along with other acquired assets and assumed liabilities.

The Company’s operating results for all periods presented include the operating results of the acquired assets and assumed liabilities of Hardeman subsequent to the acquisition date.

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

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

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

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

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

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

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

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

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

Other intangibles – Other intangible assets represent the value of the relationships that Hardeman had with its insurance customers and the mortgage servicing rights acquired with OKSB. The fair value of Hardeman’s insurance customer relationships was estimated based on a combination of discounted cash flow methodology and a market valuation approach. Other intangibles established prior to the acquisitions, if applicable, were written off.

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

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

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

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

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

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

NOTE 3: INVESTMENT SECURITIES

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

(In thousands)	September 30, 2018 Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	December 31, 2017 Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Held-to-Maturity								
U.S. Government agencies	$34,983	$ —	$(113)	$34,870	$46,945	$ 7	$(228)	$46,724
Mortgage-backed securities	13,933	—	(698)	13,235	16,132	8	(287)	15,853
State and political subdivisions	272,396	2,369	(2,020)	272,745	301,491	5,962	(222)	307,231
Other securities	1,994	—	(6)	1,988	3,490	—	—	3,490
Total HTM	$323,306	$ 2,369	$(2,837)	$322,838	$368,058	$ 5,977	$(737)	$373,298
Available-for-Sale								
U.S. Government agencies	$145,808	$ —	$(4,348)	$141,460	$141,559	$ 116	$(1,951)	$139,724
Mortgage-backed securities	1,471,687	127	(52,188)	1,419,626	1,208,017	246	(20,946)	1,187,317
State and political subdivisions	291,731	12	(9,304)	282,439	144,642	532	(2,009)	143,165
Other securities	151,572	2,718	(1)	154,289	118,106	1,206	(1)	119,311
Total AFS	$2,060,798	$ 2,857	$(65,841)	$1,997,814	$1,612,324	$ 2,100	$(24,907)	$1,589,517

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

Certain investment securities are valued at less than their historical cost. Total fair value of these investments at September 30, 2018 and December 31, 2017, was $2.0 billion and $1.4 billion, which is approximately 86.0% and 73.5%, respectively, of the Company’s combined AFS and HTM investment portfolios.

The following table shows the gross unrealized losses and fair value of the Company’s investments with unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2018:

(In thousands)	Less Than 12 Months Estimated Fair Value	Less Than 12 Months Gross Unrealized Losses	12 Months or More Estimated Fair Value	12 Months or More Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
Held-to-Maturity						
U.S. Government agencies	$3,972	$(11)	$30,898	$(102)	$34,870	$(113)
Mortgage-backed securities	3,830	(106)	9,404	(592)	13,234	(698)
State and political subdivisions	123,574	(1,682)	8,539	(338)	132,113	(2,020)
Other securities	1,166	(6)	—	—	1,166	(6)
Total HTM	$132,542	$(1,805)	$48,841	$(1,032)	$181,383	$(2,837)
Available-for-Sale						
U.S. Government agencies	$56,785	$(689)	$84,675	$(3,659)	$141,460	$(4,348)
Mortgage-backed securities	586,783	(11,469)	808,969	(40,719)	1,395,752	(52,188)
State and political subdivisions	182,036	(4,510)	95,076	(4,794)	277,112	(9,304)
Other securities	—	—	99	(1)	99	(1)
Total AFS	$825,604	$(16,668)	$988,819	$(49,173)	$1,814,423	$(65,841)

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

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

Management has the ability and intent to hold the securities classified as HTM until they mature, at which time the Company expects to receive full value for the securities. Furthermore, as of September 30, 2018, management also had the ability and intent to hold the securities classified as AFS for a period of time sufficient for a recovery of cost. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of September 30, 2018, management believes the impairments detailed in the table above are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

Income earned on securities for the three and nine months ended September 30, 2018 and 2017, is as follows:

(In thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Taxable:				
Held-to-maturity	$528	$625	$1,641	$1,922
Available-for-sale	10,364	5,949	29,614	18,003
Non-taxable:				
Held-to-maturity	1,828	2,135	5,661	6,635
Available-for-sale	1,920	509	4,642	2,099
Total	$14,640	$9,218	$41,558	$28,659

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

(In thousands)	Held-to-Maturity Amortized Cost	Fair Value	Available-for-Sale Amortized Cost	Fair Value
One year or less	$50,503	$50,366	$120	$119
After one through five years	60,633	60,313	35,703	34,714
After five through ten years	91,862	91,364	22,485	21,698
After ten years	106,375	107,560	379,331	367,466
Securities not due on a single maturity date	13,933	13,235	1,471,687	1,419,626
Other securities (no maturity)	—	—	151,472	154,191
Total	$323,306	$322,838	$2,060,798	$1,997,814

The carrying value, which approximates the fair value, of securities pledged as collateral, to secure public deposits and for other purposes, amounted to $933.5 million at September 30, 2018 and $1.2 billion at December 31, 2017.

There were approximately $41,000 of gross realized gains and no gross realized losses from the sale of securities during the three months ended September 30, 2018, and approximately $54,000 of gross realized gains and $1,000 of gross realized losses from the sale of securities during the nine months ended September 30, 2018. There were approximately $3,000 of gross realized gains and no realized losses from the sale of securities during the three months ended September 30, 2017, and approximately $2.3 million of gross realized gains and $5,000 of gross realized losses from the sale of securities during the nine months ended September 30, 2017.

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

NOTE 4: OTHER ASSETS AND OTHER LIABILITIES HELD FOR SALE

In August 2017, the Company, through its bank subsidiary, Simmons Bank, acquired the stock of Heartland Bank (“Heartland”) at a public auction held to satisfy certain indebtedness of Heartland’s former holding company, Rock Bancshares, Inc.

In March 2018, Heartland sold $141.0 million of branches and loans, as well as $154.6 million of deposits and other liabilities. At the end of the third quarter 2018, other assets held for sale of $5.1 million and other liabilities held for sale of $424,000 related to Heartland, both recorded at fair value, remained at the Company. The Company will continue to work through the disposition of Heartland’s few remaining assets.

NOTE 5: LOANS AND ALLOWANCE FOR LOAN LOSSES

At September 30, 2018, the Company's loan portfolio was $11.86 billion, compared to $10.78 billion at December 31, 2017. The various categories of loans are summarized as follows:

(In thousands)	September 30, 2018	December 31, 2017
Consumer:		
Credit cards	$ 182,137	$ 185,422
Other consumer	259,581	280,094
Total consumer	441,718	465,516
Real Estate:		
Construction	1,229,888	614,155
Single family residential	1,401,991	1,094,633
Other commercial	3,077,188	2,530,824
Total real estate	5,709,067	4,239,612
Commercial:		
Commercial	1,608,342	825,217
Agricultural	218,778	148,302
Total commercial	1,827,120	973,519
Other	145,369	26,962
Loans	8,123,274	5,705,609
Loans acquired, net of discount and allowance (1)	3,734,921	5,074,076
Total loans	$ 11,858,195	$ 10,779,685

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

Loan Origination/Risk Management – The Company seeks to manage its credit risk by diversifying its loan portfolio, determining that borrowers have adequate sources of cash flow for loan repayment without liquidation of collateral; obtaining and monitoring collateral; providing an adequate allowance for loans losses by regularly reviewing loans through the internal loan review process. The loan portfolio is diversified by borrower, purpose and industry. The Company seeks to use diversification within the loan portfolio to reduce its credit risk, thereby minimizing the adverse impact on the portfolio, if weaknesses develop in either the economy or a particular segment of borrowers. Collateral requirements are based on credit assessments of borrowers and may be used to recover the debt in case of default. Furthermore, a factor that influenced the Company's judgment regarding the allowance for loan losses consists of an eight-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 purchases 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 instituted a pricing mechanism for commercial loans. It is standard practice to require personal guaranties on all commercial loans for closely-held or limited liability entities.

