

SIMMONS FIRST NATIONAL CORP

Form 10-Q

November 09, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 2011 Commission File Number 000-06253

SIMMONS FIRST NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Arkansas

71-0407808

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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. S Yes £ No

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

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

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

The number of shares outstanding of the Registrant's Common Stock as of October 24, 2011, was 17,273,647.

Simmons First National Corporation

Quarterly Report on Form 10-Q

September 30, 2011

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Part I: Financial Information

Item 1. Financial Statements**Simmons First National Corporation****Consolidated Balance Sheets****September 30, 2011 and December 31, 2010**

(In thousands, except share data)	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Cash and non-interest bearing balances due from banks	\$ 33,408	\$ 33,717
Interest bearing balances due from banks	490,283	418,343
Cash and cash equivalents	523,691	452,060
Investment securities	644,881	613,662
Mortgage loans held for sale	21,037	17,237
Assets held in trading accounts	5,252	7,577
Loans	1,631,541	1,683,464
Allowance for loan losses	(29,151)	(26,416)
Net loans	1,602,390	1,657,048
Covered assets:		
Loans, net of discount	172,394	231,600
Other real estate owned, net of discount	13,845	8,717
FDIC indemnification asset	51,223	60,235
Premises and equipment	86,972	77,199
Foreclosed assets held for sale, net	22,159	23,204
Interest receivable	16,195	17,363
Bank owned life insurance	50,175	49,072
Goodwill	60,605	60,605
Core deposit premiums	1,793	2,463
Other assets	20,736	38,390
Total assets	\$ 3,293,348	\$ 3,316,432
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing transaction accounts	\$ 531,025	\$ 428,750
Interest bearing transaction accounts and savings deposits	1,194,907	1,220,133
Time deposits	908,882	959,886
Total deposits	2,634,814	2,608,769
Federal funds purchased and securities sold under agreements to repurchase	98,286	109,139
Short-term debt	481	1,033
Long-term debt	122,501	164,324
Accrued interest and other liabilities	29,607	35,796
Total liabilities	2,885,689	2,919,061

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Stockholders' equity:		
Preferred stock, \$0.01 par value; 40,040,000 shares authorized and unissued at September 30, 2011 and December 31, 2010	—	—
Common stock, Class A, \$0.01 par value; 60,000,000 shares authorized; 17,329,775 and 17,271,594 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	173	173
Surplus	115,026	114,040
Undivided profits	291,830	282,646
Accumulated other comprehensive income		
Unrealized appreciation on available-for-sale securities, net of income taxes of \$406 at September 30, 2011 and \$331 at December 31, 2010	630	512
Total stockholders' equity	407,659	397,371
Total liabilities and stockholders' equity	\$ 3,293,348	\$ 3,316,432

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation**Consolidated Statements of Income****Three and Nine Months Ended September 30, 2011 and 2010**

(In thousands, except per share data)	Three Months		Nine Months	
	Ended September 30, 2011	2010	Ended September 30, 2011	2010
	(Unaudited)		(Unaudited)	
INTEREST INCOME				
Loans	\$24,366	\$26,934	\$72,343	\$80,413
Covered loans	3,917	864	12,605	1,077
Federal funds sold	3	6	5	12
Investment securities	3,539	4,182	11,015	13,178
Mortgage loans held for sale	130	210	305	429
Assets held in trading accounts	8	7	26	20
Interest bearing balances due from banks	243	123	776	487
TOTAL INTEREST INCOME	32,206	32,326	97,075	95,616
INTEREST EXPENSE				
Deposits	3,594	4,605	11,569	14,881
Federal funds purchased and securities sold under agreements to repurchase	113	126	332	398
Short-term debt	13	15	37	45
Long-term debt	1,207	1,524	3,774	4,619
TOTAL INTEREST EXPENSE	4,927	6,270	15,712	19,943
NET INTEREST INCOME	27,279	26,056	81,363	75,673
Provision for loan losses	2,842	3,407	8,845	10,396
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	24,437	22,649	72,518	65,277
NON-INTEREST INCOME				
Trust income	1,370	1,343	3,959	3,763
Service charges on deposit accounts	4,450	4,388	12,519	13,428
Other service charges and fees	695	646	2,281	2,096
Income on sale of mortgage loans, net of commissions	1,249	1,242	2,724	2,777
Income on investment banking, net of commissions	203	369	1,184	1,750
Credit card fees	4,303	3,972	12,510	11,692
Premiums on sale of student loans	—	1,979	—	2,524
Bank owned life insurance income	261	404	1,078	1,260
Gain on FDIC-assisted transactions	—	—	—	3,037
Other income	1,191	479	4,463	1,943
TOTAL NON-INTEREST INCOME	13,722	14,822	40,718	44,270
NON-INTEREST EXPENSE				
Salaries and employee benefits	15,533	14,809	49,085	45,039
Occupancy expense, net	2,224	1,906	6,513	5,632
Furniture and equipment expense	1,763	1,542	4,912	4,563
Other real estate and foreclosure expense	215	304	532	676
Deposit insurance	211	885	2,092	2,899

