SIMMONS FIRST NATIONAL CORP
Form 10-Q
August 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 June 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 July 25, 2018, was 92,288,114.

Simmons First National Corporation
Quarterly Report on Form 10-Q
June 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
June 30, 2018 and December 31, 2017

(In thousands, except share data)	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Cash and non-interest bearing balances due from banks	$162,567	$205,025
Interest bearing balances due from banks and federal funds sold	781,279	393,017
Cash and cash equivalents	943,846	598,042
Interest bearing balances due from banks - time	2,974	3,314
Investment securities:		
Held-to-maturity	333,503	368,058
Available-for-sale	1,938,644	1,589,517
Total investments	2,272,147	1,957,575
Mortgage loans held for sale	39,812	24,038
Other assets held for sale	14,898	165,780
Loans:		
Legacy loans	7,133,461	5,705,609
Allowance for loan losses	(51,732)	(41,668)
Loans acquired, net of discount and allowance	4,232,434	5,074,076
Net loans	11,314,163	10,738,017
Premises and equipment	288,777	287,249
Foreclosed assets and other real estate owned	30,503	32,118
Interest receivable	44,266	43,528
Bank owned life insurance	191,575	185,984
Goodwill	845,687	842,651
Other intangible assets	96,720	106,071
Other assets	80,165	71,439
Total assets	$16,165,533	$15,055,806
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing transaction accounts	$2,683,489	$2,665,249
Interest bearing transaction accounts and savings deposits	6,916,520	6,494,896
Time deposits	2,353,439	1,932,730
Total deposits	11,953,448	11,092,875
Federal funds purchased and securities sold under agreements to repurchase	99,801	122,444
Other borrowings	1,451,811	1,380,024
Subordinated notes and debentures	413,337	140,565
Other liabilities held for sale	1,840	157,366
Accrued interest and other liabilities	98,388	77,968
Total liabilities	14,018,625	12,971,242
Stockholders' equity:		

Common stock, Class A, $0.01 par value; 175,000,000 and 120,000,000 shares authorized at June 30, 2018 and December 31, 2017, respectively (1); 92,281,370 and 92,029,118 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	923	920
Surplus	1,594,342	1,586,034
Undivided profits	591,826	514,874
Accumulated other comprehensive loss	(40,183)	(17,264)
Total stockholders' equity	2,146,908	2,084,564
Total liabilities and stockholders' equity	$16,165,533	$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 Six Months Ended June 30, 2018 and 2017

(In thousands, except per share data [1])	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
	(Unaudited)		(Unaudited)	
INTEREST INCOME				
Loans	$150,253	$73,549	$293,603	$142,277
Interest bearing balances due from banks and federal funds sold	1,414	214	2,423	336
Investment securities	14,296	9,990	26,918	19,441
Mortgage loans held for sale	305	145	463	271
TOTAL INTEREST INCOME	166,268	83,898	323,407	162,325
INTEREST EXPENSE				
Deposits	18,461	4,816	34,058	9,020
Federal funds purchased and securities sold under agreements to repurchase	88	92	198	167
Other borrowings	5,141	1,559	10,280	2,753
Subordinated notes and debentures	5,741	619	7,068	1,193
TOTAL INTEREST EXPENSE	29,431	7,086	51,604	13,133
NET INTEREST INCOME	136,837	76,812	271,803	149,192
Provision for loan losses	9,033	7,023	18,183	11,330
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	127,804	69,789	253,620	137,862
NON-INTEREST INCOME				
Trust income	5,622	4,113	10,871	8,325
Service charges on deposit accounts	10,063	8,483	20,408	16,585
Other service charges and fees	2,017	2,515	4,767	4,712
Mortgage and SBA lending income	3,130	3,961	7,575	6,384
Investment banking income	814	637	1,648	1,327
Debit and credit card fees	10,105	8,659	18,901	16,593
Bank owned life insurance income	1,102	859	2,205	1,677
(Loss) gain on sale of securities, net	(7)	2,236	(1)	2,299
Other income	5,202	4,281	9,209	7,902
TOTAL NON-INTEREST INCOME	38,048	35,744	75,583	65,804
NON-INTEREST EXPENSE				
Salaries and employee benefits	55,678	34,205	112,035	69,741
Occupancy expense, net	7,921	4,868	14,881	9,531
Furniture and equipment expense	4,020	4,550	8,423	8,993
Other real estate and foreclosure expense	1,382	517	2,402	1,106
Deposit insurance	1,856	780	3,984	1,460
Merger related costs	1,465	6,603	3,176	7,127
Other operating expenses	26,185	19,885	51,679	39,772
TOTAL NON-INTEREST EXPENSE	98,507	71,408	196,580	137,730

INCOME BEFORE INCOME TAXES	67,345	34,125	132,623	65,936
Provision for income taxes	13,783	11,060	27,749	20,751
NET INCOME	$53,562	$23,065	$104,874	$45,185
BASIC EARNINGS PER SHARE	$0.58	$0.36	$1.14	$0.72
DILUTED EARNINGS PER SHARE	$0.58	$0.36	$1.13	$0.71

(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.

Simmons First National Corporation
Consolidated Statements of Comprehensive Income
Three and Six Months Ended June 30, 2018 and 2017

(In thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
	(Unaudited)		(Unaudited)	
NET INCOME	$53,562	$23,065	$104,874	$45,185
OTHER COMPREHENSIVE (LOSS) INCOME				
Unrealized holding (losses) gains arising during the period on available-for-sale securities	(8,294)	7,133	(31,029)	8,700
Less: Reclassification adjustment for realized (losses) gains included in net income	(7)	2,236	(1)	2,299
Other comprehensive (loss) gain, before tax effect	(8,287)	4,897	(31,028)	6,401
Less: Tax effect of other comprehensive (loss) income	(2,166)	1,921	(8,109)	2,511
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(6,121)	2,976	(22,919)	3,890
COMPREHENSIVE INCOME	$47,441	$26,041	$81,955	$49,075

See Condensed Notes to Consolidated Financial Statements.

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

(In thousands)	June 30, 2018	June 30, 2017
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	$104,874	$45,185
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	13,600	9,649
Provision for loan losses	18,183	11,330
Loss (gain) on sale of investments	1	(2,299)
Net accretion of investment securities and assets	(27,882)	(13,884)
Net (accretion) amortization on borrowings	(341)	213
Stock-based compensation expense	5,416	3,958
Gain on sale of premises and equipment, net of impairment	—	(615)
Loss (gain) on sale of foreclosed assets held for sale	212	(141)
Gain on sale of mortgage loans held for sale	(5,832)	(5,432)
Deferred income taxes	2,052	2,230
Increase in cash surrender value of bank owned life insurance	(2,205)	(1,677)
Originations of mortgage loans held for sale	(265,704)	(222,946)
Proceeds from sale of mortgage loans held for sale	255,762	239,900
Changes in assets and liabilities:		
Interest receivable	(555)	2,283
Assets held in trading accounts	—	(9)
Other assets	(7,140)	11,656
Accrued interest and other liabilities	29,161	(12,949)
Income taxes payable	(8,947)	9,471
Net cash provided by operating activities	110,655	75,923
INVESTING ACTIVITIES		
Net originations of loans	(519,175)	(340,457)
Decrease in due from banks - time	340	490
Purchases of premises and equipment, net	(10,360)	(26,664)
Proceeds from sale of premises and equipment	—	3,475
Proceeds from sale of foreclosed assets held for sale	8,983	7,510
Proceeds from sale of available-for-sale securities	7,726	326,937
Proceeds from maturities of available-for-sale securities	122,963	17,720
Purchases of available-for-sale securities	(496,664)	(197,439)
Proceeds from maturities of held-to-maturity securities	34,958	44,240
Purchases of held-to-maturity securities	—	(860)
Proceeds from sale of held-to-maturity securities	—	441
Purchases of bank owned life insurance	(4,000)	(25)
Proceeds from bank owned life insurance death benefits	616	—
Cash paid in business combinations, net of cash received	—	(22,000)
Disposition of assets and liabilities held for sale	(66,641)	—
Net cash used in investing activities	(921,254)	(186,632)

FINANCING ACTIVITIES		
Net change in deposits	860,573	(20,660)
Proceeds from issuance of subordinated notes	326,355	—
Repayments of subordinated debentures	(54,642)	—
Dividends paid on common stock	(27,922)	(15,897)
Net change in other borrowed funds	71,787	198,803
Net change in federal funds purchased and securities sold under agreements to repurchase	(22,643)	(10,773)
Net shares issued under stock compensation plans	2,895	3,191
Net cash provided by financing activities	1,156,403	154,664
INCREASE IN CASH AND CASH EQUIVALENTS	345,804	43,955
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	598,042	285,659
CASH AND CASH EQUIVALENTS, END OF PERIOD	$943,846	$329,614

See Condensed Notes to Consolidated Financial Statements.

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Simmons First National Corporation
Consolidated Statements of Stockholders' Equity
Six Months Ended June 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	—	—	3,890	45,185	49,075
Stock issued for employee stock purchase plan – 26,002 shares	—	618	—	—	618
Stock-based compensation plans, net – 244,276	2	6,529	—	—	6,531
Stock issued for Hardeman acquisition – 1,599,940 common shares	16	42,622	—	—	42,638
Dividends on common stock – $0.25 per share	—	—	—	(15,897)	(15,897)
Balance, June 30, 2017 (Unaudited)	644	761,432	(11,322)	483,322	1,234,076
Comprehensive income	—	—	(2,926)	47,755	44,829
Reclassify stranded tax effects due to 2017 tax law changes	—	—	(3,016)	3,016	—
Stock-based compensation plans, net – 115,010	1	6,409	—	—	6,410
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 – $0.25 per share	—	—	—	(19,219)	(19,219)
Balance, December 31, 2017	920	1,586,034	(17,264)	514,874	2,084,564
Comprehensive income	—	—	(22,919)	104,874	81,955
Stock issued for employee stock purchase plan – 39,782 shares	—	1,026	—	—	1,026
Stock-based compensation plans, net – 212,470	3	7,282	—	—	7,285
Dividends on common stock – $0.30 per share	—	—	—	(27,922)	(27,922)
Balance, June 30, 2018 (Unaudited)	$ 923	$1,594,342	$ (40,183)	$591,826	$2,146,908

(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 199 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

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 is currently evaluating the impact this standard will have on its results of operations, financial position or disclosures, but 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 is assessing its data and system needs and evaluating 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 cannot yet determine the magnitude of any such one-time adjustment or the overall impact on its results of operations, financial position or disclosures. However, the Company has begun developing processes and procedures to ensure it is fully compliant at the required adoption date. Among other things, the Company has initiated data gathering and assessment to support forecasting of asset quality, loan balances, and portfolio net charge-offs and developing asset quality forecast models in preparation for the implementation of this standard.

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. Based upon leases that were outstanding as of June 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

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

The Company’s operating results for 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

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

The Company’s operating results for 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)	June 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	$36,976	$ —	$(186)	$36,790	$46,945	$ 7	$(228)	$46,724
Mortgage-backed securities	14,645	—	(603)	14,042	16,132	8	(287)	15,853
State and political subdivisions	279,787	3,316	(1,173)	281,930	301,491	5,962	(222)	307,231
Other securities	2,095	—	—	2,095	3,490	—	—	3,490
Total HTM	$333,503	$ 3,316	$(1,962)	$334,857	$368,058	$ 5,977	$(737)	$373,298
Available-for-Sale								
U.S. Government agencies	$149,593	$ —	$(3,826)	$145,767	$141,559	$ 116	$(1,951)	$139,724
Mortgage-backed securities	1,438,716	274	(43,759)	1,395,231	1,208,017	246	(20,946)	1,187,317
State and political subdivisions	250,574	282	(5,521)	245,335	144,642	532	(2,009)	143,165
Other securities	151,211	1,102	(2)	152,311	118,106	1,206	(1)	119,311
Total AFS	$1,990,094	$ 1,658	$(53,108)	$1,938,644	$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 June 30, 2018 and December 31, 2017, was $1.8 billion and $1.4 billion, which is approximately 80.2% 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 June 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	$5,963	$(12)	$30,827	$(174)	$36,790	$(186)
Mortgage-backed securities	6,106	(148)	7,934	(455)	14,040	(603)
State and political subdivisions	94,136	(1,138)	1,352	(35)	95,488	(1,173)
Total HTM	$106,205	$(1,298)	$40,113	$(664)	$146,318	$(1,962)
Available-for-Sale						
U.S. Government agencies	$113,594	$(1,753)	$32,174	$(2,073)	$145,768	$(3,826)
Mortgage-backed securities	685,406	(14,319)	630,291	(29,440)	1,315,697	(43,759)
State and political subdivisions	142,104	(1,918)	73,025	(3,603)	215,129	(5,521)
Other securities	—	—	99	(2)	99	(2)
Total AFS	$941,104	$(17,990)	$735,589	$(35,118)	$1,676,693	$(53,108)

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 June 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 June 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 six months ended June 30, 2018 and 2017, is as follows:

(In thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017

Taxable:				
Held-to-maturity	$546	$636	$1,113	$1,297
Available-for-sale	10,218	6,238	19,250	12,054
Non-taxable:				
Held-to-maturity	1,897	2,217	3,833	4,500
Available-for-sale	1,635	899	2,722	1,590
Total	$14,296	$9,990	$26,918	$19,441

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

(In thousands)	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$50,800	$50,609	$20	$20
After one through five years	63,469	63,414	35,961	35,125
After five through ten years	94,552	94,503	22,549	21,895
After ten years	110,037	112,289	341,736	334,161
Securities not due on a single maturity date	14,645	14,042	1,438,716	1,395,231
Other securities (no maturity)	—	—	151,112	152,212
Total	$333,503	$334,857	$1,990,094	$1,938,644

The carrying value, which approximates the fair value, of securities pledged as collateral, to secure public deposits and for other purposes, amounted to $1.5 billion at June 30, 2018 and $1.2 billion at December 31, 2017.

There were approximately $7,000 of gross realized gains and $14,000 of gross realized losses from the sale of securities during the three months ended June 30, 2018, and approximately $13,000 of gross realized gains and $14,000 of gross realized losses from the sale of securities during the six months ended June 30, 2018. There were approximately $2.2 million of gross realized gains and $5,000 of gross realized losses from the sale of securities during the three months ended June 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 six months ended June 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 second quarter 2018, other assets held for sale of $14.9 million and other liabilities held for sale of $1.8 million 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.