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

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

(In thousands)	September 30, 2018	December 31, 2017
Consumer:		
Credit cards	$ 328	$ 170
Other consumer	3,317	4,605
Total consumer	3,645	4,775
Real estate:		
Construction	1,289	2,242
Single family residential	11,508	13,431
Other commercial	9,639	16,054
Total real estate	22,436	31,727
Commercial:		
Commercial	11,932	6,980
Agricultural	2,492	2,160
Total commercial	14,424	9,140
Total	$ 40,505	$ 45,642

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

(In thousands)	Gross 30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days Past Due & Accruing
September 30, 2018						
Consumer:						
Credit cards	$777	$517	$1,294	$180,843	$182,137	$ 188
Other consumer	3,341	1,921	5,262	254,319	259,581	1
Total consumer	4,118	2,438	6,556	435,162	441,718	189
Real estate:						
Construction	1,033	397	1,430	1,228,458	1,229,888	—
Single family residential	5,180	4,212	9,392	1,392,599	1,401,991	92
Other commercial	4,555	4,152	8,707	3,068,481	3,077,188	—
Total real estate	10,768	8,761	19,529	5,689,538	5,709,067	92
Commercial:						
Commercial	4,568	5,873	10,441	1,597,901	1,608,342	—
Agricultural	128	2,253	2,381	216,397	218,778	—
Total commercial	4,696	8,126	12,822	1,814,298	1,827,120	—
Other	—	—	—	145,369	145,369	—
Total	$19,582	$19,325	$38,907	$8,084,367	$8,123,274	$ 281
December 31, 2017						
Consumer:						
Credit cards	$707	$672	$1,379	$184,043	$185,422	$ 332
Other consumer	5,009	3,298	8,307	271,787	280,094	10
Total consumer	5,716	3,970	9,686	455,830	465,516	342
Real estate:						
Construction	411	1,210	1,621	612,534	614,155	—
Single family residential	8,071	6,460	14,531	1,080,102	1,094,633	1
Other commercial	2,388	8,031	10,419	2,520,405	2,530,824	—
Total real estate	10,870	15,701	26,571	4,213,041	4,239,612	1
Commercial:						
Commercial	1,523	6,125	7,648	817,569	825,217	—
Agricultural	50	2,120	2,170	146,132	148,302	—
Total commercial	1,573	8,245	9,818	963,701	973,519	—
Other	—	—	—	26,962	26,962	—
Total	$18,159	$27,916	$46,075	$5,659,534	$5,705,609	$ 343

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

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

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

(In thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
September 30, 2018						Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
Consumer:									
Credit cards	$ 328	$ 328	$ —	$ 328	$ —	$283	$ 35	$259	$ 60
Other consumer	3,528	3,317	—	3,317	—	3,561	28	4,109	96
Total consumer	3,856	3,645	—	3,645	—	3,844	63	4,368	156
Real estate:									
Construction	879	800	490	1,290	232	1,411	11	1,747	41
Single family residential	11,771	11,023	715	11,738	36	13,577	98	13,550	315
Other commercial	7,909	5,942	7,431	13,373	—	12,282	108	14,284	332
Total real estate	20,559	17,765	8,636	26,401	268	27,270	217	29,581	688
Commercial:									
Commercial	11,777	9,786	6,062	15,848	191	11,840	108	9,533	222
Agricultural	3,507	1,460	—	1,460	—	1,355	12	1,470	34
Total commercial	15,284	11,246	6,062	17,308	191	13,195	120	11,003	256
Total	$ 39,699	$ 32,656	$ 14,698	$ 47,354	$ 459	$44,309	$ 400	$44,952	$ 1,100

December 31, 2017						Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
Consumer:									
Credit cards	$170	$170	$—	$170	$—	$283	$12	$292	$23
Other consumer	4,755	4,605	—	4,605	—	3,314	23	2,711	53
Total consumer	4,925	4,775	—	4,775	—	3,597	35	3,003	76
Real estate:									
Construction	2,522	1,347	895	2,242	249	2,582	17	2,828	56
Single family residential	14,347	12,725	706	13,431	53	12,878	85	12,772	251
Other commercial	22,308	6,732	9,133	15,865	36	19,306	121	19,313	380
Total real estate	39,177	20,804	10,734	31,538	338	34,766	223	34,913	687
Commercial:									
Commercial	9,954	4,306	2,269	6,575	—	14,543	84	12,943	255
Agricultural	3,278	1,035	—	1,035	—	1,562	8	1,645	32
Total commercial	13,232	5,341	2,269	7,610	—	16,105	92	14,588	287

Total	$57,334	$30,920	$13,003	$43,923	$338	$54,468	$350	$52,504	$1,050

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At September 30, 2018, and December 31, 2017, impaired loans, net of government guarantees and excluding loans acquired, totaled $47.4 million and $43.9 million, respectively. Allocations of the allowance for loan losses relative to impaired loans were $459,000 and $338,000 at September 30, 2018 and December 31, 2017, respectively. Approximately $400,000 and $1,100,000 of interest income was recognized on average impaired loans of $44.3 million and $45.0 million for the three and nine months ended September 30, 2018. Interest income recognized on impaired loans on a cash basis during the three and nine months ended September 30, 2018 and 2017 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 Number	Accruing TDR Loans Balance	Nonaccrual TDR Loans Number	Nonaccrual TDR Loans Balance	Total TDR Loans Number	Total TDR Loans Balance
September 30, 2018						
Real estate:						
Construction	—	$—	3	$490	3	$490
Single-family residential	7	318	10	631	17	949
Other commercial	2	3,365	3	2,953	5	6,318
Total real estate	9	3,683	16	4,074	25	7,757
Commercial:						
Commercial	6	4,730	6	753	12	5,483
Total commercial	6	4,730	6	753	12	5,483
Total	15	$8,413	22	$4,827	37	$13,240
December 31, 2017						
Real estate:						
Construction	—	$—	1	$420	1	$420
Single-family residential	4	141	15	954	19	1,095
Other commercial	4	4,322	5	3,712	9	8,034

Total real estate	8	4,463	21	5,086	29	9,549
Commercial:						
Commercial	5	2,644	6	745	11	3,389
Total commercial	5	2,644	6	745	11	3,389
Total	13	$ 7,107	27	$ 5,831	40	$ 12,938

The following table presents loans that were restructured as TDRs during the three and nine months ended September 30, 2018 and 2017, excluding loans acquired, segregated by class of loans.