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Merger related costs	—	134	357	577
Other operating expenses	7,687	7,178	22,809	21,444
TOTAL NON-INTEREST EXPENSE	27,633	26,758	86,300	80,830
INCOME BEFORE INCOME TAXES	10,526	10,713	26,936	28,717
Provision for income taxes	3,269	3,093	7,867	8,160
NET INCOME	\$7,257	\$7,620	\$19,069	\$20,557
BASIC EARNINGS PER SHARE	\$0.42	0.45	\$1.10	\$1.20
DILUTED EARNINGS PER SHARE	\$0.42	0.44	\$1.10	\$1.19

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation**Consolidated Statements of Cash Flows****Nine Months Ended September 30, 2011 and 2010**

(In thousands)	September 30, 2011 (Unaudited)	September 30, 2010
OPERATING ACTIVITIES		
Net income	\$ 19,069	\$ 20,557
Items not requiring (providing) cash		
Depreciation and amortization	4,542	4,275
Provision for loan losses	8,845	10,396
Net amortization of investment securities	(9)	(24)
Stock-based compensation expense	921	717
Net accretion and gain/loss on FDIC covered assets	(3,575)	(81)
Gain on FDIC-assisted transactions	—	(3,037)
Deferred income taxes	(2,490)	1,457
Bank owned life insurance income	(1,078)	(1,260)
Changes in		
Interest receivable	1,168	997
Mortgage loans held for sale	(3,800)	(16,986)
Assets held in trading accounts	2,325	(526)
Other assets	1,922	(1,761)
Accrued interest and other liabilities	(2,428)	1,651
Income taxes payable	(1,271)	1,398
Net cash provided by operating activities	24,141	17,773
INVESTING ACTIVITIES		
Net collections of covered loans	51,625	7,134
Net collections of loans	27,386	99,243
Purchases of premises and equipment, net	(13,645)	(3,531)
Proceeds from sale of covered other real estate owned	5,241	2,006
Proceeds from sale of foreclosed assets held for sale	19,472	11,728
Proceeds from sale of available-for-sale securities	5,331	—
Proceeds from maturities of available-for-sale securities	255,255	390,417
Purchases of available-for-sale securities	(252,556)	(366,346)
Proceeds from maturities of held-to-maturity securities	132,733	313,038
Purchases of held-to-maturity securities	(171,855)	(310,520)
Purchases of bank owned life insurance	(25)	(6,482)
Cash received on FDIC loss share	25,531	1,252
Net cash proceeds received in FDIC-assisted transaction	—	18,067
Net cash provided by investing activities	84,493	156,006

FINANCING ACTIVITIES		
Net change in deposits	26,045	(147,343)
Net change in short-term debt	(552)	(1,912)
Dividends paid	(9,885)	(9,808)
Proceeds from issuance of long-term debt	3,625	3,915
Repayment of long-term debt	(45,448)	(26,909)
Net change in federal funds purchased and securities sold under agreements to repurchase	(10,853)	(20,349)
Net shares issued under stock compensation plans	474	966
Repurchase of common stock	(409)	—
Net cash used in financing activities	(37,003)	(201,440)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	71,631	(27,661)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	452,060	353,585
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 523,691	\$ 325,924

See Condensed Notes to Consolidated Financial Statements.