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

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

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

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

NOTE 5: LOANS AND ALLOWANCE FOR LOAN LOSSES

At June 30, 2018, the Company's loan portfolio was $11.37 billion, compared to $10.78 billion at December 31, 2017. The various categories of loans are summarized as follows:

(In thousands)	June 30, 2018	December 31, 2017
Consumer:		
Credit cards	$180,352	$185,422
Other consumer	277,330	280,094
Total consumer	457,682	465,516
Real Estate:		
Construction	967,720	614,155
Single family residential	1,314,787	1,094,633
Other commercial	2,816,420	2,530,824
Total real estate	5,098,927	4,239,612
Commercial:		
Commercial	1,237,910	825,217
Agricultural	187,006	148,302
Total commercial	1,424,916	973,519
Other	151,936	26,962
Loans	7,133,461	5,705,609
Loans acquired, net of discount and allowance (1)	4,232,434	5,074,076
Total loans	$11,365,895	$10,779,685

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(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)	June 30, 2018	December 31, 2017
Consumer:		
Credit cards	$238	$ 170
Other consumer	3,804	4,605
Total consumer	4,042	4,775
Real estate:		
Construction	1,764	2,242
Single family residential	15,415	13,431
Other commercial	11,911	16,054
Total real estate	29,090	31,727
Commercial:		
Commercial	9,195	6,980
Agricultural	2,221	2,160
Total commercial	11,416	9,140
Total	$44,548	$ 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
June 30, 2018						
Consumer:						
Credit cards	$642	$383	$1,025	$179,327	$180,352	$ 145
Other consumer	3,026	2,363	5,389	271,941	277,330	37
Total consumer	3,668	2,746	6,414	451,268	457,682	182
Real estate:						
Construction	515	821	1,336	966,384	967,720	—
Single family residential	6,187	7,898	14,085	1,300,702	1,314,787	121
Other commercial	1,862	6,080	7,942	2,808,478	2,816,420	—
Total real estate	8,564	14,799	23,363	5,075,564	5,098,927	121
Commercial:						
Commercial	3,995	4,548	8,543	1,229,367	1,237,910	—
Agricultural	192	2,004	2,196	184,810	187,006	—
Total commercial	4,187	6,552	10,739	1,414,177	1,424,916	—
Other	—	—	—	151,936	151,936	—
Total	$16,419	$24,097	$40,516	$7,092,945	$7,133,461	$ 303
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
June 30, 2018						Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
Consumer:									
Credit cards	$ 238	$ 238	$ —	$ 238	$ —	$204	$ 10	$236	$ 25
Other consumer	3,981	3,804	—	3,804	—	4,205	33	4,373	67
Total consumer	4,219	4,042	—	4,042	—	4,409	43	4,609	92
Real estate:									
Construction	1,825	1,136	396	1,532	253	1,887	13	1,899	29
Single family residential	16,430	14,919	496	15,415	36	14,423	118	14,154	218
Other commercial	17,762	6,376	4,816	11,192	138	13,528	104	14,588	224
Total real estate	36,017	22,431	5,708	28,139	427	29,838	235	30,641	471
Commercial:									
Commercial	9,839	7,228	605	7,833	18	7,204	61	7,428	114
Agricultural	3,377	1,249	—	1,249	—	1,142	11	1,474	23
Total commercial	13,216	8,477	605	9,082	18	8,346	72	8,902	137
Total	$ 53,452	$ 34,950	$ 6,313	$ 41,263	$ 445	$42,593	$ 350	$44,152	$ 700

December 31, 2017						Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
Consumer:									
Credit cards	$170	$170	$—	$170	$—	$261	$6	$298	$11
Other consumer	4,755	4,605	—	4,605	—	2,581	17	2,321	31
Total consumer	4,925	4,775	—	4,775	—	2,842	23	2,619	42
Real estate:									
Construction	2,522	1,347	895	2,242	249	2,748	21	2,969	39
Single family residential	14,347	12,725	706	13,431	53	12,837	90	12,686	167
Other commercial	22,308	6,732	9,133	15,865	36	22,402	138	19,670	258
Total real estate	39,177	20,804	10,734	31,538	338	37,987	249	35,325	464
Commercial:									
Commercial	9,954	4,306	2,269	6,575	—	14,275	91	12,952	170
Agricultural	3,278	1,035	—	1,035	—	2,152	13	1,840	24
Total commercial	13,232	5,341	2,269	7,610	—	16,427	104	14,792	194
Total	$57,334	$30,920	$13,003	$43,923	$338	$57,256	$376	$52,736	$700

At June 30, 2018, and December 31, 2017, impaired loans, net of government guarantees and excluding loans acquired, totaled $41.3 million and $43.9 million, respectively. Allocations of the allowance for loan losses relative to impaired loans were $445,000 and $338,000 at June 30, 2018 and December 31, 2017, respectively. Approximately $350,000 and $700,000 of interest income was recognized on average impaired loans of $42.6 million and $44.2 million for the three and six months ended June 30, 2018. Interest income recognized on impaired loans on a cash basis during the three and six months ended June 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.

	Accruing TDR Loans		Nonaccrual TDR Loans		Total TDR Loans	
(Dollars in thousands)	Number	Balance	Number	Balance	Number	Balance
June 30, 2018						
Consumer:						
Other consumer	—	$—	1	$91	1	$91
Total consumer	—	—	1	91	1	91
Real estate:						
Construction	1	396	—	—	1	396
Single-family residential	11	734	6	233	17	967
Other commercial	6	3,751	2	3,411	8	7,162
Total real estate	18	4,881	8	3,644	26	8,525
Commercial:						
Commercial	5	588	5	2,632	10	3,220
Total commercial	5	588	5	2,632	10	3,220
Total	23	$5,469	14	$6,367	37	$11,836
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

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The following table presents loans that were restructured as TDRs during the six months ended June 30, 2018 and the three and six months ended June 30, 2017, excluding loans acquired, segregated by class of loans. There were no loans restructured as TDRs during the three months ended June 30, 2018.

(Dollars in thousands)	Number of Loans	Balance Prior to TDR	Balance at June 30,	Modification Type Change in Maturity Date	Change in Rate	Financial Impact on Date of Restructure
Three Months Ended June 30, 2017						
Commercial:						
Commercial	4	$ 41	$ 39	$—	$ 39	$ —
Total commercial	4	41	39	—	39	—
Total	4	$ 41	$ 39	$—	$ 39	$ —
Six Months Ended June 30, 2018						
Consumer:						
Other consumer	1	$ 91	$ 91	$ 91	$ —	$ —
Total consumer	1	91	91	91	—	—
Real estate:						
Single-family residential	1	61	62	62	—	—
Total real estate	1	61	62	62	—	—
Total	2	$ 152	$ 153	$ 153	$ —	$ —
Six Months Ended June 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	9	811	799	760	39	—
Total commercial	9	811	799	760	39	—
Total	12	$ 8,629	$ 8,617	$ 8,578	$ 39	$ 33

During the six months ended June 30, 2018, the Company modified 2 loans with a recorded investment of $152,000 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. A specific reserve was not considered necessary for these loans based upon the fair value of the collateral. Also, there was no immediate financial impact from the restructuring of these loans, as it was not considered necessary to charge-off interest or principal on the date of restructure.

During the three months ended June 30, 2017, the Company modified 4 loans with a recorded investment of $41,000 and during the six months ended June 30, 2017, the Company modified 12 loans with a recorded investment of $8.6 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 six months ended

June 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 for which a payment default occurred during the six months ended June 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 six months ended June 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 June 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 June 30, 2018 and December 31, 2017, the Company had $3,190,000 and $5,057,000, respectively, of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process. At June 30, 2018 and December 31, 2017, the Company had $4,075,000 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 $14.0 million and $17.1 million that are accounted for under ASC Topic 310-30 and are classified as substandard (Risk Rating 6) as of June 30, 2018 and December 31, 2017, respectively. Of the remaining loans acquired and accounted for under ASC Topic 310-20, $70.0 million and $76.3 million were classified (Risk Ratings 6, 7 and 8 – see classified loans discussion below) at June 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 – 8that 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 $174.2 million and $175.6 million, as of June 30, 2018 and December 31, 2017, respectively.

The following table presents a summary of loans by credit risk rating as of June 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
June 30, 2018						
Consumer:						
Credit cards	$179,969	$—	$383	$—	$ —	$180,352
Other consumer	273,345	—	3,985	—	—	277,330
Total consumer	453,314	—	4,368	—	—	457,682
Real estate:						
Construction	960,791	2,314	4,599	16	—	967,720
Single family residential	1,287,314	1,711	25,544	218	—	1,314,787
Other commercial	2,780,597	8,620	27,203	—	—	2,816,420

Total real estate	5,028,702	12,645	57,346	234	—	5,098,927
Commercial:						
Commercial	1,199,553	12,803	25,554	—	—	1,237,910
Agricultural	184,228	155	2,600	23	—	187,006
Total commercial	1,383,781	12,958	28,154	23	—	1,424,916
Other	151,936	—	—	—	—	151,936
Loans acquired	4,096,419	51,985	83,657	373	—	4,232,434
Total	$11,114,152	$77,588	$173,525	$630	$ —	$11,365,895

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(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 six months ended June 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 June 30, 2018					
Balance, beginning of period [2]	$ 9,601	$30,414	$3,799	$ 3,393	$47,207
Provision for loan losses [1]	6,897	(1,461)	749	1,079	7,264
Charge-offs	(790)	(161)	(1,012)	(1,366)	(3,329)
Recoveries	59	112	286	133	590
Net charge-offs	(731)	(49)	(726)	(1,233)	(2,739)
Balance, June 30, 2018 [2]	$ 15,767	$28,904	$3,822	$ 3,239	$51,732
Six Months Ended June 30, 2018					
Balance, beginning of period [2]	$ 7,007	$27,281	$3,784	$ 3,596	$41,668
Provision for loan losses [1]	11,183	1,825	1,500	1,838	16,346
Charge-offs	(2,551)	(616)	(2,011)	(2,422)	(7,600)
Recoveries	128	414	549	227	1,318
Net charge-offs	(2,423)	(202)	(1,462)	(2,195)	(6,282)
Balance, June 30, 2018 [2]	$ 15,767	$28,904	$3,822	$ 3,239	$51,732
Period-end amount allocated to:					
Loans individually evaluated for impairment	$ 18	$427	$—	$ —	$445
Loans collectively evaluated for impairment	15,749	28,477	3,822	3,239	51,287
Balance, June 30, 2018 [2]	$ 15,767	$28,904	$3,822	$ 3,239	$51,732

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(1) Provision for loan losses of $1,769,000 and $1,837,000 attributable to loans acquired was excluded from this table for the three and six months ended June 30, 2018, respectively (total provision for loan losses for the three and six months ended June 30, 2018 was $9,033,000 and $18,183,000). There were $132,000 and $211,000 in charge-offs for loans acquired during the three and six months ended June 30, 2018, respectively, resulting in an ending balance in the allowance related to loans acquired of $2,044,000.

(2) Allowance for loan losses at June 30, 2018 includes $2,044,000 allowance for loans acquired (not shown in the table above). Allowance for loan losses at March 31, 2018 and December 31, 2017 includes $407,000 and $418,000, respectively, of allowance for loans acquired (not shown in the table above). The total allowance for loan losses at June 30, 2018 was $53,776,000 and total allowance for loan losses at March 31, 2018 and December 31, 2017 was $47,614,000 and $42,086,000, respectively.

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

(In thousands)	Commercial	Real Estate	Credit Card	Other Consumer and Other	Total
Three Months Ended June 30, 2017					
Balance, beginning of period (4)	$ 8,173	$22,253	$3,729	$ 3,710	$37,865
Provision for loan losses (3)	249	4,974	649	436	6,308
Charge-offs	(349)	(1,712)	(901)	(993)	(3,955)
Recoveries	32	216	277	636	1,161
Net charge-offs	(317)	(1,496)	(624)	(357)	(2,794)
Balance, June 30, 2017 (4)	$ 8,105	$25,731	$3,754	$ 3,789	$41,379
Six Months Ended June 30, 2017					
Balance, beginning of period (4)	$ 7,739	$21,817	$3,779	$ 2,951	$36,286
Provision for loan losses (3)	945	5,834	1,407	1,679	9,865
Charge-offs	(641)	(2,368)	(1,945)	(2,167)	(7,121)
Recoveries	62	448	513	1,326	2,349
Net charge-offs	(579)	(1,920)	(1,432)	(841)	(4,772)
Balance, June 30, 2017 (4)	$ 8,105	$25,731	$3,754	$ 3,789	$41,379
Period-end amount allocated to:					
Loans individually evaluated for impairment	$ 3,636	$1,888	$—	$ —	$5,524
Loans collectively evaluated for impairment	4,469	23,843	3,754	3,789	35,855
Balance, June 30, 2017 (4)	$ 8,105	$25,731	$3,754	$ 3,789	$41,379
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 $714,000 and $1,464,000 attributable to loans acquired was excluded from this table for the three and six months ended June 30, 2017 (total provision for loan losses for the three and six months ended June 30, 2017 was $7,023,000 and $11,330,000, respectively). There were $758,000 and $2.0 million in charge-offs for loans acquired during the three and six months ended June 30, 2017, respectively, resulting in an ending balance in the allowance related to loans acquired of $391,000.

(4) Allowance for loan losses at June 30, 2017, March 31, 2017 and December 31, 2016 includes $391,000, $435,000 and $954,000, allowance for loans acquired, respectively, (not shown in the table above). The total allowance for loan losses at June 30, 2017, March 31, 2017 and December 31, 2016 was $41,770,000, $38,300,000 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.