(Dollars in thousands)	Number of Loans	Balance Prior to TDR	Balance at September 30,	Modification Type Change in Maturity Date	Change in Rate	Financial Impact on Date of Restructure
Three Months Ended September 30, 2018						
Real estate:						
Other commercial	2	$392	$ 390	$390	$ —	$ 212
Total real estate	2	392	390	390	—	212
Commercial:						
Commercial	3	2,363	2,358	2,358	—	190
Total commercial	3	2,363	2,358	2,358	—	190
Total	5	$2,755	$ 2,748	$2,748	$ —	$ 402
Three Months Ended September 30, 2017						
Commercial:						
Commercial	1	$608	$ 607	$607	$ —	$ —
Total commercial	1	608	607	607	—	—
Total	1	$608	$ 607	$607	$ —	$ —
Nine Months Ended September 30, 2018						
Consumer:						
Other consumer	1	$91	$ 91	$91	$ —	$ —
Total consumer	1	91	91	91	—	—
Real estate:						
Single-family residential	1	61	62	62	—	—
Other commercial	2	392	390	390	—	212
Total real estate	3	453	452	452	—	212
Commercial:						
Commercial	3	2,363	2,358	2,358	—	190
Total commercial	3	2,363	2,358	2,358	—	190
Total	7	$2,907	$ 2,901	$2,901	$ —	$ 402
Nine Months Ended September 30, 2017						
Real estate:						
Construction	1	$456	$ 456	$456	$ —	$ —
Other commercial	2	7,362	7,362	7,362	—	33
Total real estate	3	7,818	7,818	7,818	—	33
Commercial:						
Commercial	10	1,419	1,407	1,368	39	—
Total commercial	10	1,419	1,407	1,368	39	—
Total	13	$9,237	$ 9,225	$9,186	$ 39	$ 33

During the three months ended September 30, 2018, the Company modified 5 loans with a recorded investment of $2.8 million, prior to modification that was deemed troubled debt restructuring. The restructured loans were modified by deferring amortized

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principal payments, changing the maturity date and requiring interest only payments for a period of up to 12 months. Based on the fair value of the collateral, a specific reserve of $402,000 was determined necessary for these loans. Also, there was no immediate financial impact from the restructuring of these loans, as it was not considered necessary to charge-off interest or principal on the date of restructure.

During the nine months ended September 30, 2018, the Company modified 7 loans with a recorded investment of $2.9 million prior to modification which were deemed troubled debt restructuring. The restructured loans were modified by deferring amortized principal payments, changing the maturity date and requiring interest only payments for a period of up to 12 months. Based on the fair value of the collateral, a specific reserve of $402,000 was determined necessary for these loans. Also, there was no immediate financial impact from the restructuring of these loans, as it was not considered necessary to charge-off interest or principal on the date of restructure.

During the three months ended September 30, 2017, the Company modified 1 loan with a recorded investment of $608,000 and during the nine months ended September 30, 2017, the Company modified 13 loans with a recorded investment of $9.2 million prior to modification which were deemed troubled debt restructuring. The restructured loans were modified by changing various terms, including changing the interest rate, deferring amortized principal payments, changing the maturity date and requiring interest only payments for a period of 12 months. Based on the fair value of the collateral, a specific reserve of $33,000 was determined necessary for these loans and recorded during the nine months ended September 30, 2017. Also, there was no immediate financial impact from the restructuring of these loans, as it was not considered necessary to charge-off interest or principal on the date of restructure.

There was one commercial real estate loan considered a TDR for which a payment default occurred during the nine months ended September 30, 2018. A charge-off of $66,300 was recorded for this loan and $294,300 was transferred to OREO. There was one commercial real estate loan for which a payment default occurred during the nine months ended September 30, 2017. The Company defines a payment default as a payment received more than 90 days after its due date.

In addition to the TDRs that occurred during the periods provided in the preceding tables, the Company had TDRs with pre-modification loan balances of $294,300 and $117,000 at September 30, 2018 and 2017, respectively, for which OREO was received in full or partial satisfaction of the loans. The majority of such TDRs were in commercial real estate and residential real estate. At September 30, 2018 and December 31, 2017, the Company had $2,262,000 and $5,057,000, respectively, of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process. At September 30, 2018 and December 31, 2017, the Company had $3,610,000 and $3,828,000, respectively, of OREO secured by residential real estate properties.

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

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 higher 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 $5.0 million and $17.1 million that are accounted for under ASC Topic 310-30 and are classified as substandard (Risk Rating 6) as of September 30, 2018 and December 31, 2017, respectively. Of the remaining loans acquired and accounted for under ASC Topic 310-20, $61.5 million and $76.3 million were classified (Risk Ratings 6, 7 and 8 – see classified loans discussion below) at September 30, 2018 and December 31, 2017, respectively.

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

Classified loans for the Company include loans in Risk Ratings 6, 7 and 8. Loans may be classified, but not considered impaired, due to one of the following reasons: (1)The Company has established minimum dollar amount thresholds for loan impairment testing. Loans rated 6 – 8 that fall under the threshold amount are not tested for impairment and therefore are not included in impaired loans. (2) Of the loans that are above the threshold amount and tested for impairment, after testing, some are considered to not be impaired and are not included in impaired loans. Total classified loans, excluding loans accounted for under ASC Topic 310-30, were $145.3 million and $175.6 million, as of September 30, 2018 and December 31, 2017, respectively.

The following table presents a summary of loans by credit risk rating as of September 30, 2018 and December 31, 2017, segregated by class of loans. Loans accounted for under ASC Topic 310-30 are all included in Risk Rate 1-4 in this table.

(In thousands)	Risk Rate 1-4	Risk Rate 5	Risk Rate 6	Risk Rate 7	Risk Rate 8	Total
September 30, 2018						
Consumer:						
Credit cards	$181,620	$—	$517	$—	$ —	$182,137
Other consumer	255,857	—	3,724	—	—	259,581
Total consumer	437,477	—	4,241	—	—	441,718
Real estate:						
Construction	1,225,481	2,286	2,121	—	—	1,229,888
Single family residential	1,382,655	843	18,256	237	—	1,401,991
Other commercial	3,047,514	9,304	20,370	—	—	3,077,188
Total real estate	5,655,650	12,433	40,747	237	—	5,709,067
Commercial:						
Commercial	1,569,357	8,250	30,735	—	—	1,608,342
Agricultural	215,742	155	2,881	—	—	218,778
Total commercial	1,785,099	8,405	33,616	—	—	1,827,120
Other	145,369	—	—	—	—	145,369
Loans acquired	3,620,803	47,672	66,087	359	—	3,734,921
Total	$11,644,398	$68,510	$144,691	$596	$ —	$11,858,195

(In thousands)	Risk Rate 1-4	Risk Rate 5	Risk Rate 6	Risk Rate 7	Risk Rate 8	Total
December 31, 2017						
Consumer:						
Credit cards	$184,920	$—	$502	$—	$—	$185,422
Other consumer	275,160	—	4,934	—	—	280,094
Total consumer	460,080	—	5,436	—	—	465,516
Real estate:						
Construction	603,126	5,795	5,218	16	—	614,155
Single family residential	1,066,902	3,954	23,490	287	—	1,094,633
Other commercial	2,480,293	19,581	30,950	—	—	2,530,824
Total real estate	4,150,321	29,330	59,658	303	—	4,239,612
Commercial:						
Commercial	736,377	74,254	14,402	50	134	825,217
Agricultural	146,065	24	2,190	23	—	148,302
Total commercial	882,442	74,278	16,592	73	134	973,519
Other	26,962	—	—	—	—	26,962
Loans acquired	4,918,570	62,128	93,378	—	—	5,074,076
Total	$10,438,375	$165,736	$175,064	$376	$134	$10,779,685

Allowance for Loan Losses

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

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

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

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

The following table details activity in the allowance for loan losses by portfolio segment for legacy loans for the three and nine months ended September 30, 2018. 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
Three Months Ended September 30, 2018					
Balance, beginning of period [2]	$ 15,767	$28,904	$3,822	$ 3,239	$51,732
Provision for loan losses [1]	3,589	5,308	719	729	10,345
Charge-offs	(592)	(4,952)	(919)	(1,321)	(7,784)
Recoveries	450	210	229	176	1,065
Net charge-offs	(142)	(4,742)	(690)	(1,145)	(6,719)
Balance, September 30, 2018 [2]	$ 19,214	$29,470	$3,851	$ 2,823	$55,358
Nine Months Ended September 30, 2018					
Balance, beginning of period [2]	$ 7,007	$27,281	$3,784	$ 3,596	$41,668
Provision for loan losses [1]	14,772	7,133	2,219	2,567	26,691
Charge-offs	(3,143)	(5,568)	(2,930)	(3,743)	(15,384)
Recoveries	578	624	778	403	2,383
Net charge-offs	(2,565)	(4,944)	(2,152)	(3,340)	(13,001)
Balance, September 30, 2018 [2]	$ 19,214	$29,470	$3,851	$ 2,823	$55,358
Period-end amount allocated to:					