Simmons First National Corporation**Consolidated Statements of Stockholders' Equity****Nine Months Ended September 30, 2011 and 2010**

(In thousands, except share data)	Common Stock	Surplus	Accumulated Other Comprehensive Income	Undivided Profits	Total
Balance, December 31, 2009	\$ 171	\$ 111,694	\$ 762	\$ 258,620	\$ 371,247
Comprehensive income					
Net income	—	—	—	20,557	20,557
Change in unrealized appreciation on available-for-sale securities, net of income taxes of \$222	—	—	290	—	290
Comprehensive income					20,847
Stock issued as bonus shares – 80,245 shares	1	203	—	—	204
Vesting bonus shares	—	587	—	—	587
Stock issued for employee stock purchase plan – 4,947 shares	—	131	—	—	131
Exercise of stock options – 67,988 shares	—	968	—	—	968
Stock granted under stock-based compensation plans	—	130	—	—	130
Securities exchanged under stock option plan	—	(337)	—	—	(337)
Cash dividends – \$0.57 per share	—	—	—	(9,808)	(9,808)
Balance, September 30, 2010 (Unaudited)	172	113,376	1,052	269,369	383,969
Comprehensive income					
Net income	—	—	—	16,560	16,560
Change in unrealized appreciation on available-for-sale securities, net of income taxes of (\$383)	—	—	(540)	—	(540)
Comprehensive income					16,020
Stock issued as bonus shares – 3,000 shares	—	—	—	—	—
Vesting bonus shares	—	214	—	—	214
Exercise of stock options – 40,616 shares	1	492	—	—	493
Stock granted under stock-based compensation plans	—	43	—	—	43
Securities exchanged under stock option plan	—	(85)	—	—	(85)
Cash dividends – \$0.19 per share	—	—	—	(3,283)	(3,283)
Balance, December 31, 2010	173	114,040	512	282,646	397,371
Comprehensive income					
Net income	—	—	—	19,069	19,069
Change in unrealized appreciation on available-for-sale securities, net of income taxes of \$116	—	—	118	—	118
Comprehensive income					19,187

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Stock issued as bonus shares – 47,995 shares	—	98	—	—	98
Vesting bonus shares	—	813	—	—	813
Stock issued for employee stock purchase plan – 4,805 shares	—	127	—	—	127
Exercise of stock options – 28,566 shares	—	358	—	—	358
Stock granted under stock-based compensation plans	—	108	—	—	108
Securities exchanged under stock option plan – (4,185 shares)	—	(109)	—	—	(109)
Repurchase of common stock – (19,000 shares)	—	(409)	—	—	(409)
Cash dividends – \$0.57 per share	—	—	—	(9,885)	(9,885)
Balance, September 30, 2011 (Unaudited)	\$ 173	\$ 115,026	\$ 630	\$ 291,830	\$ 407,659

See Condensed Notes to Consolidated Financial Statements.

SIMMONS FIRST NATIONAL CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

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

All adjustments made to the unaudited financial statements were of a normal recurring nature. In the opinion of management, all adjustments necessary for a fair presentation of the results of interim periods have been made. Certain prior year amounts are reclassified to conform to current year classification. The consolidated balance sheet of the Company as of December 31, 2010, has been derived from the audited consolidated balance sheet of the Company as of that date. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

Certain information and note disclosures normally included in the Company’s annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Form 10-K Annual Report for 2010 filed with the U.S. Securities and Exchange Commission (the “SEC”).

Recently Issued Accounting Pronouncements

In July 2010, the FASB issued ASU 2010-20, *Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users’ evaluation of (i) the nature of credit risk inherent in the entity’s portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well

as information about modified, impaired, nonaccrual and past due loans and credit quality indicators. The Company adopted the disclosure provisions of the new authoritative guidance about activity that occurs during a reporting period on January 1, 2011. The adoption of these provisions did not have a significant impact on the Company's financial position or results of operations. The effective date disclosures related to loans modified in a troubled debt restructuring ("TDR") was temporarily deferred to coincide with the effective date of the then proposed ASU 2011-02, *Receivables (Topic 310) – A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*, which is further discussed below.

In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310) – A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*. ASU 2011-02 amended prior guidance to provide assistance in determining whether a modification of the terms of a receivable meets the definition of a troubled debt restructuring. The new authoritative guidance provides clarification for evaluating whether a concession has been granted and whether a debtor is experiencing financial difficulties. ASU 2011-02 was effective for the Company on July 1, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011. In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310) - A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*. ASU 2011-02 amended prior guidance to provide assistance in determining whether a modification of the terms of a receivable meets the definition of a troubled debt restructuring. The new authoritative guidance provides clarification for evaluating whether a concession has been granted and whether a debtor is experiencing financial difficulties. ASU 2011-02 was effective for the Company on July 1, 2011, and applies retrospectively to restructuring occurring on or after January 1, 2011. The adoption of this guidance did not have a significant impact on the Company's financial position or results of operation. See Note 4 for disclosures related to this ASU.