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

(In thousands)	Commercial	Real Estate	Credit Card	Other Consumer and Other	Total
June 30, 2018					
Loans individually evaluated for impairment	$9,082	$28,139	$238	$3,804	$41,263
Loans collectively evaluated for impairment	1,415,834	5,070,788	180,114	425,462	7,092,198
Balance, end of period	$1,424,916	$5,098,927	$180,352	$429,266	$7,133,461
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 June 30, 2018 and December 31, 2017:

(In thousands)	Loans Acquired June 30, 2018	December 31, 2017
Consumer:		
Other consumer	$31,651	$51,467
Real estate:		
Construction	521,321	637,032
Single family residential	671,602	793,228
Other commercial	2,240,578	2,387,777
Total real estate	3,433,501	3,818,037
Commercial:		
Commercial	764,473	995,587
Agricultural	2,809	66,576
Total commercial	767,282	1,062,163
Other	—	142,409
Total loans acquired (1)	$4,232,434	$5,074,076

(1) Loans acquired are reported net of a $2,044,000 and $418,000 allowance at June 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)	June 30, 2018	December 31, 2017
Consumer:		
Other consumer	$362	$ 334
Real estate:		
Construction	258	1,767
Single family residential	8,784	12,151
Other commercial	22,944	7,401
Total real estate	31,986	21,319
Commercial:		
Commercial	4,680	1,748
Agricultural	32	84
Total commercial	4,712	1,832
Total	$37,060	$ 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
June 30, 2018						
Consumer:						
Other consumer	$347	$249	$596	$31,055	$31,651	$ —
Real estate:						
Construction	645	1,020	1,665	519,656	521,321	—
Single family residential	3,576	7,410	10,986	660,616	671,602	1,165
Other commercial	4,801	18,947	23,748	2,216,830	2,240,578	—
Total real estate	9,022	27,377	36,399	3,397,102	3,433,501	1,165
Commercial:						
Commercial	3,675	7,966	11,641	752,832	764,473	762
Agricultural	35	—	35	2,774	2,809	—
Total commercial	3,710	7,966	11,676	755,606	767,282	762
Total	$13,079	$35,592	$48,671	$4,183,763	$4,232,434	$ 1,927
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
June 30, 2018						
Consumer:						
Other consumer	$30,912	$10	$729	$—	$ —	$31,651
Real estate:						
Construction	500,741	19,624	956	—	—	521,321
Single family residential	653,816	1,962	15,451	373	—	671,602
Other commercial	2,190,767	11,345	38,466	—	—	2,240,578
Total real estate	3,345,324	32,931	54,873	373	—	3,433,501
Commercial:						
Commercial	717,441	19,044	27,988	—	—	764,473
Agricultural	2,742	—	67	—	—	2,809
Total commercial	720,183	19,044	28,055	—	—	767,282
Total	$4,096,419	$51,985	$83,657	$373	$ —	$4,232,434
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 six months ended June 30, 2018 and 2017 is shown below:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Impact on net interest income and pre-tax income	$26	$1,388	$476	$2,572
Impact, net of taxes	$19	$844	$350	$1,563

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

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

(In thousands)	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Beginning balance	$1,369	$17,605	$620	$17,116
Additions	—	—	—	—
Accretable yield adjustments	44	—	1,178	—
Accretion	(31)	31	(416)	416
Payments and other reductions, net	—	(3,641)	—	(3,537)
Balance, ending	$1,382	$13,995	$1,382	$13,995

(In thousands)	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Beginning balance	$1,217	$8,695	$1,655	$17,802
Additions	—	2,388	—	2,388
Accretable yield adjustments	1,418	—	2,646	—
Accretion	(1,869)	1,869	(3,535)	3,535
Payments and other reductions, net	—	(4,504)	—	(15,277)
Balance, ending	$766	$8,448	$766	$8,448

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 $2,044,000 at June 30, 2018 and $418,000 at December 31, 2017. The provision on loans acquired for the three and six months ended June 30, 2018 was $1,769,000 and $1,837,000, respectively. The provision on loans acquired for the three and six months ended June 30, 2017 was $714,000 and $1,464,000, respectively.

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 June 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 six months ended June 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 June 30, 2018 and December 31, 2017, were as follows:

(In thousands)	June 30, 2018	December 31, 2017
Goodwill	$845,687	$842,651
Core deposit premiums:		
Gross carrying amount	105,984	105,984
Accumulated amortization	(21,425)	(16,659)
Core deposit premiums, net	84,559	89,325
Books of business intangible:		
Gross carrying amount	15,234	15,414
Accumulated amortization	(3,177)	(2,827)
Books of business intangible, net	12,057	12,587
Other intangibles:		
Gross carrying amount	2,068	6,037
Accumulated amortization	(1,964)	(1,878)
Other intangibles, net	104	4,159
Other intangible assets, net	96,720	106,071
Total goodwill and other intangible assets	$942,407	$948,722

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

(In thousands)	Year	Amortization Expense
	Remainder of 2018	$ 5,387
	2019	10,565

2020	10,552
2021	10,490
2022	10,438
Thereafter	49,288
Total	$ 96,720

NOTE 8: TIME DEPOSITS

Time deposits include approximately $1.564 billion and $736.0 million of certificates of deposit of $100,000 or more at June 30, 2018, and December 31, 2017, respectively. Of this total approximately $948,519,000 and $396,771,000 of certificates of deposit were over $250,000 at June 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:

(In thousands)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Income taxes currently payable	$15,652	$11,920	$25,697	$18,521
Deferred income taxes	(1,869)	(860)	2,052	2,230
Provision for income taxes	$13,783	$11,060	$27,749	$20,751

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)	June 30, 2018	December 31, 2017
Deferred tax assets:		
Loans acquired	$15,849	$19,885
Allowance for loan losses	13,950	10,773
Valuation of foreclosed assets	2,855	2,852
Tax NOLs from acquisition	7,629	7,821
Deferred compensation payable	2,639	2,433
Accrued equity and other compensation	6,899	5,302
Acquired securities	578	578
Unrealized loss on available-for-sale securities	13,326	6,107
Other	6,701	8,813
Gross deferred tax assets	70,426	64,564
Deferred tax liabilities:		
Goodwill and other intangible amortization	(32,436)	(32,572)
Accumulated depreciation	(9,375)	(8,945)
Other	(3,325)	(4,413)
Gross deferred tax liabilities	(45,136)	(45,930)
Net deferred tax asset, included in other assets	$25,290	$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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2018	2017	2018	2017
Computed at the statutory rate [(1)]	$14,143	$11,944	$27,851	$23,078
Increase (decrease) in taxes resulting from:				
State income taxes, net of federal tax benefit	1,265	236	3,087	775
Discrete items related to ASU 2016-09	(90)	(295)	(363)	(1,377)
Tax exempt interest income	(782)	(1,134)	(1,459)	(2,205)
Tax exempt earnings on BOLI	(190)	(220)	(376)	(438)
Other differences, net	(563)	529	(991)	918
Actual tax provision	$13,783	$11,060	$27,749	$20,751

(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.

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.

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 $99.6 million and $122.0 million at June 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 June 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
June 30, 2018					
Repurchase agreements:					
U.S. Government agencies	$99,551	$ —	$ —	$ —	$99,551
December 31, 2017					
Repurchase agreements:					
U.S. Government agencies	$122,019	$ —	$ —	$ —	$122,019

NOTE 11: OTHER BORROWINGS AND SUBORDINATED NOTES AND DEBENTURES

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

(In thousands)	June 30, 2018	December 31, 2017
Other Borrowings		
FHLB advances, net of discount, due 2018 to 2033, 1.33% to 7.37% secured by residential real estate loans	$1,451,811	$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	1,451,811	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	9,344	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	5,155	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	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, due 9/30/2023, floating rate equal to daily average of prime rate, reset quarterly	19,296	18,399
Unamortized debt issuance costs	(3,554)	—
Total subordinated notes and debentures	413,337	140,565
Total other borrowings and subordinated debt	$1,865,148	$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 half 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 contains customary representations, warranties, and covenants of the Company, including, among other things, covenants that impose various financial ratio requirements. The line of credit available to the Company under the Credit Agreement expires on October 5, 2018, at which time all amounts borrowed, together with applicable interest, fees, and other amounts owed by the Company shall be due and payable.

At June 30, 2018, the Company had $945.0 million of Federal Home Loan Bank ("FHLB") advances outstanding with original maturities of one year or less.

The Company had total FHLB advances of $1.5 billion at June 30, 2018, with approximately $1.5 billion of additional advances available from the FHLB. The FHLB advances are secured by mortgage loans and investment securities totaling approximately $3.9 billion at June 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 June 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 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 June 30, 2018, are as follows:

(In thousands)	Year	Annual Maturities
	2018	$ 1,324
	2019	2,212
	2020	2,109
	2021	1,800
	2022	949
	Thereafter	911,754
	Total	$ 920,148

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.

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 June 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 June 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 9.99% at June 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 six months ended June 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	—	—	—	—	319	29.22
Stock Options Exercised	(110)	19.33	—	—	—	—
Stock Awards/Units Vested	—	—	(42)	17.94	(160)	27.70
Forfeited/Expired	(6)	21.73	(10)	19.81	(71)	28.32
Balance, June 30, 2018	696	$ 22.40	110	$ 22.06	740	$ 28.48
Exercisable, June 30, 2018	662	$ 22.35				

The following table summarizes information about stock options under the plans outstanding at June 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
$8.78 – $8.78	1	0.56	$8.78	1	$8.78
9.46 – 9.46	1	3.55	9.46	1	9.46
10.65 – 10.65	4	4.57	10.65	4	10.65
10.76 – 10.76	2	1.55	10.76	2	10.76
20.29 – 20.29	71	6.50	20.29	71	20.29
20.36 – 20.36	3	6.38	20.36	1	20.36
22.20 – 22.20	74	6.73	22.20	74	22.20
22.75 – 22.75	436	7.11	22.75	436	22.75
23.51 – 23.51	97	7.56	23.51	65	23.51
24.07 – 24.07	7	7.21	24.07	7	24.07
$8.78 – $24.07	696	7.02	$22.40	662	$22.35

Stock-based compensation expense was $6,504,000 and $4,499,000 during the six months ended June 30, 2018 and 2017, respectively. Stock-based compensation expense is recognized ratably over the requisite service period for all stock-based awards. There was $113,000 of unrecognized stock-based compensation expense related to stock options at June 30, 2018. Unrecognized stock-based compensation expense related to non-vested stock awards was $23,335,000 at June 30, 2018. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 2.1 years.

The intrinsic value of stock options outstanding and stock options exercisable at June 30, 2018 was $5,222,000 and $5,003,000. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the period, which was $29.90 as of June 30, 2018, and the exercise price multiplied by the number of options outstanding. The total intrinsic value of stock options exercised during the six months ended June 30, 2018 and June 30, 2017, was $1,180,000 and $765,000, 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 six months ended June 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 six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	2018	2017	2018	2017
Net income	$53,562	$23,065	$104,874	$45,185
Average common shares outstanding	92,264	63,633	92,223	63,170
Average potential dilutive common shares	469	418	469	418
Average diluted common shares	92,733	64,051	92,692	63,588
Basic earnings per share	$0.58	$0.36	$1.14	$0.72
Diluted earnings per share	$0.58	$0.36	$1.13	$0.71

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 six months ended June 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 six months ended:

	Six Months Ended June 30,	
(In thousands)	2018	2017
Interest paid	$47,675	$13,203
Income taxes paid	13,245	10,067
Transfers of loans to foreclosed assets held for sale	6,725	2,667
Transfers of premises to foreclosed assets and other real estate owned	855	3,188

NOTE 18: OTHER OPERATING EXPENSES

Other operating expenses consist of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2018	2017	2018	2017
Professional services	$4,443	$3,962	$8,683	$9,131
Postage	1,441	1,204	2,925	2,335
Telephone	2,064	982	2,969	2,060
Credit card expense	3,188	3,107	6,416	5,944
Marketing	1,765	1,687	3,407	3,033
Operating supplies	583	459	1,332	814
Amortization of intangibles	2,785	1,554	5,623	3,104
Branch right sizing expense	21	99	85	217
Other expense	9,895	6,831	20,239	13,134
Total other operating expenses	$26,185	$19,885	$51,679	$39,772

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 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 June 30, 2018, the Company had outstanding commitments to extend credit aggregating approximately $565,745,000 and $3,338,212,000 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 $37,265,000 and $47,621,000 at June 30, 2018, and December 31, 2017, respectively, with terms ranging from 9 months to 15 years. At June 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 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 June 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)
June 30, 2018				
Available-for-sale securities				
U.S. Government agencies	$145,767	$—	$145,767	$ —
Mortgage-backed securities	1,395,231	—	1,395,231	—
State and political subdivisions	245,335	—	245,335	—
Other securities	152,311	—	152,311	—
Other assets held for sale	14,898	—	—	14,898
Derivative asset	8,958	—	8,958	—
Other liabilities held for sale	(1,840)	—	—	(1,840)
Derivative liability	(7,401)	—	(7,401)	—
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 June 30, 2018 and December 31, 2017, the fair value of foreclosed assets and other real estate owned less estimated costs to sell was $30.5 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 June 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 June 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)		
June 30, 2018				
Impaired loans (1) (2) (collateral dependent)	$15,154	$—	$—	$ 15,154
Foreclosed assets and other real estate owned (1)	13,735	—	—	13,735
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

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(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 $2,386,000 and $2,195,000 were related to the impaired collateral dependent loans for which fair value re-measurements took place during the periods ended June 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:

(In thousands)	Carrying Amount	Fair Value Measurements Level 1	Level 2	Level 3	Total
June 30, 2018					
Financial assets:					
Cash and cash equivalents	$943,846	$943,846	$ —	$ —	$943,846
Interest bearing balances due from banks - time	2,974	—	2,974	—	2,974
Held-to-maturity securities	333,503	—	334,857	—	334,857
Mortgage loans held for sale	39,812	—	—	39,812	39,812
Interest receivable	44,266	—	44,266	—	44,266
Legacy loans, net	7,081,729	—	—	7,028,100	7,028,100
Loans acquired, net	4,232,434	—	—	4,200,382	4,200,382
Financial liabilities:					
Non-interest bearing transaction accounts	2,683,489	—	2,683,489	—	2,683,489
Interest bearing transaction accounts and savings deposits	6,916,520	—	6,916,520	—	6,916,520
Time deposits	2,353,439	—	—	2,330,200	2,330,200
Federal funds purchased and securities sold under agreements to repurchase	99,801	—	99,801	—	99,801
Other borrowings	1,451,811	—	1,449,378	—	1,449,378
Subordinated notes and debentures	413,337	—	475,729	—	475,729
Interest payable	8,494	—	8,494	—	8,494
December 31, 2017					
Financial assets:					
Cash and cash equivalents	$598,042	$598,042	$ —	$ —	$598,042
Interest bearing balances due from banks - time	3,314	—	3,314	—	3,314
Held-to-maturity securities	368,058	—	373,298	—	373,298
Mortgage loans held for sale	24,038	—	—	24,038	24,038
Interest receivable	43,528	—	43,528	—	43,528
Legacy loans, net	5,663,941	—	—	5,646,505	5,646,505
Loans acquired, net	5,074,076	—	—	5,058,455	5,058,455
Financial liabilities:					
Non-interest bearing transaction accounts	2,665,249	—	2,665,249	—	2,665,249
Interest bearing transaction accounts and savings deposits	6,494,896	—	6,494,896	—	6,494,896
Time deposits	1,932,730	—	—	1,915,539	1,915,539
Federal funds purchased and securities sold under agreements to repurchase	122,444	—	122,444	—	122,444
Other borrowings	1,380,024	—	1,381,365	—	1,381,365
Subordinated debentures	140,565	—	136,474	—	136,474
Interest payable	4,564	—	4,564	—	4,564

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee, Board of Directors and Stockholders
Simmons First National Corporation
Pine Bluff, Arkansas

Results of Review of Interim Financial Statements

We have reviewed the condensed consolidated balance sheet of Simmons First National Corporation ("the Company") as of June 30, 2018, and the related condensed consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017, and stockholders' equity and cash flows for the six-month periods ended June 30, 2018 and 2017, and the related notes (collectively referred to as the "interim financial information or statements"). Based on our reviews, we are not aware of any material modifications that should be made to the condensed financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheet of the Company as of December 31, 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein), and in our report dated February 28, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

These financial statements are the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

/s/ BKD, LLP

Little Rock, Arkansas
August 7, 2018

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

OVERVIEW

Our net income for the three months ended June 30, 2018 was $53.6 million and diluted earnings per share were $0.58, an increase of $30.5 million and $0.22, compared to the same period in 2017. Net income for the six months ended June 30, 2018 was $104.9 million and diluted earnings per share were $1.13, an increase of $59.7 million and $0.42, compared to the first six months of 2017.