Loans individually evaluated for impairment	$ 191	$268	$—	$ —	$459
Loans collectively evaluated for impairment	19,023	29,202	3,851	2,823	54,899
Balance, September 30, 2018 (2)	$ 19,214	$29,470	$3,851	$ 2,823	$55,358

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(1) Provision for loan losses of $1,837,000 attributable to loans acquired was excluded from this table for the nine months ended September 30, 2018 (total provision for loan losses for the three and nine months ended September 30, 2018 was $10,345,000 and $28,528,000). There were $699,000 and $910,000 in charge-offs for loans acquired during the three and nine months ended September 30, 2018, respectively, resulting in an ending balance in the allowance related to loans acquired of $1,345,000.

(2) Allowance for loan losses at September 30, 2018 includes $1,345,000 allowance for loans acquired (not shown in the table above). Allowance for loan losses at June 30, 2018 and December 31, 2017 includes $2,044,000 and $418,000, respectively, of allowance for loans acquired (not shown in the table above). The total allowance for loan losses at September 30, 2018 was $56,703,000 and total allowance for loan losses at June 30, 2018 and December 31, 2017 was $53,776,000 and $42,086,000, respectively.

Activity in the allowance for loan losses for the three and nine months ended September 30, 2017 was as follows:

(In thousands)	Commercial	Real Estate	Credit Card	Other Consumer and Other	Total
Three Months Ended September 30, 2017					
Balance, beginning of period (4)	$ 8,105	$25,731	$3,754	$ 3,789	$41,379
Provision for loan losses (3)	2,310	2,150	761	241	5,462
Charge-offs	(2,442)	(896)	(1,017)	(819)	(5,174)
Recoveries	21	309	275	445	1,050
Net charge-offs	(2,421)	(587)	(742)	(374)	(4,124)
Balance, September 30, 2017 (4)	$ 7,994	$27,294	$3,773	$ 3,656	$42,717
Nine Months Ended September 30, 2017					
Balance, beginning of period (4)	$ 7,739	$21,817	$3,779	$ 2,951	$36,286
Provision for loan losses (3)	3,255	7,984	2,168	1,920	15,327
Charge-offs	(3,083)	(3,264)	(2,962)	(2,986)	(12,295)
Recoveries	83	757	788	1,771	3,399
Net charge-offs	(3,000)	(2,507)	(2,174)	(1,215)	(8,896)
Balance, September 30, 2017 (4)	$ 7,994	$27,294	$3,773	$ 3,656	$42,717
Period-end amount allocated to:					
Loans individually evaluated for impairment	$ 3,996	$2,325	$—	$ —	$6,321
Loans collectively evaluated for impairment	3,998	24,969	3,773	3,656	36,396
Balance, September 30, 2017 (4)	$ 7,994	$27,294	$3,773	$ 3,656	$42,717
Period-end amount allocated to:					
Loans individually evaluated for impairment	$ —	$338	$—	$ —	$338
Loans collectively evaluated for impairment	7,007	26,943	3,784	3,596	41,330
Balance, December 31, 2017 (5)	$ 7,007	$27,281	$3,784	$ 3,596	$41,668

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

(4) Allowance for loan losses at September 30, 2017 and June 30, 2017 includes $391,000 allowance for loans acquired (not shown in the table above) and December 31, 2016 includes $954,000 allowance for loans acquired (not shown in the table above). The total allowance for loan losses at September 30, 2017, June 30, 2017 and December 31, 2016 was $43,108,000, $41,770,000 and $37,240,000, respectively.

(5) Allowance for loan losses at December 31, 2017 includes $418,000 allowance for loans acquired (not shown in the table above). The total allowance for loan losses at December 31, 2017 was $42,086,000.

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

(In thousands)	Commercial	Real Estate	Credit Card	Other Consumer and Other	Total
September 30, 2018					
Loans individually evaluated for impairment	$ 17,308	$26,401	$328	$ 3,317	$47,354
Loans collectively evaluated for impairment	1,809,812	5,682,666	181,809	401,633	8,075,920
Balance, end of period	$ 1,827,120	$5,709,067	$182,137	$ 404,950	$8,123,274
December 31, 2017					
Loans individually evaluated for impairment	$ 7,610	$31,538	$170	$ 4,605	$43,923
Loans collectively evaluated for impairment	965,909	4,208,074	185,252	302,451	5,661,686
Balance, end of period	$ 973,519	$4,239,612	$185,422	$ 307,056	$5,705,609

NOTE 6: LOANS ACQUIRED

During the fourth quarter of 2017, the Company evaluated $1.985 billion of net loans ($2.021 billion gross loans less $36.3 million discount) purchased in conjunction with the acquisition of OKSB, 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 $11.4 million of net loans ($18.1 million gross loans less $6.7 million discount) purchased in conjunction with the acquisition of OKSB 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 fourth quarter of 2017, the Company evaluated $2.208 billion of net loans ($2.246 billion gross loans less $37.8 million discount) purchased in conjunction with the acquisition of First Texas, 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.

During the second quarter of 2017, the Company evaluated $249.2 million of net loans ($254.2 million gross loans less $5.0 million discount) purchased in conjunction with the acquisition of Hardeman, described in Note 2, Acquisitions, in accordance with the provisions of ASC Topic 310-20, Nonrefundable Fees and Other Costs. The fair value discount is being accreted into interest income over the weighted average life of the loans using a constant yield method. These loans are not considered to be impaired loans. The Company evaluated the remaining $2.4 million of net loans ($3.4 million gross loans less $990,000 discount) purchased in conjunction with the acquisition of Hardeman for impairment in accordance with the provisions of ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality.

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

The following table reflects the carrying value of all loans acquired as of September 30, 2018 and December 31, 2017:

(In thousands)	Loans Acquired September 30, 2018	December 31, 2017
Consumer:		
Other consumer	$21,278	$51,467
Real estate:		
Construction	467,895	637,032
Single family residential	606,866	793,228
Other commercial	2,040,189	2,387,777
Total real estate	3,114,950	3,818,037
Commercial:		
Commercial	596,641	995,587
Agricultural	2,052	66,576
Total commercial	598,693	1,062,163
Other	—	142,409
Total loans acquired [(1)]	$3,734,921	$5,074,076

(1) Loans acquired are reported net of a $1,345,000 and $418,000 allowance at September 30, 2018 and December 31, 2017, respectively.