In April 2011, the FASB issued ASU 2011-03, *Transfers and Servicing (Topic 860) – Reconsideration of Effective Control for Repurchase Agreements*. ASU 2011-03 is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 removes from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criterion. ASU 2011-03 will be effective for the Company on January 1, 2012, and is not expected to have a significant impact on the Company's ongoing financial position or results of operations.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, to converge the fair value of measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for the Company for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company's ongoing financial position or results of operations.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220) – Presentation of Comprehensive Income*, to require that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 is effective for the Company for annual periods beginning after December 15, 2011, and is expected to result in presentation changes to the Company's statements of income and the addition of a statement of comprehensive income. The adoption of ASU 2011-05 is not expected to have a significant impact on the Company's ongoing financial position or results of operations.

In September 2011, the FASB issued ASU 2011-08, *Intangibles – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment*. ASU 2011-08 amends Topic 350 to give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. ASU 2011-08 is effective for annual and interim impairment tests beginning after December 15, 2011, and is not expected to have a significant impact on the Company's ongoing financial position or results of operations.

There have been no other significant changes to the Company's accounting policies from the 2010 Form 10-K. The Company is not aware of any other changes from the FASB that will have a significant impact on the Company's present or future financial position or results of operations.

Acquisition Accounting, Covered Loans and Related Loss Share Receivable

The Company accounts for its acquisitions under 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 acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, exclusive of the shared loss agreements with the FDIC. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics and were treated in the aggregate when applying various valuation techniques. The Company evaluates at each balance sheet date whether the present value of its loans determined using the effective interest rates has decreased and if so, recognizes a provision for loan loss in its consolidated statement of income. For any increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Because the FDIC will reimburse the Company for losses incurred on certain acquired loans, an indemnification asset (FDIC loss share receivable) is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectability or contractual limitations. The shared-loss agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

The shared-loss agreements continue to be measured on the same basis as the related indemnified loans. Because the acquired loans are subject to the accounting prescribed by ASC Topic 310, subsequent changes to the basis of the shared-loss agreements also follow that model. Deterioration in the credit quality of the loans (immediately recorded as an adjustment to the allowance for loan losses) would immediately increase the basis of the shared-loss agreements, with the offset recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the shared-loss agreements, with such decrease being accreted into income over 1) the same period or 2) the life of the shared-loss agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the shared-loss agreements.

Upon the determination of an incurred loss the indemnification asset will be reduced by the amount owed by the FDIC. A corresponding, claim receivable is recorded until cash is received from the FDIC. For further discussion of the Company's acquisition and loan accounting, see Note 2 and Note 5 to the consolidated financial statements.

Earnings Per Share

Basic earnings per share are computed based on the weighted average number of common shares outstanding during each year. Diluted earnings per share are computed using the weighted average common shares and all potential dilutive common shares outstanding during the period.

Following is the computation of per share earnings for the three and nine months ended September 30, 2011 and 2010:

	Three Months		Nine Months	
	Ended		Ended	
(In thousands, except per share data)	September 30,		September 30,	
	2011	2010	2011	2010
Net income	\$7,257	\$7,620	\$19,069	\$20,557
Average common shares outstanding	17,348	17,220	17,329	17,187
Average potential dilutive common shares	10	62	10	62
Average diluted common shares	17,358	17,282	17,339	17,249
Basic earnings per share	\$0.42	\$0.45	\$1.10	\$1.20
Diluted earnings per share	\$0.42	\$0.44	\$1.10	\$1.19

Stock options to purchase 152,470 and 98,998 shares for the three and nine months ended September 30, 2011 and 2010, respectively, were not included in the earnings per share calculation because the exercise price exceeded the average market price.

NOTE 2: ACQUISITIONS

On May 14, 2010, the Company, through its wholly-owned subsidiary, Simmons First National Bank (“SFNB” or “lead bank”), entered into a purchase and assumption agreement with loss share arrangements with the FDIC pursuant to which it acquired substantially all of the assets and assumed substantially all of the deposits and certain other liabilities of Southwest Community Bank (“SWCB”) in Springfield, Missouri. As a result of this acquisition, the Company expanded its footprint outside the Arkansas borders for the first time. The Company recognized a pre-tax gain of \$3.0 million on this transaction and incurred pre-tax merger related costs of \$0.4 million.