Net income for the first six months in both 2018 and 2017 included non-core items, mostly related to our acquisitions. Excluding all non-core items, core earnings for the three and six months ended June 30, 2018 were $54.7 million, or $0.59 diluted core earnings per share, and $107.3 million, or $1.16 diluted core earnings per share, respectively, compared to $26.8 million, or $0.42 diluted core earnings per share (split adjusted) and $49.3 million, or $0.78 diluted core earnings per share (split adjusted) for the same periods in 2017. See Reconciliation of Non-GAAP Measures for additional discussion of non-GAAP measures.

We were pleased to report record earnings for both of the first two quarters of 2018 while completing system conversions and integrations for our most recent acquisitions. We are now turning our focus on expanding our products and services throughout our larger footprint.

We completed the acquisitions of Southwest Bancorp, Inc., including its wholly-owned bank subsidiary, Bank SNB, and First Texas BHC, Inc., including its wholly-owned bank subsidiary, Southwest Bank, in October 2017. The systems conversion of Southwest Bank was completed during February 2018 while the systems conversion for Bank SNB was completed in May 2018. See Note 2, Acquisitions, in the accompanying Condensed Notes to Consolidated Financial Statements included elsewhere in this report, for additional information related to these acquisitions.

In March, we completed an offering of $330 million aggregate principal amount of 5.00% Fixed-to-Floating Rate Subordinated Notes due 2028 (the “Notes”). The Notes will bear a fixed interest rate of 5.00% per year in years one through five, payable semi-annually in arrears, and a floating rate equal to three-month LIBOR plus 215 basis points in years six through ten, payable quarterly in arrears. The Notes were offered to the public at 100% of their face amount. We expect to use approximately $222 million of the net proceeds from the sale of the Notes to repay outstanding indebtedness and the remainder for general corporate purposes. As of June 30, 2018, we repaid approximately $173 million of outstanding indebtedness and expect to repay the incremental $50 million in the third quarter 2018. See Note 11, Other Borrowings and Subordinated Notes and Debentures, in the accompanying Condensed Notes to Consolidated Financial Statements included elsewhere in this report, for additional information related to the Notes.

Also during the first quarter of 2018, we completed the sale of certain deposits, loans and branch facilities related to the Heartland Bank held for sale assets and liabilities and we continue to explore liquidating options for the few remaining assets.

Lastly, we completed a 2-for-1 stock split in the form of a 100% stock dividend effective February 8, 2018.

During September 2018, we plan to close ten of our branch locations. We continuously evaluate our branch network to determine the locations that are meeting the greatest needs of our customers. We look at many factors, including market and economic conditions, before making the decision to close a branch. Our brick and mortar locations undoubtedly serve an important customer need; however, our customers continue to take advantage of our digital channels. We will continue to look for and invest in new and innovative channels to meet the ever-changing needs of our customers.

Stockholders’ equity as of June 30, 2018 was $2.1 billion, book value per share was $23.26 and tangible book value per share was $13.05. Our ratio of stockholders’ equity to total assets was 13.3% and the ratio of tangible stockholders’ equity to tangible assets was 7.9% at June 30, 2018. See Reconciliation of Non-GAAP Measures for additional discussion of non-GAAP measures. The Company’s Tier I leverage ratio of 8.6%, as well as our other regulatory capital ratios, remain significantly above the “well capitalized” levels (see Table 12 in the Capital section of this Item).

Total loans, including loans acquired, were $11.4 billion at June 30, 2018, compared to $10.8 billion at December 31, 2017 and $6.2 billion at June 30, 2017. Total loans increased approximately $379 million, or 3.4%, during the quarter. The increase was partially offset by the $23 million decrease in our liquidating portfolios of indirect lending and consumer finance. Our markets in Dallas/Ft. Worth, Denver, Nashville, Northwest Arkansas, Oklahoma City and St. Louis are experiencing good loan growth. Due to our increased size and scale we are benefiting from access to new lending opportunities in these growth markets as well as in our historical legacy markets.

We continue to have good asset quality. At June 30, 2018, the allowance for loan losses for legacy loans was $51.7 million. The allowance for loan losses for loans acquired was $2.0 million and the acquired loan discount credit mark was $68.3 million. The allowances for loan losses and credit marks provide a total of $122.1 million of coverage, which equates to a total coverage ratio of 1.1% of gross loans. The ratio of credit mark and related allowance to loans acquired was 1.6%.

Simmons First National Corporation is a $16.2 billion Arkansas based financial holding company conducting financial operations throughout Arkansas, Colorado, Kansas, Missouri, Oklahoma, Tennessee and Texas.

CRITICAL ACCOUNTING POLICIES

Overview

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

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

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

Allowance for Loan Losses on Loans Not Acquired

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

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

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

Acquisition Accounting, Loans Acquired

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

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

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

Goodwill and Intangible Assets

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

Stock-based Compensation Plans

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

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

Income Taxes

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

The adoption of ASU 2016-09 – Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting, decreased the effective tax rate during first quarter 2017 and 2018 as the new standard impacted how the income tax effects associated with stock-based compensation are recognized.

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.

IMPACTS OF GROWTH

During 2017, through internal growth and through acquisitions, the assets of the Company exceeded the $10 billion threshold.

The Dodd-Frank Act and associated Federal Reserve regulations cap the interchange rate on debit card transactions that can be charged by banks that, together with their affiliates, have at least $10 billion in assets at $0.21 per transaction plus five basis points multiplied by the value of the transaction. The cap goes into effect July 1st of the year following the year in which a bank reaches the $10 billion asset threshold. Simmons Bank, when viewed together with its affiliates, had assets in excess of $10 billion at December 31, 2017, and therefore, became subject to the interchange rate cap effective July 1, 2018. Because of the cap, Simmons Bank estimates that it will receive approximately $7.0 million less in debit card fees on a pre-tax basis in 2018 and $14.0 million less on a pre-tax basis in 2019.

As of December 31, 2017, the Company exceeded $15 billion in total assets and the grandfather provisions applicable to its trust preferred securities no longer apply, and trust preferred securities are no longer included as Tier 1 capital. Trust preferred securities and qualifying subordinated debt is included as total Tier 2 capital.

The Dodd-Frank Act also previously required banks and bank holding companies with more than $10 billion in assets to conduct annual stress tests, report the results to regulators and publicly disclose such results. As a result of regulatory reform signed into law during the second quarter of 2018, the Company and Simmons Bank are no longer required to conduct an annual stress test of capital under the Dodd-Frank Act. In anticipation of becoming subject to this requirement, the Company and Simmons Bank had begun the necessary preparations, including undertaking a gap analysis, implementing enhancements to the audit and compliance departments, and investing in various information technology systems.

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

It is also important to note that the Dodd-Frank Act changed how the FDIC calculates deposit insurance premiums payable by insured depository institutions. The Dodd-Frank Act directed the FDIC to amend its assessment regulations so that assessments are generally based upon a depository institution’s average total consolidated assets less the average tangible equity of the insured depository institution during the assessment period. Assessments were previously based on the amount of an institution’s insured deposits. Now that Simmons Bank exceeds $10 billion in total assets, it is subject to the assessment rates assigned to larger banks which may result in higher deposit insurance premiums.

NET INTEREST INCOME

Overview

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors that determine the level of net interest income include the volume of earning assets and interest bearing liabilities, yields earned and rates paid, the level of non-performing loans and the amount of non-interest bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate of 26.135% for periods beginning January 1, 2018 or 39.225% for periods prior to 2018.

Our practice is to limit exposure to interest rate movements by maintaining a significant portion of earning assets and interest bearing liabilities in short-term repricing. Historically, approximately 70% of our loan portfolio and approximately 80% of our time deposits have repriced in one year or less. Through acquisitions our loans acquired tended to have longer maturities. In addition, due to market pressures the duration of our legacy loan portfolio has also extended over the past several years. Our current interest rate sensitivity shows that approximately 63% of our loans and 77% of our time deposits will reprice in the next year.

Net Interest Income Quarter-to-Date Analysis

For the three month period ended June 30, 2018, net interest income on a fully taxable equivalent basis was $138.1 million, an increase of $59.3 million, or 75.1%, over the same period in 2017. The increase in net interest income was the result of an $81.6 million increase in interest income partially offset by a $22.3 million increase in interest expense.

The increase in interest income primarily resulted from an incremental $76.7 million of interest income on loans, consisting of legacy loans and loans acquired, and a net increase of $3.5 million of interest income on investment securities. An increase in loan volume, resulting primarily from our acquisitions completed in the second and fourth quarters of 2017, generated $69.6 million of additional interest income. Furthermore, an increase in yield of 44 basis points also contributed to the increase in interest income during the three months ended June 30, 2018.

Included in interest income is the additional yield accretion recognized as a result of updated estimates of the cash flows of our loans acquired, as discussed in Note 6, Loans Acquired, in the accompanying Condensed Notes to Consolidated Financial Statements included elsewhere in this report. Each quarter, we estimate the cash flows expected to be collected from the loans acquired, and adjustments may or may not be required. The cash flows estimate has increased based on payment histories and reduced loss expectations of the loans. This resulted in increased interest income that is spread on a level-yield basis over the remaining expected lives of the loans.

For the three months ended June 30, 2018 and 2017, interest income included $10.1 million and $4.8 million, respectively, for the yield accretion recognized on loans acquired. We expect accretion income to gradually decline during the remainder of 2018.

The $22.3 million increase in interest expense is related to the growth in deposit accounts and subordinated and other debt. Interest expense increased $13.6 million due to deposit growth primarily from the 2017 acquisitions. Interest expense also increased $8.7 million due to increases in subordinated debt and increased FHLB borrowings. This increase is due to the timing of the newly issued subordinated debt at the end of the first quarter and the repayment of existing subordinated debentures that occurred late in the second quarter as well as additional repayments scheduled to occur in the third quarter.

Net Interest Income Year-to-Date Analysis

For the six month period ended June 30, 2018, net interest income on a fully taxable equivalent basis was $274.2 million, an increase of $121.0 million, or 79.0%, over the same period in 2017. The increase in net interest income was the result of a $159.5 million increase in interest income and a $38.5 million increase in interest expense

The increase in interest income primarily resulted from a $151.3 million increase in interest income on loans and a $5.9 million increase in interest income on investment securities. Due to our 2017 acquisitions and significant legacy loan growth, an increase in loan volume of $137.1 million as well as an increase in yield of 46 basis points contributed to the increase in interest income during 2018.

For the six months ended June 30, 2018 and 2017, interest income included $21.4 million and $9.2 million, respectively, for the yield accretion recognized on loans acquired.

The $38.5 million increase in interest expense is from the growth in deposit accounts and other debt, primarily from the 2017 acquisitions. Interest expense increased $25.0 million due to deposit growth primarily from the 2017 acquisitions while interest expense increased $13.4 million due to increases in subordinated debt and increased FHLB borrowings.

Net Interest Margin

Our net interest margin decreased 5 basis points to 3.99% for the three month period ended June 30, 2018, when compared to 4.04% for the same period in 2017. The primary factors in the decreasing margin during the three month period ended June 30, 2018 were the higher accretable yield adjustments on loans acquired, discussed above, as well as the timing of the subordinated debt offering completed in late first quarter 2018, previously discussed. Normalized for all accretion on loans acquired, our net interest margin at June 30, 2018 and 2017 was 3.70% and 3.79%, respectively. The subordinated debt issuance caused a 5 basis point decrease in our second quarter 2018 interest margin. The timing of existing subordinated debt prepayments caused an additional 5 basis point decrease in our net interest margin for the quarter.

For the six month period ended June 30, 2018, net interest margin increased 4 basis points to 4.08% when compared to 4.04% for the same period in 2017. The increase in the six month period is primarily due to the higher accretable yield adjustments on loans acquired.

Net Interest Income Tables

Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the three and six months ended June 30, 2018 and 2017, respectively, as well as changes in fully taxable equivalent net interest margin for the three and six months ended June 30, 2018, versus June 30, 2017.