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

(In thousands)	September 30, 2018	December 31, 2017
Consumer:		
Other consumer	$ 293	$ 334
Real estate:		
Construction	279	1,767
Single family residential	9,053	12,151
Other commercial	1,354	7,401
Total real estate	10,686	21,319
Commercial:		
Commercial	4,964	1,748
Agricultural	38	84
Total commercial	5,002	1,832
Total	$ 15,981	$ 23,485

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

(In thousands)	Gross 30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days Past Due & Accruing
September 30, 2018						
Consumer:						
Other consumer	$213	$214	$427	$20,851	$21,278	$ —
Real estate:						
Construction	117	207	324	467,571	467,895	—
Single family residential	2,459	5,948	8,407	598,459	606,866	1
Other commercial	2,491	4,157	6,648	2,033,541	2,040,189	—
Total real estate	5,067	10,312	15,379	3,099,571	3,114,950	1
Commercial:						
Commercial	1,471	4,020	5,491	591,150	596,641	—
Agricultural	27	5	32	2,020	2,052	—
Total commercial	1,498	4,025	5,523	593,170	598,693	—
Total	$6,778	$14,551	$21,329	$3,713,592	$3,734,921	$ 1
December 31, 2017						
Consumer:						
Other consumer	$889	$260	$1,149	$50,318	$51,467	$ 108
Real estate:						
Construction	2,577	1,448	4,025	633,007	637,032	279
Single family residential	12,936	3,302	16,238	776,990	793,228	126
Other commercial	17,176	5,647	22,823	2,364,954	2,387,777	2,565
Total real estate	32,689	10,397	43,086	3,774,951	3,818,037	2,970
Commercial:						
Commercial	2,344	1,039	3,383	992,204	995,587	67
Agricultural	51	—	51	66,525	66,576	—
Total commercial	2,395	1,039	3,434	1,058,729	1,062,163	67
Other	15	—	15	142,394	142,409	—
Total	$35,988	$11,696	$47,684	$5,026,392	$5,074,076	$ 3,145

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

(In thousands)	Risk Rate 1-4	Risk Rate 5	Risk Rate 6	Risk Rate 7	Risk Rate 8	Total
September 30, 2018						
Consumer:						
Other consumer	$20,813	$9	$456	$—	$ —	$21,278
Real estate:						
Construction	440,881	18,011	9,003	—	—	467,895
Single family residential	590,003	2,475	14,029	359	—	606,866
Other commercial	2,006,371	12,283	21,535	—	—	2,040,189
Total real estate	3,037,255	32,769	44,567	359	—	3,114,950
Commercial:						
Commercial	560,791	14,894	20,956	—	—	596,641
Agricultural	1,944	—	108	—	—	2,052
Total commercial	562,735	14,894	21,064	—	—	598,693
Total	$3,620,803	$47,672	$66,087	$359	$ —	$3,734,921
December 31, 2017						
Consumer:						
Other consumer	$50,625	$21	$821	$—	$ —	$51,467
Real estate:						
Construction	604,796	30,524	1,712	—	—	637,032
Single family residential	770,954	2,618	19,656	—	—	793,228
Other commercial	2,337,097	15,064	35,616	—	—	2,387,777
Total real estate	3,712,847	48,206	56,984	—	—	3,818,037
Commercial:						
Commercial	946,322	13,901	35,364	—	—	995,587
Agricultural	66,367	—	209	—	—	66,576
Total commercial	1,012,689	13,901	35,573	—	—	1,062,163
Other	142,409	—	—	—	—	142,409
Total	$4,918,570	$62,128	$93,378	$—	$ —	$5,074,076

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.

In addition to the accretable yield on loans acquired not considered to be impaired, 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 an increase in interest income that is spread on a level-yield basis over the remaining expected lives of the loans.

The impact of these adjustments on the Company's financial results for the three and nine months ended September 30, 2018 and 2017 is shown below:

(In thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Impact on net interest income and pre-tax income	$629	$ 23	$1,105	$2,596
Impact, net of taxes	$464	$ 14	$814	$1,578

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

Changes in the carrying amount of the accretable yield for all purchased impaired loans were as follows for the three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
(In thousands)	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Beginning balance	$1,382	$13,995	$620	$17,116
Additions	—	—	—	—
Accretable yield adjustments	717	—	1,895	—
Accretion	(635)	635	(1,051)	1,051
Payments and other reductions, net	—	(9,664)	—	(13,201)
Balance, ending	$1,464	$4,966	$1,464	$4,966

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
(In thousands)	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Beginning balance	$766	$8,448	$1,655	$17,802
Additions	—	—	—	2,388
Accretable yield adjustments	52	—	2,698	—
Accretion	(408)	408	(3,943)	3,943

Payments and other reductions, net	—	(980)	—	(16,257)
Balance, ending	$410	$7,876	$410	$7,876

Purchased impaired loans are evaluated on an individual borrower basis. Because some loans evaluated by the Company were determined to have experienced impairment in the estimated credit quality or cash flows, the Company recorded a provision and established an allowance for loan loss for loans acquired resulting in a total allowance on loans acquired of $1,345,000 at September 30, 2018 and $418,000 at December 31, 2017. The provision on loans acquired for the nine months ended September 30, 2018 and 2017 was $1,837,000 and $1,464,000, respectively. There was no provision on loans acquired for the three months ended September 30, 2018 and 2017.

NOTE 7: 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 $845.7 million at September 30, 2018 and $842.7 million at December 31, 2017.

The Company recorded $229.1 million, $240.8 million and $29.4 million of goodwill as a result of its acquisitions of OKSB, First Texas and Hardeman, respectively. Goodwill impairment was neither indicated nor recorded during the nine months ended September 30, 2018 or the year ended December 31, 2017.

Core deposit premiums are amortized over periods ranging from 10 to 15 years and are periodically evaluated, at least annually, as to the recoverability of their carrying value. Core deposit premiums of $42.1 million, $7.3 million, and $7.8 million were recorded during 2017 as part of the OKSB, First Texas and Hardeman acquisitions, respectively.

Intangible assets are being amortized over various periods ranging from 10 to 15 years. The Company recorded $830,000 of intangible assets during 2017 related to the insurance operations in the Hardeman acquisition. The Company recorded $3.8 million of other intangible assets during 2017 as part of the OKSB acquisition which were subsequently sold in first quarter 2018.

The Company's goodwill and other intangibles (carrying basis and accumulated amortization) at September 30, 2018 and December 31, 2017, were as follows:

(In thousands)	September 30, 2018	December 31, 2017
Goodwill	$845,687	$842,651
Core deposit premiums:		
Gross carrying amount	105,984	105,984
Accumulated amortization	(23,802)	(16,659)
Core deposit premiums, net	82,182	89,325
Books of business intangible:		
Gross carrying amount	15,234	15,414
Accumulated amortization	(3,441)	(2,827)
Books of business intangible, net	11,793	12,587
Other intangibles:		
Gross carrying amount	2,068	6,037
Accumulated amortization	(2,068)	(1,878)
Other intangibles, net	—	4,159
Other intangible assets, net	93,975	106,071
Total goodwill and other intangible assets	$939,662	$948,722

The Company's estimated remaining amortization expense on intangibles as of September 30, 2018 is as follows:

(In thousands)	Year	Amortization Expense
	Remainder of 2018	$ 2,642
	2019	10,565

2020	10,552
2021	10,490
2022	10,438
Thereafter	49,288
Total	$ 93,975

NOTE 8: TIME DEPOSITS

Time deposits include approximately $1.364 billion and $736.0 million of certificates of deposit of $100,000 or more at September 30, 2018, and December 31, 2017, respectively. Of this total approximately $702.5 million and $396.8 million of certificates of deposit were over $250,000 at September 30, 2018 and December 31, 2017, respectively.