On October 15, 2010, the Company, through the lead bank, entered into a purchase and assumption agreement with loss share arrangements with the FDIC to purchase substantially all of the assets and to assume substantially all of the deposits and certain other liabilities of Security Savings Bank, FSB (“SSB”) with nine offices in Kansas, including three in Salina, two each in Olathe and Wichita and one each in Overland Park and Leawood. This acquisition marked the

Company's second expansion outside the State of Arkansas. The Company recognized a pre-tax gain of \$18.3 million on this transaction and incurred pre-tax merger related costs of \$2.0 million.

A summary, at fair value, of the assets acquired and liabilities assumed in the SWCB and SSB transactions, as of acquisition dates, is as follows:

(In thousands)	SWCB	SSB	Total
Assets Acquired			
Cash and due from banks	\$7,414	\$11,063	\$18,477
Cash received from FDIC	10,000	71,200	81,200
Receivable from FDIC	653	1,856	2,509
Investment securities	24,850	75,621	100,471
Loans not covered by loss share agreements	—	991	991
Covered assets:			
Loans	40,177	219,158	259,335
Other real estate	4,646	6,363	11,009
FDIC indemnification asset	13,783	68,330	82,113
Core deposit premium	—	1,480	1,480
Other assets	467	1,577	2,044
Total assets acquired	101,990	457,639	559,629
Liabilities Assumed			
Deposits:			
Non-interest bearing transaction accounts	5,063	82,614	87,677
Interest bearing transaction accounts and savings deposits	103	8,624	8,727
Time deposits	92,174	246,999	339,173
Total deposits	97,340	338,237	435,577
Repurchase agreements	—	2,215	2,215
FHLB borrowings	—	95,676	95,676
Accrued interest and other liabilities	1,613	3,234	4,847
Total liabilities assumed	98,953	439,362	538,315
Pre-tax gains on FDIC-assisted transactions	\$3,037	\$18,277	\$21,314

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

Cash and due from banks, cash received from FDIC and receivable from FDIC – The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The \$10.0 million cash received from the FDIC for SWCB and \$71.2 million for SSB is the first pro-forma cash settlement received from the FDIC on Monday following the closing weekend. The \$0.7 million receivable from the FDIC for SWCB and \$1.9 million for SSB is the remaining amount due from the settlement.

Investment securities – Investment securities were acquired from the FDIC at fair market value. The fair values provided by the FDIC were reviewed and considered reasonable based on SFNB's understanding of the market conditions.

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

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

FDIC indemnification asset – This loss sharing asset is measured separately from the related covered assets as it is not contractually embedded in the covered assets and is not transferable with the covered assets should SFNB choose to dispose of them. Fair value was estimated using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss-sharing reimbursement from the FDIC.

Core deposit premium – This intangible asset represents the value of the relationships that SWCB and SSB 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. Based on the valuation methodologies use in the analysis, the estimated fair value of the core deposit premium at SWCB was immaterial.

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. Even though deposit rates were above market, because SFNB reset deposit rates to current market rates, there was no fair value adjustment recorded for time deposits.

FHLB borrowings – The fair value of Federal Home Loan Bank (“FHLB”) borrowings is estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities. Included in the SSB acquisition were FHLB borrowed funds with a fair value totaling \$95.7 million. The Company did not need these advances to meet its present liquidity needs, and redeemed approximately \$60.8 million of the advances during the fourth quarter of 2010. The FHLB borrowings are secured by mortgage loans. The remaining borrowings will be held to maturity to match loans with similar maturities.

FDIC True-Up Provision – The purchase and assumption agreements for SWCB and SSB allow for the FDIC to recover a portion of the funds previously paid out under the indemnification agreement in the event losses fail to reach the expected loss level under a claw back provision (“true-up provision”). A true-up is scheduled to occur in the calendar month in which the tenth anniversary of the respective closing occurs. If the threshold is not met, the assuming institution is required to pay the FDIC 50 percent of the excess, if any, within 45 days following the true-up.