Table 1: Analysis of Net Interest Margin

(FTE = Fully Taxable Equivalent)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2018	2017	2018	2017
Interest income	$166,268	$83,898	$323,407	$162,325
FTE adjustment	1,308	2,082	2,438	4,047
Interest income – FTE	167,576	85,980	325,845	166,372
Interest expense	29,431	7,086	51,604	13,133
Net interest income – FTE	$138,145	$78,894	$274,241	$153,239
Yield on earning assets – FTE	4.84 %	4.40 %	4.84 %	4.38 %
Cost of interest bearing liabilities	1.11 %	0.48 %	1.00 %	0.45 %
Net interest spread – FTE	3.73 %	3.92 %	3.84 %	3.93 %
Net interest margin – FTE	3.99 %	4.04 %	4.08 %	4.04 %

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

(In thousands)	Three Months Ended June 30, 2018 vs. 2017	Six Months Ended June 30, 2018 vs. 2017
Increase due to change in earning assets	$72,754	$142,514
Increase due to change in earning asset yields	8,842	16,959
Decrease due to change in interest bearing liabilities	(12,848)	(21,079)
Decrease due to change in interest rates paid on interest bearing liabilities	(9,497)	(17,392)
Increase in net interest income	$59,251	$121,002

Table 3 shows, for each major category of earning assets and interest bearing liabilities, the average (computed daily) amount outstanding, the interest earned or expensed on such amount and the average rate earned or expensed for the three and six months ended June 30, 2018 and 2017. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Nonaccrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

Table 3: Average Balance Sheets and Net Interest Income Analysis

	Three Months Ended June 30,					
	2018			2017		
(In thousands)	Average Balance	Income/ Expense	Yield/ Rate (%)	Average Balance	Income/ Expense	Yield/ Rate (%)
ASSETS						
Earning assets:						
Interest bearing balances due from banks and federal funds sold	$422,987	$ 1,414	1.34	$163,396	$ 214	0.53
Investment securities - taxable	1,982,105	10,764	2.18	1,374,261	6,874	2.01
Investment securities - non-taxable	282,905	4,771	6.76	337,230	5,118	6.09
Mortgage loans held for sale	28,688	305	4.26	12,250	145	4.75
Assets held in trading accounts	—	—	—	52	—	—
Loans	11,159,872	150,322	5.40	5,954,019	73,629	4.96
Total interest earning assets	13,876,557	167,576	4.84	7,841,208	85,980	4.40
Non-earning assets	1,704,140			971,252		
Total assets	$15,580,697			$8,812,460		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities:						
Interest bearing liabilities:						
Interest bearing transaction and savings deposits	$6,570,471	$12,286	0.75	$4,069,179	$2,984	0.29
Time deposits	2,233,673	6,175	1.11	1,277,336	1,832	0.58
Total interest bearing deposits	8,804,144	18,461	0.84	5,346,515	4,816	0.36
Federal funds purchased and securities sold under agreements to repurchase	107,205	88	0.33	115,101	92	0.32
Other borrowings	1,273,135	5,141	1.62	434,584	1,559	1.44
Subordinated debt and debentures	466,612	5,741	4.93	64,019	619	3.88
Total interest bearing liabilities	10,651,096	29,431	1.11	5,960,219	7,086	0.48
Non-interest bearing liabilities:						
Non-interest bearing deposits	2,705,677			1,597,550		
Other liabilities	86,827			45,348		
Total liabilities	13,443,600			7,603,117		
Stockholders' equity	2,137,097			1,209,343		
Total liabilities and stockholders' equity	$15,580,697			$8,812,460		
Net interest spread			3.73			3.92
Net interest margin		$138,145	3.99		$78,894	4.04

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(In thousands)	Six Months Ended June 30, 2018 Average Balance	Income/ Expense	Yield/ Rate (%)	2017 Average Balance	Income/ Expense	Yield/ Rate (%)
ASSETS						
Earning assets:						
Interest bearing balances due from banks and federal funds sold	$380,746	$2,423	1.28	$145,080	$ 336	0.47
Investment securities - taxable	1,883,990	20,363	2.18	1,333,351	13,351	2.02
Investment securities - non-taxable	287,988	8,854	6.20	343,032	10,002	5.88
Mortgage loans held for sale	21,732	463	4.30	11,861	271	4.61
Assets held in trading accounts	—	—	—	50	—	—
Loans	10,989,600	293,742	5.39	5,819,803	142,412	4.93
Total interest earning assets	13,564,056	325,845	4.84	7,653,177	166,372	4.38
Non-earning assets	1,770,397			960,063		
Total assets	$15,334,453			$8,613,240		
LIABILITIES AND STOCKHOLDERS’ EQUITY						
Liabilities:						
Interest bearing liabilities:						
Interest bearing transaction and savings deposits	$6,574,883	$23,041	0.71	$4,009,451	$5,430	0.27
Time deposits	2,118,671	11,017	1.05	1,269,881	3,590	0.57
Total interest bearing deposits	8,693,554	34,058	0.79	5,279,332	9,020	0.34
Federal funds purchased and securities sold under agreements to repurchase	113,824	198	0.35	113,287	167	0.30
Other borrowings	1,277,832	10,280	1.62	390,126	2,753	1.42
Subordinated debt and debentures	314,713	7,068	4.53	62,236	1,193	3.87
Total interest bearing liabilities	10,399,923	51,604	1.00	5,844,981	13,133	0.45
Non-interest bearing liabilities:						
Non-interest bearing deposits	2,668,932			1,532,025		
Other liabilities	145,523			48,328		
Total liabilities	13,214,378			7,425,334		
Stockholders’ equity	2,120,075			1,187,906		
Total liabilities and stockholders’ equity	$15,334,453			$8,613,240		
Net interest spread			3.84			3.93
Net interest margin		$274,241	4.08		$153,239	4.04

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Table 4 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the three and six month periods ended June 30, 2018, as compared to the same periods of the prior year. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

Table 4: Volume/Rate Analysis

	Three Months Ended June 30, 2018 vs. 2017			Six Months Ended June 30, 2018 vs. 2017		
(In thousands, on a fully taxable equivalent basis)	Volume	Yield/ Rate	Total	Volume	Yield/ Rate	Total
Increase (decrease) in:						
Interest income:						
Interest bearing balances due from banks and federal funds sold	$607	$593	$1,200	$1,006	$1,081	$2,087
Investment securities - taxable	3,259	631	3,890	5,881	1,131	7,012
Investment securities - non-taxable	(878)	531	(347)	(1,670)	522	(1,148)
Mortgage loans held for sale	176	(16)	160	212	(20)	192
Loans	69,590	7,103	76,693	137,085	14,245	151,330
Total	72,754	8,842	81,596	142,514	16,959	159,473
Interest expense:						
Interest bearing transaction and savings accounts	2,641	6,661	9,302	5,058	12,553	17,611
Time deposits	1,940	2,403	4,343	3,293	4,134	7,427
Federal funds purchased and securities sold under agreements to repurchase	(6)	2	(4)	1	30	31
Other borrowings	3,363	219	3,582	7,090	437	7,527
Subordinated notes and debentures	4,910	212	5,122	5,637	238	5,875
Total	12,848	9,497	22,345	21,079	17,392	38,471
Increase (decrease) in net interest income	$59,906	$(655)	$59,251	$121,435	$(433)	$121,002

PROVISION FOR LOAN LOSSES

The provision for loan losses represents management's determination of the amount necessary to be charged against the current period's earnings in order to maintain the allowance for loan losses at a level considered appropriate in relation to the estimated risk inherent in the loan portfolio. The level of provision to the allowance is based on management's judgment, with consideration given to the composition, maturity and other qualitative characteristics of the portfolio, historical loan loss experience, assessment of current economic conditions, past due and non-performing loans and net loan loss experience. It is management's practice to review the allowance on a monthly basis and, after considering the factors previously noted, to determine the level of provision made to the allowance.

The provision for loan losses for the three month period ended June 30, 2018, was $9.0 million, compared to $7.0 million for the three month period ended June 30, 2017, an increase of $2.0 million. The provision for loan losses for the six month period ended June 30, 2018, was $18.2 million, compared to $11.3 million for the six month period ended June 30, 2017, an increase of $6.9 million. See Allowance for Loan Losses section for additional information.

The provision increase was necessary to maintain an appropriate allowance for loan losses for the company's growing legacy portfolio. Significant loan growth in our markets, both from new loans and from loans acquired migrating to legacy, required an allowance to be established for those loans through a provision.

Additionally, a $1.8 million provision was recorded on loans acquired during the six months ended June 30, 2018 and a $714,000 and $1.5 million provision was recorded on loans acquired during the three and six months ended June 30, 2017, respectively, as a result of a decrease in expected cash flows from our required ongoing evaluation of credit marks on certain purchased credit impaired loans.

NON-INTEREST INCOME

Total non-interest income was $38.0 million for the three month period ended June 30, 2018, an increase of approximately $2.3 million, or 6.4%, compared to $35.7 million for the same period in 2017. Total non-interest income was $75.6 million for the six month period ended June 30, 2018, an increase of approximately $9.8 million, or 14.9%, compared to $65.8 million for the same period in 2017.

Non-interest income is principally derived from recurring fee income, which includes service charges, trust fees and debit and credit card fees. Non-interest income also includes income on the sale of mortgage and SBA loans, investment banking income, income from the increase in cash surrender values of bank owned life insurance and gains (losses) from sales of securities.

Table 5 shows non-interest income for the three and six month periods ended June 30, 2018 and 2017, respectively, as well as changes in 2018 from 2017.

Table 5: Non-Interest Income

	Three Months Ended June 30,		2018 Change from		Six Months Ended June 30,		2018 Change from	
(In thousands)	2018	2017	2017		2018	2017	2017	
Trust income	$5,622	$4,113	$1,509	36.7 %	$10,871	$8,325	$2,546	30.6 %
Service charges on deposit accounts	10,063	8,483	1,580	18.6	20,408	16,585	3,823	23.1
Other service charges and fees	2,017	2,515	(498)	(19.8)	4,767	4,712	55	1.2
Mortgage and SBA lending income	3,130	3,961	(831)	(21.0)	7,575	6,384	1,191	18.7
Investment banking income	814	637	177	27.8	1,648	1,327	321	24.2
Debit and credit card fees	10,105	8,659	1,446	16.7	18,901	16,593	2,308	13.9
Bank owned life insurance income	1,102	859	243	28.3	2,205	1,677	528	31.5
(Loss) gain on sale of securities, net	(7)	2,236	(2,243)	(100.3)	(1)	2,299	(2,300)	(100.0)
Net (loss) gain on sale of premises held for sale	(4)	632	(636)	(100.6)	—	589	(589)	(100.0)
Other income	5,206	3,649	1,557	42.7	9,209	7,313	1,896	25.9
Total non-interest income	$38,048	$35,744	$2,304	6.4 %	$75,583	$65,804	$9,779	14.9 %

Recurring fee income (service charges, trust fees and debit and credit card fees) for the three month period ended June 30, 2018, was $27.8 million, an increase of $4.0 million from the three month period ended June 30, 2017. Trust income increased by $1.5 million or 36.7%, total service charges increased by $1.1 million, or 9.8% and debit and credit card fees increased $1.4 million, or 16.7%. The increases in service charges and debit and credit card fees were due to additional accounts acquired from OKSB, First Texas and Hardeman. The increase in trust income is from continued positive growth in our existing personal trust and investor management client base as well as from the recent acquisitions. Mortgage and SBA lending income declined by $0.8 million, or 21.0%, primarily due to a slow-down in mortgage lending driven by rising interest rates.

Recurring fee income for the six month period ended June 30, 2018, was $54.9 million, an increase of $8.7 million from the six month period ended June 30, 2017. Trust income increased by $2.5 million or 30.6%, total service charges increased by $3.9 million, or 18.2% and debit and credit card fees increased $2.3 million, or 13.9%. The increases in service charges and debit and credit card fees were due to additional accounts from the recent acquisitions. The increase in trust income is from continued positive growth in our existing personal trust and investor management client base as well as from the recent acquisitions. Mortgage and SBA lending income increased by $1.2 million for the six months ended June 30, 2018 compared to last year, primarily due to a solid mortgage lending first quarter in 2018 along with the timing of the 2017 acquisitions.

NON-INTEREST EXPENSE

Non-interest expense consists of salaries and employee benefits, occupancy, equipment, foreclosure losses and other expenses necessary for the operation of the Company. Management remains committed to controlling the level of non-interest expense, through the continued use of expense control measures. We utilize an extensive profit planning and reporting system involving all subsidiaries. Based on a needs assessment of the business plan for the upcoming year, monthly and annual profit plans are developed, including manpower and capital expenditure budgets. These profit plans are subject to extensive initial reviews and monitored by management monthly. Variances from the plan are reviewed monthly and, when required, management takes corrective action intended to ensure financial goals are met. We also regularly monitor staffing levels at each subsidiary to ensure productivity and overhead are in line with existing workload requirements.

Non-interest expense for the three months ended June 30, 2018 was $98.5 million, an increase of $27.1 million, or 37.9%, from the same period in 2017. Normalizing for the non-core merger related costs and branch right sizing expenses, non-interest expense for the three months ended June 30, 2018 increased $32.3 million, or 49.9%, from the same period in 2017. Non-interest expense for the six months ended June 30, 2018 was $196.6 million, an increase of $58.9 million, or 42.7%, from the same period in 2017. Normalizing for the non-core merger related costs and branch right sizing expenses, non-interest expense for the six months ended June 30, 2018 increased $62.9 million, or 48.3%, from the same period in 2017.

The increases in both periods were primarily due to the incremental operating expenses of the acquired franchises, with the largest increases being in salaries and employee benefits, occupancy expense and amortization of intangibles. The increases were partially offset by reductions in merger related costs due to the timing of the 2017 acquisitions.

Table 6 below shows non-interest expense for the three and six month periods ended June 30, 2018 and 2017, respectively, as well as changes in 2018 from 2017.

Table 6: Non-Interest Expense

(In thousands)	Three Months Ended June 30, 2018	2017	2018 Change from 2017		Six Months Ended June 30, 2018	2017	2018 Change from 2017	
Salaries and employee benefits	$55,678	$34,205	$21,473	62.8 %	$112,035	$69,741	$42,294	60.6 %
Occupancy expense, net	7,921	4,868	3,053	62.7	14,881	9,531	5,350	56.1
Furniture and equipment expense	4,020	4,550	(530)	(11.7)	8,423	8,993	(570)	(6.3)
Other real estate and foreclosure expense	1,382	517	865	167.3	2,402	1,106	1,296	117.2
Deposit insurance	1,856	780	1,076	138.0	3,984	1,460	2,524	172.9
Merger related costs	1,465	6,603	(5,138)	(77.8)	3,176	7,127	(3,951)	(55.4)
Other operating expenses:								
Professional services	4,443	3,962	481	12.1	8,683	9,131	(448)	(4.9)
Postage	1,441	1,204	237	19.7	2,925	2,335	590	25.3
Telephone	2,064	982	1,082	110.2	2,969	2,060	909	44.1
Credit card expenses	3,188	3,107	81	2.6	6,416	5,944	472	7.9
Marketing	1,765	1,687	78	4.6	3,407	3,033	374	12.3
Operating supplies	583	459	124	27.0	1,332	814	518	63.6
Amortization of intangibles	2,785	1,554	1,231	79.2	5,623	3,104	2,519	81.2
Branch right sizing expense	21	99	(78)	(78.8)	85	217	(132)	(60.8)
Other expense	9,895	6,831	3,064	44.9	20,239	13,134	7,105	54.1
Total non-interest expense	$98,507	$71,408	$27,099	37.9 %	$196,580	$137,730	$58,850	42.7 %

LOAN PORTFOLIO

Our legacy loan portfolio, excluding loans acquired, averaged $6.213 billion and $4.615 billion during the first six months of 2018 and 2017, respectively. As of June 30, 2018, total loans, excluding loans acquired, were $7.133 billion, an increase of $1.4 billion from December 31, 2017. The most significant components of the loan portfolio were loans to businesses (commercial loans, commercial real estate loans and agricultural loans) and individuals (consumer loans, credit card loans and single-family residential real estate loans).