NOTE 9: INCOME TAXES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2018	2017	2018	2017
Income taxes currently payable	$5,638	$11,946	$31,335	$30,467
Deferred income taxes	5,264	2,732	7,316	4,962
Provision for income taxes	$10,902	$14,678	$38,651	$35,429

The tax effects of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts that give rise to deferred income tax assets and liabilities, and their appropriate tax effects, are as follows:

(In thousands)	September 30, 2018	December 31, 2017
Deferred tax assets:		
Loans acquired	$12,092	$19,885
Allowance for loan losses	12,601	10,773
Valuation of foreclosed assets	2,709	2,852
Tax NOLs from acquisition	6,962	7,821
Deferred compensation payable	2,645	2,433
Accrued equity and other compensation	6,605	5,302
Acquired securities	549	578
Unrealized loss on available-for-sale securities	16,221	6,107
Other	5,890	8,813
Gross deferred tax assets	66,274	64,564
Deferred tax liabilities:		
Goodwill and other intangible amortization	(30,645)	(32,572)
Accumulated depreciation	(11,778)	(8,945)
Other	(2,197)	(4,413)
Gross deferred tax liabilities	(44,620)	(45,930)
Net deferred tax asset, included in other assets	$21,654	$18,634

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown for the periods indicated below:

(In thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Computed at the statutory rate [(1)]	$13,880	$15,235	$41,731	$38,313
Increase (decrease) in taxes resulting from:				
State income taxes, net of federal tax benefit	986	342	4,073	1,117
Discrete items related to ASU 2016-09	(31)	5	(2,567)	(1,372)
Tax exempt interest income	(833)	(955)	(2,292)	(3,160)
Tax exempt earnings on BOLI	(186)	(178)	(562)	(616)
Other differences, net	(2,914)	229	(1,732)	1,147
Actual tax provision	$10,902	$14,678	$38,651	$35,429

(1) The statutory rate was 21% for 2018 compared to 35% for 2017.

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 Company has no history of expiring net operating loss carryforwards and is projecting significant pre-tax and financial taxable income in 2018 and in future years. The Company expects to fully realize its deferred tax assets in the future.

Income tax expense was lower in the third quarter due largely to discrete tax benefits related to tax accounting for a cost segregation study, excess tax benefits related to restricted stock and a state tax deferred tax asset ("DTA") adjustment. The purpose of the cost segregation study was to analyze the costs included in various projects and recognize the benefit of recording tax depreciation in 2017 when the federal rate was higher. The purpose of the state DTA adjustment was due to an analysis of projected state apportionment after the 2017 acquisitions of First South Bank, Bank SNB and Southwest Bank were merged into Simmons Bank in 2018.

On December 22, 2017, the President signed tax reform legislation (the "2017 Act") which includes a broad range of tax reform proposals affecting businesses, including corporate tax rates, business deductions, and international tax provisions. The 2017 Act reduces the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017. Under US GAAP, deferred tax assets and liabilities are required to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled and the effect of a change in tax law is recorded discretely as a component of the income tax provision related to continuing operations in the period of enactment. As a result, the Company was required to remeasure its deferred taxes as of December 22, 2017 based upon the new 21% tax rate and the change was recorded in the 2017 income tax provision in the fourth quarter.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance on accounting for the tax effects of the 2017 Act. SAB 118 provides a measurement period that should not extend beyond one year from the 2017 Act enactment date for companies to complete the accounting under ASC 740, Income Taxes. As such, the company’s 2017 financial results reflect the income tax effects for the 2017 Act for which the accounting under ASC 740 is complete and provisional amounts for those specific income tax effects of the 2017 Act for which the accounting under ASC 740 is incomplete but a reasonable estimate could be determined. The company did not identify items for which the income tax effects of the 2017 Act have not been completed and a reasonable estimate could not be determined as of December 31, 2017. The tax expense recorded in 2017 is a reasonable estimate based on published guidance available at this time and is considered provisional. The ultimate impact of the

2017 Act may differ from these estimates due to changes in interpretations and assumptions made by the Company, as well as additional regulatory guidance. Any adjustments will be reflected in the Company's financial statements in future periods.
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 $35.6 million of federal net operating losses subject to the IRC Sec 382 annual limitation are expected to be utilized by the Company. The net operating loss carryforwards expire between 2028 and 2035.

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

NOTE 10: SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Company utilizes securities sold under agreements to repurchase to facilitate the needs of its 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. The Company monitors collateral levels on a continuous basis. The Company 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 safekeeping agents.

The gross amount of recognized liabilities for repurchase agreements was $109.0 million and $122.0 million at September 30, 2018 and December 31, 2017, respectively. The remaining contractual maturity of the securities sold under agreements to repurchase in the consolidated balance sheets as of September 30, 2018 and December 31, 2017 is presented in the following tables.

	Remaining Contractual Maturity of the Agreements				
(In thousands)	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
September 30, 2018					
Repurchase agreements:					
U.S. Government agencies	$108,963	$ —	$ —	$ —	$108,963
December 31, 2017					
Repurchase agreements:					
U.S. Government agencies	$122,019	$ —	$ —	$ —	$122,019

NOTE 11: OTHER BORROWINGS AND SUBORDINATED NOTES AND DEBENTURES

Debt at September 30, 2018 and December 31, 2017 consisted of the following components:

(In thousands)	September 30, 2018	December 31, 2017
Other Borrowings		
FHLB advances, net of discount, due 2018 to 2033, 1.38% to 7.37% secured by residential real estate loans	$1,420,917	$1,261,642
Revolving credit agreement, due 10/5/2018, floating rate of 1.50% above the one month LIBOR rate, unsecured	—	75,000
Notes payable, due 10/15/2020, 3.85%, fixed rate, unsecured	—	43,382
Total other borrowings	1,420,917	1,380,024
Subordinated Notes and Debentures		
Subordinated notes payable, due 4/1/2028, fixed-to-floating rate (fixed rate of 5.00% through 3/31/2023, floating rate of 2.15% above the three month LIBOR rate, reset quarterly)	330,000	—
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
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	—	9,327
Trust preferred securities, net of discount, due 9/15/2037, floating rate of 1.37% above the three month LIBOR rate, reset quarterly	10,310	10,284
Trust preferred securities, net of discount, due 12/5/2033, floating rate of 2.88% above the three month LIBOR rate, reset quarterly, callable without penalty	—	5,156
Trust preferred securities, net of discount, due 10/18/2034, floating rate of 2.00% above the three month LIBOR rate, reset quarterly, callable without penalty	—	5,148
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	10,310	10,288
Trust preferred securities, due 12/15/2035, floating rate of 1.45% above the three month LIBOR rate, reset quarterly, callable without penalty	6,702	6,702
Trust preferred securities, due 6/26/2033, floating rate of 3.10% above the three month LIBOR rate, reset quarterly, callable without penalty	—	20,619
Trust preferred securities, due 10/7/2033, floating rate of 2.85% above the three month LIBOR rate, reset quarterly, callable without penalty	—	25,774
Trust preferred securities, due 9/15/2037, floating rate of 2.00% above the three month LIBOR rate, reset quarterly, callable without penalty	—	8,248
Other subordinated debentures, net of discount, called 9/30/2018, floating rate equal to daily average of prime rate, reset quarterly	19,075	18,399
Unamortized debt issuance costs	(3,463)	—
Total subordinated notes and debentures	372,934	140,565
Total other borrowings and subordinated debt	$1,793,851	$1,520,589

In March 2018, the Company issued $330.0 million in aggregate principal amount, of 5.00% Fixed-to-Floating Rate Subordinated Notes (“the Notes”) at a public offering price equal to 100% of the aggregate principal amount of the Notes. The Company incurred $3.6 million in debt issuance costs related to the offering during March. The Notes will mature on April 1, 2028 and will bear interest at an initial fixed rate of 5.00% per annum, payable semi-annually in arrears. From and including April 1, 2023 to, but excluding, the maturity date or the date of earlier redemption, the interest rate will reset quarterly to an annual interest rate equal to the then-current three month LIBOR rate plus 215 basis points, payable quarterly in arrears. The Notes will be subordinated in right of payment to the payment of the Company's other existing and future senior indebtedness, including all of its general creditors. The Notes are obligations of Simmons First National Corporation only and are not obligations of, and are not guaranteed by, any of its subsidiaries. During the first nine months of 2018, the Company used a portion of the net proceeds from the sale of the Notes to repay certain outstanding indebtedness, including the amounts borrowed under the Revolving Credit Agreement (the "Credit Agreement"), certain trust preferred securities, both discussed below, and unsecured debt from correspondent banks. The subordinated notes qualify for Tier 2 capital treatment.