The value of the true-up provision liability is calculated as the present value of the estimated payment to the FDIC in the tenth year using the formula provided in the agreements. The result of the calculation is based on the net present value of expected future cash payments to be made by SFNB to the FDIC at the conclusion of the loss share agreements. The discount rate used was based on current market rates. The expected cash flows were calculated in accordance with the loss share agreements and are based primarily on the expected losses on the covered assets. The value of the true-up provision was \$3.3 million and \$3.2 million at September 30, 2011 and December 31, 2010, respectively, and was included in accrued interest and other liabilities on the balance sheet.

In connection with the SWBC and SSB acquisitions, SFNB and the FDIC will share in the losses on assets covered under the loss share agreements. The FDIC will reimburse SFNB for 80% of all losses on covered assets. The loss sharing agreements entered into by SFNB and the FDIC in conjunction with the purchase and assumption agreements require that SFNB follow certain servicing procedures as specified in the loss share agreements or risk losing FDIC reimbursement of covered asset losses. Additionally, to the extent that actual losses incurred by SFNB under the loss share agreements are less than expected, SFNB may be required to reimburse the FDIC under the clawback provisions of the loss share agreements. At September 30, 2011 and December 31, 2010, the covered loans and covered other real estate owned and the related FDIC indemnification asset (collectively, the “covered assets”) and the FDIC true-up provision were reported at the net present value of expected future amounts to be paid or received.

Purchased loans acquired in a business combination, including loans purchased in the SWCB and SSB acquisitions, are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan and lease losses. Purchased loans are accounted for in accordance with ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* accounting guidance for certain loans or debt securities acquired in a transfer, when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments. The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in cash flows result in a reversal of the provision for loan and lease losses to the extent of prior charges and an adjustment in accretable yield, recognized on a prospective basis over the loan's or pool's remaining life, which will have a positive impact on interest income.

The Company has finalized its analysis of the acquired loans along with the other acquired assets and assumed liabilities in these transactions. No significant adjustments to the estimated amounts and carrying values were required.

During 2010, SFNB acquired the real estate (building and land) for the Springfield, Missouri location (formerly SWCB) for a total of \$1.1 million. During the three months ended March 31, 2011, SFNB acquired the real estate for four of the Kansas locations previously owned by SSB related entities for a total of \$6.2 million. Three additional Kansas locations were purchased during the three months ended September 30, 2011, upon final settlement of SSB with the FDIC, for a total of \$4.4 million. Two other locations are leased from third parties and SFNB will continue to lease these facilities.

NOTE 3: INVESTMENT SECURITIES

The amortized cost and fair value of investment securities that are classified as held-to-maturity and available-for-sale are as follows:

(In thousands)	September 30, 2011				December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
<u>Held-to-Maturity</u>								
U.S. Treasury	\$4,000	\$ 22	\$ —	\$4,022	\$4,000	\$ 28	\$ —	\$4,028
U.S. Government agencies	291,795	1,057	(19)	292,833	249,844	1,764	(507)	251,101
Mortgage-backed securities	67	4	—	71	78	4	—	82
State and political subdivisions	207,510	6,404	(153)	213,761	210,331	2,280	(1,845)	210,766
Other securities	930	—	—	930	930	—	—	930
	\$504,302	\$ 7,487	\$ (172)	\$511,617	\$465,183	\$ 4,076	\$ (2,352)	\$466,907
<u>Available-for-Sale</u>								
U.S. Government agencies	\$121,564	\$ 426	\$ (51)	\$121,939	\$125,175	\$ 577	\$ (283)	\$125,469
Mortgage-backed securities	2,338	286	—	2,624	2,647	143	(1)	2,789
Other securities	15,641	379	(4)	16,016	19,814	411	(4)	20,221
	\$139,543	\$ 1,091	\$ (55)	\$140,579	\$147,636	\$ 1,131	\$ (288)	\$148,479

Certain investment securities are valued at less than their historical cost. 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. 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.

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As of September 30, 2011, securities with unrealized losses, segregated by length of impairment, were as follows:

(In thousands)	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Held-to-Maturity						
U.S. Government agencies	\$12,981	\$(19)	\$—	\$—	\$12,981	\$(19)
State and political subdivisions	2,113	(17)	1,490	(136)	3,603	(153)
Total	\$15,094	\$(36)	\$1,490	\$(136)	\$16,584	\$(172)
Available-for-Sale						
U.S. Government agencies	\$39,142	\$(51)	\$—	\$—	\$39,142	\$(51)
Other securities	1	(4)	—	—	1	(4)
Total	\$39,143	\$(55)	\$—	\$—		