When we make a credit decision on an acquired loan as a result of the loan maturing or renewing, the outstanding balance of that loan migrates from loans acquired to legacy loans. Our legacy loan growth from December 31, 2017 to June 30, 2018 included

$431.9 million in balances that migrated from loans acquired during the period. These migrated loan balances are included in the legacy loan balances as of June 30, 2018.

We seek to manage our credit risk by diversifying our loan portfolio, determining that borrowers have adequate sources of cash flow for loan repayment without liquidation of collateral, obtaining and monitoring collateral, providing an appropriate allowance for loan losses and regularly reviewing loans through the internal loan review process. The loan portfolio is diversified by borrower, purpose and industry and, in the case of credit card loans, which are unsecured, by geographic region. We seek to use diversification within the loan portfolio to reduce 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. We use the allowance for loan losses as a method to value the loan portfolio at its estimated collectible amount. Loans are regularly reviewed to facilitate the identification and monitoring of deteriorating credits.

The balances of loans outstanding, excluding loans acquired, at the indicated dates are reflected in Table 7, according to type of loan.

Table 7: Loan Portfolio

(In thousands)	June 30, 2018	December 31, 2017
Consumer:		
Credit cards	$180,352	$185,422
Other consumer	277,330	280,094
Total consumer	457,682	465,516
Real estate:		
Construction	967,720	614,155
Single family residential	1,314,787	1,094,633
Other commercial	2,816,420	2,530,824
Total real estate	5,098,927	4,239,612
Commercial:		
Commercial	1,237,910	825,217
Agricultural	187,006	148,302
Total commercial	1,424,916	973,519
Other	151,936	26,962
Total loans, excluding loans acquired, before allowance for loan losses	$7,133,461	$5,705,609

Consumer loans consist of credit card loans and other consumer loans. Consumer loans were $457.7 million at June 30, 2018, or 6.4% of total loans, compared to $465.5 million, or 8.2% of total loans at December 31, 2017. The decrease in consumer loans from December 31, 2017, to June 30, 2018, was due to the expected seasonal decline in our credit card portfolio partially offset by growth in direct consumer loans.

Real estate loans consist of construction loans, single-family residential loans and commercial real estate loans. Real estate loans were $5.099 billion at June 30, 2018, or 71.5% of total loans, compared to $4.240 billion, or 74.3%, of total loans at December 31, 2017, an increase of $859.3 million.

Commercial loans consist of non-real estate loans related to business and agricultural loans. Commercial loans were $1.4 billion at June 30, 2018, or 20.0% of total loans, compared to $973.5 million, or 17.1% of total loans at December 31, 2017, an increase of $451.4 million. Non-agricultural commercial loans increased to $1.2 billion, a $412.7 million, or 50.0%, growth from December 31, 2017. Agricultural loans increased to $187.0 million, a $38.7 million, or 26.1%, growth primarily due to seasonality of the portfolio, which normally peaks in the third quarter and is at its lowest point at the end of the first quarter.

LOANS ACQUIRED

On October 19, 2017, we completed the acquisition of OKSB and issued 14,488,604 shares of the Company's 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. Included in the acquisition were loans with a fair value of $2.0 billion.

On October 19, 2017, we completed the acquisition of First Texas and issued 12,999,840 shares of the Company's 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. Included in the acquisition were loans with a fair value of $2.2 billion.

On May 15, 2017, we completed the acquisition of Hardeman and issued 1,599,940 shares of the Company's 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. Included in the acquisition were loans with a fair value of $251.6 million.

Table 8 reflects the carrying value of all loans acquired as of June 30, 2018 and December 31, 2017.

Table 8: Loans Acquired

(In thousands)	June 30, 2018	December 31, 2017
Consumer:		
Other consumer	$31,651	$51,467
Real estate:		
Construction	521,321	637,032
Single family residential	671,602	793,228
Other commercial	2,240,578	2,387,777
Total real estate	3,433,501	3,818,037
Commercial:		
Commercial	764,473	995,587
Agricultural	2,809	66,576
Total commercial	767,282	1,062,163
Other	—	142,409
Total loans acquired (1)	$4,232,434	$5,074,076

(1) Loans acquired are reported net of a $2.044 million and $418,000 allowance at June 30, 2018 and December 31, 2017, respectively.

The majority of the loans originally acquired in the OKSB, First Texas, and Hardeman acquisitions were evaluated and are being accounted for in accordance with 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.

We evaluated the remaining loans purchased in conjunction with the acquisitions of OKSB, First Texas, and Hardeman for impairment in accordance with the provisions of ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected.

Some purchased impaired loans were determined to have experienced additional impairment upon disposition or foreclosure in the first six months of 2018. During the six months ended June 30, 2018, we recorded approximately $1.8 million in a provision for these loans and charge-offs of $211,000, resulting in an allowance for loan losses for purchased impaired loans at June 30, 2018 of $2.0 million. See Note 2, Acquisitions, and Note 6, Loans Acquired, in the accompanying Condensed Notes to Consolidated Financial Statements included elsewhere in this report for further discussion of loans acquired.

ASSET QUALITY

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contractual terms of the loans. Impaired loans include non-performing loans (loans past due 90 days or more and nonaccrual loans) and certain other loans identified by management that are still performing.

Non-performing loans are comprised of (a) nonaccrual loans, (b) loans that are contractually past due 90 days and (c) other loans for which terms have been restructured to provide a reduction or deferral of interest or principal, because of deterioration in the financial position of the borrower. The subsidiary bank recognizes income principally on the accrual basis of accounting. When loans are classified as nonaccrual, generally, the accrued interest is charged off and no further interest is accrued. Loans, excluding credit card loans, are placed on a nonaccrual basis either: (1) when there are serious doubts regarding the collectibility of principal or interest, or (2) when payment of interest or principal is 90 days or more past due and either (i) not fully secured or (ii) not in the process of collection. If a loan is determined by management to be uncollectible, the portion of the loan determined to be uncollectible is then charged to the allowance for loan losses.

Credit card loans are classified as impaired when payment of interest or principal is 90 days past due. When accounts reach 90 days past due and there are attachable assets, the accounts are considered for litigation. Credit card loans are generally charged off when payment of interest or principal exceeds 150 days past due. The credit card recovery group pursues account holders until it is determined, on a case-by-case basis, to be uncollectible.

Total non-performing assets, excluding all loans acquired, decreased by $3.0 million from December 31, 2017 to June 30, 2018. Foreclosed assets held for sale decreased by $1.6 million. Nonaccrual loans decreased by $1.1 million during the period, primarily commercial loans. Non-performing assets, including troubled debt restructurings (“TDRs”) and acquired foreclosed assets, as a percent of total assets were 0.51% at June 30, 2018, compared to 0.57% at December 31, 2017.

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

From time to time, certain borrowers are experiencing declines in income and cash flow. As a result, many borrowers are seeking to reduce contractual cash outlays, the most prominent being debt payments. In an effort to preserve our net interest margin and earning assets, we are open to working with existing customers in order to maximize the collectibility of the debt.

When we restructure a loan to a borrower that is experiencing financial difficulty and grant a concession that we 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. We assess the exposure for each modification, either by collateral discounting or by calculation of the present value of future cash flows, and determine 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. Our TDR balance decreased to $11.8 million at June 30, 2018, compared to $12.9 million at December 31, 2017. The majority of our TDR balances remain in the CRE portfolio with the largest balance comprised of four relationships.

We return 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.

We continue to maintain good asset quality, compared to the industry. The allowance for loan losses as a percent of total legacy loans was 0.73% as of June 30, 2018. Non-performing loans equaled 0.63% of total loans. Non-performing assets were 0.47% of total assets, a 5 basis point decrease from December 31, 2017. The allowance for loan losses was 115% of non-performing loans. Our annualized net charge-offs to total loans for the first six months of 2018 was 0.20%. Excluding credit cards, the annualized net charge-offs to total loans for the same period was 0.16%. Annualized net credit card charge-offs to total credit card loans were 1.62%, compared to 1.61% during the full year 2017, and 218 basis points better than the most recently published industry average charge-off ratio as reported by the Federal Reserve for all banks.

Table 9 presents information concerning non-performing assets, including nonaccrual loans and foreclosed assets held for sale (excluding all loans acquired).

Table 9: Non-performing Assets

(Dollars in thousands)	June 30, 2018	December 31, 2017
Nonaccrual loans (1)	$44,548	$45,642
Loans past due 90 days or more (principal or interest payments)	303	520
Total non-performing loans	44,851	46,162
Other non-performing assets:		
Foreclosed assets held for sale	30,503	32,118
Other non-performing assets	573	675
Total other non-performing assets	31,076	32,793
Total non-performing assets	$75,927	$78,955
Performing TDRs	$6,367	$7,107
Allowance for loan losses to non-performing loans	115 %	90 %
Non-performing loans to total loans	0.63 %	0.81 %
Non-performing assets to total assets (2)	0.47 %	0.52 %

(1) Includes nonaccrual TDRs of approximately $6.4 million at June 30, 2018 and $5.8 million at December 31, 2017.
(2) Excludes all loans acquired, except for their inclusion in total assets.

There was no interest income on nonaccrual loans recorded for the three and six month periods ended June 30, 2018 and 2017.

At June 30, 2018, impaired loans, net of government guarantees and loans acquired, were $41.3 million compared to $43.9 million at December 31, 2017. On an ongoing basis, management evaluates the underlying collateral on all impaired loans and allocates specific reserves, where appropriate, in order to absorb potential losses if the collateral were ultimately foreclosed.

ALLOWANCE FOR LOAN LOSSES

Overview

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 our 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.

Specific Allocations

A loan is considered impaired when it is probable that we 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, our 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.

General Allocations

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. We established 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.

Reserve for Unfunded Commitments

In addition to the allowance for loan losses, we have established a reserve for unfunded commitments, classified in other liabilities. This reserve is maintained at a level sufficient to absorb losses arising from unfunded loan commitments. The adequacy of the reserve for unfunded commitments is determined monthly based on methodology similar to our methodology for determining the allowance for loan losses. Net adjustments to the reserve for unfunded commitments are included in other non-interest expense.

An analysis of the allowance for loan losses for legacy loans is shown in Table 10.

Table 10: Allowance for Loan Losses

(In thousands)	2018	2017
Balance, beginning of year	$41,668	$36,286
Loans charged off:		
Credit card	2,011	1,945
Other consumer	2,422	2,167
Real estate	616	2,368
Commercial	2,551	641
Total loans charged off	7,600	7,121
Recoveries of loans previously charged off:		
Credit card	549	513
Other consumer	227	1,326
Real estate	414	448
Commercial	128	62
Total recoveries	1,318	2,349
Net loans charged off	6,282	4,772
Provision for loan losses (1)	16,346	9,865
Balance, June 30 (3)	$51,732	$41,379
Loans charged off:		
Credit card		1,960
Other consumer		1,600
Real estate		5,621
Commercial		7,196
Total loans charged off		16,377
Recoveries of loans previously charged off:		
Credit card		508
Other consumer		913
Real estate		542
Commercial		41
Total recoveries		2,004
Net loans charged off		14,373
Provision for loan losses (2)		14,662
Balance, end of year (3)		$41,668

(1) Provision for loan losses of $1.8 million attributable to loans acquired, was excluded from this table for 2018 (total year-to-date provision for loan losses was $18,183,000) and $1,464,000 was excluded from this table for 2017 (total 2017 provision for loan losses was $11,330,000). Charge offs of $211,000 on loans acquired were excluded from this table for 2018 and $2.0 million for 2017.

(2) Provision for loan losses of $1,866,000 attributable to loans acquired, was excluded from this table for 2017 (total 2017 provision for loan losses was $26,393,000).

(3) Allowance for loan losses at June 30, 2018 includes $2,044,000 allowance for loans acquired (not shown in the table above). Allowance for loan losses at December 31, 2017 and June 30, 2017 includes $418,000 and $391,000, respectively, of allowance for loans acquired (not shown in the table above). The total allowance for loan losses at June 30, 2018 was $53,776,000 and total allowance for loan losses at December 31, 2017 and June 30, 2017 was $42,086,000 and $41,770,000, respectively.

Provision for Loan Losses

The amount of provision added to the allowance during the three and six months ended June 30, 2018 and 2017, and for the year ended December 31, 2017, was based on management's judgment, with consideration given to the composition of the portfolio, historical loan loss experience, assessment of current economic conditions, past due and non-performing loans and net loss experience. It is management's practice to review the allowance on a monthly basis, and after considering the factors previously noted, to determine the level of provision made to the allowance.

Allowance for Loan Losses Allocation

As of June 30, 2018, the allowance for loan losses reflects an increase of approximately $10.1 million from December 31, 2017, while total loans, excluding loans acquired, increased by $1.4 billion over the same six month period. The allocation in each category within the allowance generally reflects the overall changes in the loan portfolio mix.

The following table sets forth the sum of the amounts of the allowance for loan losses attributable to individual loans within each category, or loan categories in general. The table also reflects the percentage of loans in each category to the total loan portfolio, excluding loans acquired, for each of the periods indicated. These allowance amounts have been computed using the Company's internal grading system, specific impairment analysis, qualitative and quantitative factor allocations. The amounts shown are not necessarily indicative of the actual future losses that may occur within individual categories.

Table 11: Allocation of Allowance for Loan Losses

	June 30, 2018		December 31, 2017	
(Dollars in thousands)	Allowance Amount	% of loans (1)	Allowance Amount	% of loans (1)
Credit cards	$3,822	2.5 %	$3,784	3.2 %
Other consumer	3,033	3.9 %	3,489	4.9 %
Real estate	28,904	71.5%	27,281	74.3%
Commercial	15,767	20.0%	7,007	17.1%
Other	206	2.1 %	107	0.5 %
Total (2)	$51,732	100 %	$41,668	100 %

(1) Percentage of loans in each category to total loans, excluding loans acquired.