In October 2017, the Company entered into the Credit Agreement with U.S. Bank National Association and executed an unsecured Revolving Credit Note pursuant to which the Company may borrow, prepay and re-borrow up to $75.0 million, the proceeds of which were primarily used to pay off amounts outstanding under a term note assumed with the First Texas acquisition. The Credit Agreement contained customary representations, warranties, and covenants of the Company, including, among other things, covenants that impose various financial ratio requirements. In October 2018, the Company and U.S. Bank National Association entered into a First Amendment to the Credit Agreement, which extended the expiration date from October 5, 2018 to October 4, 2019, reduced the $75.0 million to $50.0 million, and increased the commitment fee on the unused portion from an annual rate of 0.25% to 0.30%. In October 2019, all amounts borrowed, together with applicable interest, fees, and other amounts owed by the Company are due and payable. The balance due under the Credit Agreement at September 30, 2018 was zero.

At September 30, 2018, the Company had $1.4 billion of Federal Home Loan Bank (“FHLB”) advances outstanding with original maturities of one year or less, of which $675.0 million are FHLB Owns the Option (“FOTO”) advances. FOTO advances are a low cost, fixed-rate source of funding in return for granting to FHLB the flexibility to choose a termination date earlier than the maturity date. Typically, FOTO exercise dates follow a specified lockout period at the beginning of the term when FHLB cannot terminate the FOTO advance. If FHLB exercises its option to terminate the FOTO advance at one of the specified option exercise dates, there is no termination or prepayment fee, and replacement funding will be available at then-prevailing market rates, subject to FHLB’s credit and collateral requirements. The Company’s FOTO advances outstanding at the end of the third quarter have ten to fifteen year maturity dates with lockout periods that vary but do not exceed one year. These FOTO advances are considered and monitored by the Company as short-term advances due to the likelihood of FHLB exercising the options within a year of the settlement dates based upon the rising rate environment and the short lockout periods.

The Company had total FHLB advances of $1.4 billion at September 30, 2018, with approximately $885.4 million of additional advances available from the FHLB. The FHLB advances are secured by mortgage loans and investment securities totaling approximately $3.9 billion at September 30, 2018.

The trust preferred securities are tax-advantaged issues that qualified for Tier 1 capital treatment until December 31, 2017, when the Company reached $15 billion in assets. They still qualify for inclusion as Tier 2 capital at September 30, 2018. 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 payments 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.

The other subordinated debentures were called as of September 30, 2018 and as a result are classified as short-term at the end of the quarter. Principal and interest will be paid to the holders of the subordinated debt beginning on October 1, 2018. The Company’s long-term debt includes subordinated debt, notes payable and FHLB advances with an original maturity of greater than one year. Aggregate annual maturities of long-term debt at September 30, 2018, are as follows:

(In thousands) Year	Annual Maturities

2018	$ 376
2019	2,135
2020	2,109
2021	1,800
2022	949
Thereafter	362,404
Total	$ 369,773

NOTE 12: CONTINGENT LIABILITIES

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

NOTE 13: COMMON STOCK

On January 18, 2018, the board of directors of the Company approved a two-for-one stock split of the Corporation’s outstanding Class A common stock (“Common Stock”) in the form of a 100% stock dividend for shareholders of record as of the close of business on January 30, 2018 (“Record Date”). The new shares were distributed by the Company’s transfer agent, Computershare, and the Company’s common stock began trading on a split-adjusted basis on the NASDAQ Global Select Market on February 9, 2018. All previously reported share and per share data included in filings subsequent to February 8, 2018 are restated to reflect the retroactive effect of this two-for-one stock split.

On April 19, 2018, shareholders of the Company approved an increase in the number of authorized shares from 120,000,000 to 175,000,000.

On July 23, 2012, the Company approved a stock repurchase program which authorized the repurchase of up to 1,700,000 shares (split adjusted) of Class A common stock, or approximately 2% of the shares outstanding. Under the current plan, the Company can repurchase an additional 308,272 shares. 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 had no repurchases of its common stock during the three and nine month periods ended September 30, 2018.

NOTE 14: UNDIVIDED PROFITS

The Company’s subsidiary bank is subject to legal limitations on dividends that can be paid to the parent company without prior approval of the applicable regulatory agencies. The approval of the Commissioner of the Arkansas State Bank Department is required if the total of all dividends declared by an Arkansas state bank in any calendar year exceeds seventy-five percent (75%) of the total of its net profits, as defined, for that year combined with seventy-five percent (75%) of its retained net profits of the preceding year. At September 30, 2018, the Company’s subsidiary bank had approximately $1.6 million available for payment of dividends to the Company, without prior regulatory approval.

The risk-based capital guidelines of the Federal Reserve Board and the Arkansas State Bank Department include the definitions for (1) a well-capitalized institution, (2) an adequately-capitalized institution, and (3) an undercapitalized institution. Under the Basel III Rules effective January 1, 2015, the criteria for a well-capitalized institution are: a 5% “Tier l 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 September 30, 2018, the Company and its subsidiary bank met all capital adequacy requirements under the Basel III Capital Rules, and management believes the Company and its 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 9.82% at September 30, 2018.

NOTE 15: STOCK BASED COMPENSATION

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

Share and per share information regarding Stock-Based Compensation Plans has been adjusted to reflect the effects of the Company's two-for-one stock split which became effective on February 8, 2018. The table below summarizes the transactions under the Company's active stock compensation plans for the nine months ended September 30, 2018:

	Stock Options Outstanding		Non-vested Stock Awards Outstanding		Non-vested Stock Units Outstanding	
	Number of Shares (000)	Weighted Average Exercise Price	Number of Shares (000)	Weighted Average Exercise Price	Number of Shares (000)	Weighted Average Exercise Price
Balance, January 1, 2018	812	$ 21.98	162	$ 20.86	652	$ 27.92
Granted	—	—	—	—	343	29.31
Stock Options Exercised	(111)	19.22	—	—	—	—
Stock Awards/Units Vested	—	—	(55)	18.95	(175)	27.74
Forfeited/Expired	(6)	21.73	(10)	20.12	(91)	28.37
Balance, September 30, 2018	695	$ 22.42	97	$ 22.00	729	$ 28.56
Exercisable, September 30, 2018	661	$ 22.37				

The following table summarizes information about stock options under the plans outstanding at September 30, 2018:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares (000)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares (000)	Weighted Average Exercise Price
$9.46 – $9.46	1	3.30	$9.46	1	$9.46
10.65 – 10.65	4	4.32	10.65	4	10.65
10.76 – 10.76	2	1.30	10.76	2	10.76
20.29 – 20.29	71	6.25	20.29	71	20.29
20.36 – 20.36	3	6.13	20.36	1	20.36
22.20 – 22.20	74	6.48	22.20	74	22.20
22.75 – 22.75	436	6.86	22.75	436	22.75
23.51 – 23.51	97	7.30	23.51	65	23.51
24.07 – 24.07	7	6.96	24.07	7	24.07
$9.46 – $24.07	695	6.78	$22.42	661	$22.37

Stock-based compensation expense was $9,818,000 and $6,486,000 during the nine months ended September 30, 2018 and 2017, respectively. Stock-based compensation expense is recognized ratably over the requisite service period for all stock-based awards. There was $56,000 of unrecognized stock-based compensation expense related to stock options at September 30, 2018. Unrecognized stock-based compensation expense related to non-vested stock awards was $21,129,000 at September 30, 2018. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 1.9 years.