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

DEPOSITS

Deposits are our primary source of funding for earning assets and are primarily developed through our network of 199 financial centers. We offer a variety of products designed to attract and retain customers with a continuing focus on developing core deposits. Our core deposits consist of all deposits excluding time deposits of $100,000 or more and brokered deposits. As of June 30, 2018, core deposits comprised 86.4% of our total deposits.

We continually monitor the funding requirements along with competitive interest rates in the markets we serve. Because of our community banking philosophy, our executives in the local markets, with oversight by the Asset

Liability Committee and Treasury Management, establish the interest rates offered on both core and non-core deposits. This approach ensures that the interest rates being paid are competitively priced for each particular deposit product and structured to meet the funding requirements. We believe we are paying a competitive rate when compared with pricing in those markets.

We manage our interest expense through deposit pricing. We believe that additional funds can be attracted and deposit growth can be accelerated through deposit pricing if we experience increased loan demand or other liquidity needs. We can also utilize brokered deposits as an additional source of funding to meet liquidity needs. We do expect costs of funding with deposits to increase with the continued rise in interest rates and increased competition for deposits across all our markets.

Our total deposits as of June 30, 2018, were $12.0 billion, an increase of $860.6 million from December 31, 2017. We have also continued our strategy to move more volatile time deposits to less expensive, revenue enhancing transaction accounts. Non-interest bearing transaction accounts, interest bearing transaction accounts and savings accounts totaled $9.6 billion at June 30, 2018, compared to $9.2 billion at December 31, 2017, a $439.9 million increase. Total time deposits increased $420.7 million to $2.4

billion at June 30, 2018, from $1.9 billion at December 31, 2017. We had $1.1 billion and $442.0 million of brokered deposits at June 30, 2018, and December 31, 2017, respectively.

OTHER BORROWINGS AND SUBORDINATED NOTES AND DEBENTURES

Our total debt was $1.9 billion and $1.5 billion at June 30, 2018 and December 31, 2017, respectively. The outstanding balance for June 30, 2018 includes $945.0 million in FHLB short-term advances, $506.8 million in FHLB long-term advances, $330.0 million in subordinated notes and $83.3 million of trust preferred securities and other subordinated debt.

In March 2018, we 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. The Notes will mature on April 1, 2028 and will be subordinated in right of payment to the payment of our other existing and future senior indebtedness, including all our 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 2017, we entered into a Revolving Credit Agreement with U.S. Bank National Association and executed an unsecured Revolving Credit Agreement (the "Credit Agreement") pursuant to which we may borrow, prepay and reborrow 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.

During the first half 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 Credit Agreement and the unsecured debt from correspondent banks. On March 30, 2018, we repaid the $75.0 million outstanding balance on the Credit Agreement and the $43.3 million in notes payable. During June 2018, approximately $54.6 million in trust preferred securities was repaid.

CAPITAL

Overview

At June 30, 2018, total capital was $2.147 billion. Capital represents shareholder ownership in the Company – the book value of assets in excess of liabilities. At June 30, 2018, our common equity to assets ratio was 13.3% compared to 13.9% at year-end 2017.

Capital Stock

On February 27, 2009, at a special meeting, our shareholders approved an amendment to the Articles of Incorporation to establish 40,040,000 authorized shares of preferred stock, $0.01 par value. The aggregate liquidation preference of all shares of preferred stock cannot exceed $80,000,000.

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 175,000,00

Stock Repurchase

On July 23, 2012, we announced the adoption by our Board of Directors of a stock repurchase program which authorized the repurchase of up to 1,700,000 (split adjusted) of Class A common stock, or approximately 2% of the shares outstanding. 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 we intend to repurchase. We may discontinue purchases at any time that management determines additional purchases are not warranted. We intend to use the repurchased shares to satisfy stock option exercises, payment of future stock awards and dividends and general corporate purposes. We had no stock repurchases during the first six months of 2018 or 2017.

Cash Dividends

We declared cash dividends on our common stock of $0.30 per share for the first six months of 2018 compared to $0.25 per share (split adjusted) for the first six months of 2017, an increase of $0.05, or 20%. The timing and amount of future dividends are at the discretion of our Board of Directors and will depend upon our consolidated earnings, financial condition, liquidity and capital requirements, the amount of cash dividends paid to us by our subsidiaries, applicable government regulations and policies and other factors considered relevant by our Board of Directors. Our Board of Directors anticipates that we will continue to pay quarterly dividends in amounts determined based on the factors discussed above. However, there can be no assurance that we will continue to pay dividends on our common stock at the current levels or at all.

Parent Company Liquidity

The primary liquidity needs of the Parent Company are the payment of dividends to shareholders and the funding of debt obligations. The primary sources for meeting these liquidity needs are the current cash on hand at the parent company and the future dividends received from Simmons Bank. Payment of dividends by the subsidiary bank is subject to various regulatory limitations. See the Liquidity and Market Risk Management discussions of Item 3 – Quantitative and Qualitative Disclosure About Market Risk for additional information regarding the parent company's liquidity.

Risk Based Capital

Our bank subsidiary is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes that, as of June 30, 2018, we meet all capital adequacy requirements to which we are subject.

As of the most recent notification from regulatory agencies, the bank subsidiary was well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and the Banks must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's categories.

Our risk-based capital ratios at June 30, 2018 and December 31, 2017 are presented in Table 12 below:

Table 12: Risk-Based Capital

(Dollars in thousands)	June 30, 2018	December 31, 2017
Tier 1 capital:		
Stockholders' equity	$2,146,908	$2,084,564
Goodwill and other intangible assets	(917,050)	(902,371)
Unrealized loss on available-for-sale securities, net of income taxes	40,183	17,264
Total Tier 1 capital	1,270,041	1,199,457
Tier 2 capital:		
Qualifying unrealized gain on available-for-sale equity securities	1	1
Trust preferred securities and subordinated debt	413,337	140,565
Qualifying allowance for loan losses	60,691	48,947
Total Tier 2 capital	474,029	189,513
Total risk-based capital	$1,744,070	$1,388,970
Risk weighted assets	$12,713,093	$12,234,160
Assets for leverage ratio	$14,714,205	$13,016,478
Ratios at end of period:		
Common equity Tier 1 ratio (CET1)	9.99 %	9.80 %
Tier 1 leverage ratio	8.63 %	9.21 %
Tier 1 risk-based capital ratio	9.99 %	9.80 %
Total risk-based capital ratio	13.72 %	11.35 %
Minimum guidelines:		
Common equity Tier 1 ratio	4.50 %	4.50 %
Tier 1 leverage ratio	4.00 %	4.00 %
Tier 1 risk-based capital ratio	6.00 %	6.00 %
Total risk-based capital ratio	8.00 %	8.00 %

Regulatory Capital Changes

In July 2013, the Company's primary federal regulator, the Federal Reserve, published final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banks. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions compared to the current U.S. risk-based capital rules.

The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. The rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach.

The Basel III Capital Rules expanded the risk-weighting categories from four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories, including many residential mortgages and certain commercial real estate.

The final rules included a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The rules also raised the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% and require a minimum leverage ratio of 4.0%. The Basel III Capital Rules became effective for the Company and its subsidiary bank on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule. Management believes that, as of June 30, 2018, the Company and its bank subsidiary would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were currently effective.

Prior to December 31, 2017, Tier 1 capital included common equity Tier 1 capital and certain additional Tier 1 items as provided under the Basel III Rules. The Tier 1 capital for the Company consisted of common equity Tier 1 capital and trust preferred securities. The Basel III Rules include certain provisions that require trust preferred securities to be phased out of qualifying Tier 1 capital when assets surpass $15 billion. As of December 31, 2017, the Company exceeded $15 billion in total assets and the grandfather provisions applicable to its trust preferred securities no longer apply and trust preferred securities are no longer included as Tier 1 capital. Trust preferred securities and qualifying subordinated debt of $413.3 million is included as Tier 2 and total capital as of June 30, 2018.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See the section titled Recently Issued Accounting Standards in Note 1, Preparation of Interim Financial Statements, in the accompanying Condensed Notes to Consolidated Financial Statements included elsewhere in this report for details of recently issued accounting pronouncements and their expected impact on the Company's ongoing financial position and results of operation.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this quarterly report may not be based on historical facts and are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may be identified by reference to a future period(s) or by the use of forward-looking terminology, such as "anticipate," "estimate," "expect," "foresee," "believe," "may," "might," "will," "would," "could" or "intend," future or conditional verb tenses, and variations or negatives of such ter
These forward-looking statements include, without limitation, those relating to the Company's future growth, revenue, assets, asset quality, profitability and customer service, critical accounting policies, net interest margin, non-interest revenue, market conditions related to the Company's stock repurchase program, allowance for loan losses, the effect of certain new accounting standards on the Company's financial statements, income tax deductions, credit quality, the level of credit losses from lending commitments, net interest revenue, interest rate sensitivity, loan loss experience, liquidity, capital resources, market risk, earnings, effect of pending litigation, acquisition strategy, legal and regulatory limitations and compliance and competition.

These forward-looking statements involve risks and uncertainties, and may not be realized due to a variety of factors, including, without limitation: changes in the Company's operating or expansion and acquisition strategy, the effects of future economic conditions, governmental monetary and fiscal policies, as well as legislative and regulatory changes; the risks of changes in interest rates and their effects on the level and composition of deposits, loan demand and the values of loan collateral, securities and interest sensitive assets and liabilities; the costs of evaluating possible acquisitions and the risks inherent in integrating acquisitions; the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, computer and the Internet; the failure of assumptions underlying the establishment of reserves for possible loan losses, fair value for loans and other real estate owned; and those factors set forth under Item 1A. Risk-Factors of this report and other cautionary statements set forth elsewhere in this report. Many of these factors are beyond our ability to predict or control. In addition, as a result of these and other factors, our past financial performance should not be relied upon as an indication of future performance.

We believe the expectations reflected in our forward-looking statements are reasonable, based on information available to us on the date hereof. However, given the described uncertainties and risks, we cannot guarantee our future performance or results of operations and you should not place undue reliance on these forward-looking statements. Any forward-looking statement speaks only as of the date hereof, and we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, and all written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this section.

RECONCILIATION OF NON-GAAP MEASURES

The tables below present computations of core earnings (net income excluding non-core items {merger related costs and the one-time costs of branch right sizing}) and diluted core earnings per share (non-GAAP) as well as a reconciliation of tangible book value per share (non-GAAP), tangible common equity to tangible equity (non-GAAP) and the core net interest margin (non-GAAP). Non-core items are included in financial results presented in accordance with generally accepted accounting principles (GAAP).

We believe the exclusion of these non-core items in expressing earnings and certain other financial measures, including "core earnings," provides a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors and analysts in analyzing the core financial measures of the Company and predicting future performance. These non-GAAP financial measures are also used by management to assess the performance of the Company's business because management does not consider these non-core items to be relevant to ongoing financial performance. Management and the Board of Directors utilize "core earnings" (non-GAAP) for the following purposes:

- Preparation of the Company's operating budgets
- Monthly financial performance reporting
- Monthly "flash" reporting of consolidated results (management only)
- Investor presentations of Company performance

We believe the presentation of "core earnings" on a diluted per share basis, "diluted core earnings per share" (non-GAAP) and core net interest margin (non-GAAP), provides a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors and analysts in analyzing the core financial measures of the Company and predicting future performance. These non-GAAP financial measures are also used by management to assess the performance of the Company's business, because management does not consider these non-core items to be relevant to ongoing financial performance on a per share basis. Management and the Board of Directors utilize "diluted core earnings per share" (non-GAAP) for the following purposes:

- Calculation of annual performance-based incentives for certain executives
- Calculation of long-term performance-based incentives for certain executives
- Investor presentations of Company performance

We have $942.4 million and $948.7 million total goodwill and other intangible assets for the periods ended June 30, 2018 and December 31, 2017, respectively. Because of our high level of intangible assets, management believes a useful calculation is return on tangible equity (non-GAAP).

We believe that presenting these non-GAAP financial measures will permit investors and analysts to assess the performance of the Company on the same basis as that is applied by management and the Board of Directors.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, we have procedures in place to identify and approve each item that qualifies as non-core to ensure that the Company's "core" results are properly reflected for period-to-period comparisons. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP. In particular, a measure of earnings that excludes non-core items does not represent the amount that effectively accrues directly to stockholders (i.e., non-core items are included in earnings and stockholders' equity).

All per share data has been restated to reflect the retroactive effect of the two-for-one stock split which occurred during February 2018.

See Table 13 below for the reconciliation of non-GAAP financial measures, which exclude non-core items for the periods presented.

Table 13: Reconciliation of Core Earnings (non-GAAP)

(Dollars in thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net income	$53,562	$23,065	$104,874	$45,185
Non-core items:				
Merger related costs	1,465	6,603	3,176	7,127
Branch right sizing	22	(536)	79	(382)
Tax effect (1)	(389)	(2,379)	(851)	(2,645)
Net non-core items	1,098	3,688	2,404	4,100
Core earnings (non-GAAP)	$54,660	$26,753	$107,278	$49,285
Diluted earnings per share	$0.58	$0.36	$1.13	$0.71
Non-core items:				
Merger related costs	0.02	0.11	0.04	0.12
Branch right sizing	—	(0.01)	—	(0.01)
Tax effect (1)	(0.01)	(0.04)	(0.01)	(0.04)
Net non-core items	0.01	0.06	0.03	0.07
Diluted core earnings per share (non-GAAP)	$0.59	$0.42	$1.16	$0.78

(1) Effective tax rate of 26.135% for 2018 and 39.225% for 2017, adjusted for non-deductible merger-related and branch right sizing costs.

See Table 14 below for the reconciliation of tangible book value per share.

Table 14: Reconciliation of Tangible Book Value per Share (non-GAAP)

(In thousands, except per share data)	June 30, 2018	December 31, 2017
Total common stockholders' equity	$2,146,908	$2,084,564
Intangible assets:		
Goodwill	(845,687)	(842,651)
Other intangible assets	(96,720)	(106,071)
Total intangibles	(942,407)	(948,722)
Tangible common stockholders' equity	$1,204,501	$1,135,842
Shares of common stock outstanding	92,281,370	92,029,118
Book value per common share	$23.26	$22.65
Tangible book value per common share (non-GAAP)	$13.05	$12.34

See Table 15 below for the calculation of tangible common equity and the reconciliation of tangible common equity to tangible assets.

Table 15: Reconciliation of Tangible Common Equity and the Ratio of Tangible Common Equity to Tangible Assets (non-GAAP)

(In thousands, except per share data)	June 30, 2018	December 31, 2017
Total common stockholders' equity	$2,146,908	$2,084,564
Intangible assets:		
Goodwill	(845,687)	(842,651)
Other intangible assets	(96,720)	(106,071)
Total intangibles	(942,407)	(948,722)
Tangible common stockholders' equity	$1,204,501	$1,135,842
Total assets	$16,165,533	$15,055,806
Intangible assets:		
Goodwill	(845,687)	(842,651)
Other intangible assets	(96,720)	(106,071)
Total intangibles	(942,407)	(948,722)
Tangible assets	$15,223,126	$14,107,084
Ratio of equity to assets	13.28 %	13.85 %
Ratio of tangible common equity to tangible assets (non-GAAP)	7.91 %	8.05 %

See Table 16 below for the calculation of core net interest margin for the periods presented.

Table 16: Reconciliation of Core Net Interest Margin (non-GAAP)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2018	2017	2018	2017
Net interest income	$136,837	$76,812	$271,803	$149,192
FTE adjustment	1,308	2,082	2,438	4,047
Fully tax equivalent net interest income	138,145	78,894	274,241	153,239
Total accretable yield	(10,113)	(4,792)	(21,407)	(9,219)
Core net interest income	$128,032	$74,102	$252,834	$144,020
Average earning assets – quarter-to-date	$13,876,557	$7,841,208	$13,564,056	$7,653,177
Net interest margin	3.99 %	4.04 %	4.08 %	4.04 %
Core net interest margin (non-GAAP)	3.70 %	3.79 %	3.76 %	3.79 %

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The Company has leveraged its investment in its subsidiary bank and depends upon the dividends paid to it, as the sole shareholder of the subsidiary bank, as a principal source of funds for dividends to shareholders, stock repurchases and debt service requirements. At June 30, 2018, undivided profits of Simmons Bank were approximately $332.5 million, of which approximately $1.6 million was available for the payment of dividends to the Company without regulatory approval. In addition to dividends, other sources of liquidity for the Company are the sale of equity securities and the borrowing of funds.

Subsidiary Bank

Generally speaking, the Company's subsidiary bank relies upon net inflows of cash from financing activities, supplemented by net inflows of cash from operating activities, to provide cash used in investing activities. Typical of most banking companies, significant financing activities include: deposit gathering; use of short-term borrowing facilities, such as federal funds purchased and repurchase agreements; and the issuance of long-term debt. The subsidiary bank's primary investing activities include loan originations and purchases of investment securities, offset by loan payoffs and investment maturities.

Liquidity represents an institution's ability to provide funds to satisfy demands from depositors and borrowers by either converting assets into cash or accessing new or existing sources of incremental funds. A major responsibility of management is to maximize net interest income within prudent liquidity constraints. Internal corporate guidelines have been established to constantly measure liquid assets as well as relevant ratios concerning earning asset levels and purchased funds. The management and board of directors of the subsidiary bank monitors these same indicators and makes adjustments as needed.

Liquidity Management

The objective of our liquidity management is to access adequate sources of funding to ensure that cash flow requirements of depositors and borrowers are met in an orderly and timely manner. Sources of liquidity are managed so that reliance on any one funding source is kept to a minimum. Our liquidity sources are prioritized for both availability and time to activation.

Our liquidity is a primary consideration in determining funding needs and is an integral part of asset/liability management. Pricing of the liability side is a major component of interest margin and spread management. Adequate liquidity is a necessity in addressing this critical task. There are seven primary and secondary sources of liquidity available to the Company. The particular liquidity need and timeframe determine the use of these sources.

The first sources of liquidity available to the Company are a $75 million revolving line of credit with U.S. Bank National Association for purposes of financing distributions, financing certain acquisitions and working capital purposes and Federal funds. Federal funds are available on a daily basis and are used to meet the normal fluctuations of a dynamic balance sheet. The Bank has approximately $395 million in Federal funds lines of credit from upstream correspondent banks that can be accessed, when needed. In order to ensure availability of these upstream funds we test these borrowing lines at least annually. Historical monitoring of these funds has made it possible for us to project seasonal fluctuations and structure our funding requirements on a month-to-month basis.

Second, the bank subsidiary has lines of credit available with the Federal Home Loan Bank. While we use portions of those lines to match off longer-term mortgage loans, we also use those lines to meet liquidity needs. Approximately $1.5 billion of these lines of credit are currently available, if needed, for liquidity.

A third source of liquidity is that we have the ability to access large wholesale deposits from both the public and private sector to fund short-term liquidity needs.

A fourth source of liquidity is the retail deposits available through our network of financial centers throughout Arkansas, Colorado, Kansas, Missouri, Oklahoma, Tennessee and Texas. Although this method can be a somewhat more expensive alternative to supplying liquidity, this source can be used to meet intermediate term liquidity needs.

Fifth, we use a laddered investment portfolio that ensures there is a steady source of intermediate term liquidity. These funds can be used to meet seasonal loan patterns and other intermediate term balance sheet fluctuations. Approximately 85.3% of the investment portfolio is classified as available-for-sale. We also use securities held in the securities portfolio to pledge when obtaining public funds.

Sixth, we have a network of correspondent banks from which we can access debt to meet liquidity needs.

Finally, we have the ability to access funds through the Federal Reserve Bank Discount Window.

We believe the various sources available are ample liquidity for short-term, intermediate-term and long-term liquidity.

Market Risk Management

Market risk arises from changes in interest rates. We have risk management policies to monitor and limit exposure to market risk. In asset and liability management activities, policies designed to minimize structural interest rate risk are in place. The measurement of market risk associated with financial instruments is meaningful only when all related and offsetting on- and off-balance-sheet transactions are aggregated, and the resulting net positions are identified.

Interest Rate Sensitivity

Interest rate risk represents the potential impact of interest rate changes on net income and capital resulting from mismatches in repricing opportunities of assets and liabilities over a period of time. A number of tools are used to monitor and manage interest rate risk, including simulation models and interest sensitivity gap analysis. Management uses simulation models to estimate the effects of changing interest rates and various balance sheet strategies on the level of the Company’s net income and capital. As a means of limiting interest rate risk to an acceptable level, management may alter the mix of floating and fixed-rate assets and liabilities, change pricing schedules and manage investment maturities during future security purchases.

The simulation model incorporates management’s assumptions regarding the level of interest rates or balance changes for indeterminate maturity deposits for a given level of market rate changes. These assumptions have been developed through anticipated pricing behavior. Key assumptions in the simulation models include the relative timing of prepayments, cash flows and maturities. These assumptions are inherently uncertain and, as a result, the model cannot precisely estimate net interest income or precisely predict the impact of a change in interest rates on net income or capital. Actual results will differ from simulated results due to the timing, magnitude and frequency of interest rate changes and changes in market conditions and management strategies, among other factors.

As of June 30, 2018, the model simulations projected that 100 and 200 basis point increases in interest rates would result in a positive variance in net interest income of 4.48% and 8.32%, respectively, relative to the base case over the next 12 months, while decreases in interest rates of 100 basis points would result in a negative variance in net interest income of -5.48% relative to the base case over the next 12 months. The likelihood of a decrease in interest rates in excess of 100 basis points as of June 30, 2018 is considered remote given current interest rate levels and the recent rate increases by the Federal Reserve. These are good faith estimates and assume that the composition of our interest sensitive assets and liabilities existing at each year-end will remain constant over the relevant twelve month measurement period and that changes in market interest rates are instantaneous and sustained across the yield curve regardless of duration of pricing characteristics of specific assets or liabilities. Also, this analysis does not contemplate any actions that we might undertake in response to changes in market interest rates. We believe these estimates are not necessarily indicative of what actually could occur in the event of immediate interest rate increases or decreases of this magnitude. As interest-bearing assets and liabilities reprice in different time frames and proportions to market interest rate movements, various assumptions must be made based on historical relationships of these variables in reaching any conclusion. Since these correlations are based on competitive and market conditions, we anticipate that our future results will likely be different from the foregoing estimates, and such differences could be material.

The table below presents our sensitivity to net interest income at June 30, 2018:

Table 14: Net Interest Income Sensitivity

Interest Rate Scenario	% Change from Base
Up 200 basis points	8.32%
Up 100 basis points	4.48%
Down 100 basis points	(5.48)%

Item 4. Controls and Procedures

The Company’s Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company’s current disclosure controls and procedures were effective for the period.

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal controls over financial reporting during the quarter ended June 30, 2018, which materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II: Other Information

Item 1A. Risk Factors

Management is not aware of any material changes to the risk factors discussed in Part 1, Item 1A of our Form 10-K for the year ended December 31, 2017. In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A of our Form 10-K, which could materially and adversely affect the Company's business, ongoing financial condition and results of operations. The risks described are not the only risks facing the Company. Additional risks and uncertainties not presently known to management or that management currently believes to be immaterial may also adversely affect our business, ongoing financial condition or results of operations.

Item 6. Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of March 24, 2014, by and between Simmons First National Corporation and Delta Trust & Banking Corporation (incorporated by reference to Annex A to the Joint Proxy Statement/Prospectus filed by Simmons First National Corporation on July 23, 2014 (File No. 000-06253)).
2.2	Agreement and Plan of Merger, dated as of May 6, 2014, by and between Simmons First National Corporation and Community First Bancshares, Inc., as amended on September 11, 2014 (incorporated by reference to Annex A to the Joint Proxy Statement/Prospectus filed by Simmons First National Corporation on October 8, 2014 (File No. 000-06253)).
2.3	Agreement and Plan of Merger, dated as of May 27, 2014, by and between Simmons First National Corporation and Liberty Bancshares, Inc., as amended on September 11, 2014 (incorporated by reference to Annex B to the Joint Proxy Statement/Prospectus filed by Simmons First National Corporation on October 8, 2014 (File No. 000-06253)).
2.4	Agreement and Plan of Merger, dated as of April 28, 2015, by and between Simmons First National Corporation and Ozark Trust & Investment Corporation (incorporated by reference to Exhibit 10.1 to Simmons First National Corporation's Current Report on Form 8-K for April 29, 2015 (File No. 000-06253)).
2.5	Stock Purchase Agreement by and among Citizens National Bank, Citizens National Bancorp, Inc. and Simmons First National Corporation, dated as of May 18, 2016 (incorporated by reference to Exhibit 2.1 to Simmons First National Corporation's Current Report on Form 8-K for May 18, 2016 (File No. 000-06253)).
2.6	Agreement and Plan of Merger, dated as of November 17, 2016, by and between Simmons First National Corporation and Hardeman County Investment Company, Inc. (incorporated by reference to Exhibit 2.1 to Simmons First National Corporation's Current Report on Form 8-K for November 17, 2016 (File No. 000-06253)).
2.7	Agreement and Plan of Merger, dated as of December 14, 2016, by and between Simmons First National Corporation and Southwest Bancorp, Inc., as amended on July 19, 2017 (incorporated by reference to Exhibit 2.11 to Simmons First National Corporation's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2017 (File No. 000-06253)).
2.8	Agreement and Plan of Merger, dated as of January 23, 2017, by and between Simmons First National Corporation and First Texas, BHC, Inc., as amended on July 19, 2017 (incorporated by reference to Exhibit 2.12 to Simmons

First National Corporation’s Quarterly Report on Form 10-Q for the Quarter ended June 30, 2017 (File No. 000-06253)).

3.1	Amended and Restated Articles of Incorporation of Simmons First National Corporation, as amended on April 23, 2018 (incorporated by reference to Exhibit 3.1 to Simmons First National Corporation’s Quarterly Report on Form 10-Q for the Quarter ended March 31, 2018 (File No. 000-06253)).
3.2	Amended By-Laws of Simmons First National Corporation (incorporated by reference to Exhibit 3.2 to Simmons First National Corporation’s Quarterly Report on Form 10-Q for the Quarter ended June 30, 2017 (File No. 000-06253)).
3.3	Certificate of Designation of Senior Non-Cumulative Perpetual Preferred Stock, Series A of Simmons First National Corporation, dated February 27, 2015 (incorporated by reference to Exhibit 3.1to Simmons First National Corporation’s Current Report on Form 8-K on October 8, 2014 (File No. 000-06253)).

4.1	Instruments defining the rights of security holders, including indentures. Simmons First National Corporation hereby agrees to furnish copies of instruments defining the rights of holders of long-term debt of the Corporation and its consolidated subsidiaries to the U.S. Securities and Exchange Commission upon request. No issuance of debt exceeds ten percent of the total assets of the Corporation and its subsidiaries on a consolidated basis.
12.1	Computation of Ratios of Earnings to Combined Fixed Charges and Preferred Dividend.*
14.1	Amended and Restated Simmons First National Corporation Code of Ethics (incorporated by reference to Exhibit 14.1 to Simmons First National Corporation's Current Report on Form 8-K on July 19, 2018 (File No. 000-06253)).
15.1	Awareness Letter of BKD, LLP.*
31.1	Rule 13a-15(e) and 15d-15(e) Certification – George A. Makris, Jr., Chairman and Chief Executive Officer.*
31.2	Rule 13a-15(e) and 15d-15(e) Certification – Robert A. Fehlman, Senior Executive Vice President, Chief Financial Officer and Treasurer.*
31.3	Rule 13a-15(e) and 15d-15(e) Certification – David W. Garner, Executive Vice President, Controller and Chief Accounting Officer.*
32.1	Certification Pursuant to 18 U.S.C. Sections 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – George A. Makris, Jr., Chairman and Chief Executive Officer.*
32.2	Certification Pursuant to 18 U.S.C. Sections 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Robert A. Fehlman, Senior Executive Vice President, Chief Financial Officer and Treasurer.*
32.3	Certification Pursuant to 18 U.S.C. Sections 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – David W. Garner, Executive Vice President, Controller and Chief Accounting Officer.*
101.INS	XBRL Instance Document.**
101.SCH	XBRL Taxonomy Extension Schema.**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.**
101.DEF	XBRL Taxonomy Extension Definition Linkbase.**
101.LAB	XBRL Taxonomy Extension Labels Linkbase.**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.**

* Filed herewith

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SIMMONS FIRST NATIONAL CORPORATION
(Registrant)

Date:	August 7, 2018	/s/ George A. Makris, Jr.
		George A. Makris, Jr.
		Chairman and Chief Executive Officer
Date:	August 7, 2018	/s/ Robert A. Fehlman
		Robert A. Fehlman
		Senior Executive Vice President,
		Chief Financial Officer and Treasurer
Date:	August 7, 2018	/s/ David W. Garner
		David W. Garner
		Executive Vice President, Controller
		and Chief Accounting Officer