The intrinsic value of stock options outstanding and stock options exercisable at September 30, 2018 was $4,884,000 and $4,680,000. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the period, which was $29.45 as of September 30, 2018, and the exercise price multiplied by the number of options outstanding. The total intrinsic value of stock options exercised during the nine months ended September 30, 2018 and September 30, 2017, was $1,155,000 and $1,012,000, respectively.

The fair value of the Company's employee stock options granted is estimated on the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. There were no stock options granted during the nine months ended September 30, 2018 and 2017.

NOTE 16: EARNINGS PER SHARE ("EPS")

Basic EPS is computed based on the weighted average number of shares outstanding during each period. Diluted EPS is computed using the weighted average common shares and all potential dilutive common shares outstanding during the period. The share and per share amounts for 2017 have been restated to reflect the effect of the two-for-one stock split during February 2018.

Following is the computation of earnings per share for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2018	2017	2018	2017
Net income	$55,193	$28,852	$160,067	$74,037
Average common shares outstanding	92,290	64,427	92,246	63,594
Average potential dilutive common shares	551	420	551	420
Average diluted common shares	92,841	64,847	92,797	64,014
Basic earnings per share	$0.60	$0.45	$1.74	$1.16
Diluted earnings per share	$0.59	$0.44	$1.72	$1.16

There were no stock options excluded from the earnings per share calculation due to the related exercise price exceeding the average market price for the three and nine months ended September 30, 2018 and 2017.

NOTE 17: ADDITIONAL CASH FLOW INFORMATION

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

	Nine Months Ended September 30,	
(In thousands)	2018	2017
Interest paid	$78,987	$21,531
Income taxes paid	25,576	21,718
Transfers of loans to foreclosed assets held for sale	7,745	5,311
Transfers of premises to foreclosed assets and other real estate owned	3,690	3,188

NOTE 18: OTHER OPERATING EXPENSES

Other operating expenses consist of the following:

(In thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Professional services	$4,616	$3,946	$13,896	$13,079
Postage	1,262	1,091	4,103	3,427
Telephone	1,248	943	4,217	3,003
Credit card expense	3,405	3,137	9,820	9,081
Marketing	2,912	1,219	6,334	4,253
Operating supplies	585	592	1,917	1,406
Amortization of intangibles	2,772	1,724	8,394	4,828
Branch right sizing expense	970	153	1,049	370
Other expense	11,904	5,458	31,623	18,588
Total other operating expenses	$29,674	$18,263	$81,353	$58,035

NOTE 19: CERTAIN TRANSACTIONS

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

NOTE 20: COMMITMENTS AND CREDIT RISK

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

At September 30, 2018, the Company had outstanding commitments to extend credit aggregating approximately $568,117,000 and $3,430,361,000 for credit card commitments and other loan commitments. At December 31, 2017, the Company had outstanding commitments to extend credit aggregating approximately $564,592,000 and $3,086,696,000 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 $34,518,000 and $47,621,000 at September 30, 2018, and December 31, 2017, respectively, with terms ranging from 9 months to 15 years. At September 30, 2018 and December 31, 2017, the Company had no deferred revenue under standby letter of credit agreements.

NOTE 21: FAIR VALUE MEASUREMENTS

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

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

- Level 1 Inputs – Quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices for similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

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

Available-for-sale securities – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. Other securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things. In order to ensure the fair values are consistent with ASC Topic 820, the Company periodically checks 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 for the Company's 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, if any, 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.

Derivative instruments – The Company's derivative instruments are reported at fair value utilizing Level 2 inputs. The Company obtains fair value measurements from dealer quotes.

Other assets and liabilities held for sale – The Company's other assets and liabilities held for sale are reported at fair value utilizing Level 3 inputs. See Note 4 - Other assets and other liabilities held for sale.

The following table sets forth the Company's financial assets by level within the fair value hierarchy that were measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017.

		Fair Value Measurements Using		
(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Available-for-sale securities				
U.S. Government agencies	$141,460	$—	$141,460	$ —
Mortgage-backed securities	1,419,626	—	1,419,626	—
State and political subdivisions	282,439	—	282,439	—
Other securities	154,289	—	154,289	—
Other assets held for sale	5,136	—	—	5,136
Derivative asset	9,691	—	9,691	—
Other liabilities held for sale	(424)	—	—	(424)
Derivative liability	(7,940)	—	(7,940)	—
December 31, 2017				
Available-for-sale securities				
U.S. Government agencies	$139,724	$—	$139,724	$ —
Mortgage-backed securities	1,187,317	—	1,187,317	—
States and political subdivisions	143,165	—	143,165	—
Other securities	119,311	—	119,311	—
Other assets held for sale	165,780	—	—	165,780
Derivative asset	3,634	—	3,634	—
Other liabilities held for sale	(157,366)	—	—	(157,366)
Derivative liability	(3,068)	—	(3,068)	—

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

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

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

Foreclosed assets and other real estate owned – Foreclosed assets and other real estate owned are reported at fair value, less estimated costs to sell. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company's recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed assets and other real estate owned is estimated using Level 3 inputs based on unobservable market data. As of September 30, 2018 and December 31, 2017, the fair value of foreclosed assets and other real estate owned less estimated costs to sell was $22.7 million and $32.1 million, respectively.

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

Mortgage loans held for sale – Mortgage loans held for sale are reported at fair value if, on an aggregate basis, the fair value of the loans is less than cost. In determining whether the fair value of loans held for sale is less than cost when quoted market prices are not available, the Company may consider outstanding investor commitments, discounted cash flow analyses with market assumptions or the fair value of the collateral if the loan is collateral dependent. Such loans are classified within either Level 2 or Level 3 of the fair value hierarchy. Where assumptions are made using significant unobservable inputs, such loans held for sale are classified as Level 3. At September 30, 2018 and December 31, 2017, the aggregate fair value of mortgage loans held for sale exceeded their cost. Accordingly, no mortgage loans held for sale were marked down and reported at fair value.

The following table sets forth the Company's financial assets by level within the fair value hierarchy that were measured at fair value on a nonrecurring basis as of September 30, 2018 and December 31, 2017.

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

		(Level 1)		
September 30, 2018				
Impaired loans [1] [2] (collateral dependent)	$17,789	$—	$—	$ 17,789
Foreclosed assets and other real estate owned [1]	14,643	—	—	14,643
December 31, 2017				
Impaired loans [1] [2] (collateral dependent)	$11,229	$—	$—	$ 11,229
Foreclosed assets and other real estate owned [1]	24,093	—	—	24,093

(1)These amounts represent the resulting carrying amounts on the Consolidated Balance Sheets for impaired collateral dependent loans and foreclosed assets and other real estate owned for which fair value re-measurements took place during the period.
(2)Specific allocations of $2,738,000 and $2,195,000 were related to the impaired collateral dependent loans for which fair value re-measurements took place during the periods ended September 30, 2018 and December 31, 2017, respectively.

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

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

Interest bearing balances due from banks – The fair value of interest bearing balances due from banks – time is estimated using a discounted cash flow calculation that applies the rates currently offered on deposits of similar remaining maturities (Level 2).

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

Loans – The fair value of loans 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. Additional factors considered include 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.

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

	Carrying	Fair Value Measurements			
(In thousands)	Amount	Level 1	Level 2	Level 3	Total
September 30, 2018					
Financial assets:					
Cash and cash equivalents	$513,804	$513,804	$ —	$ —	$513,804
Interest bearing balances due from banks - time	3,954	—			