SIMMONS FIRST NATIONAL CORP
Form 10-K
February 27, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
Annual Report Pursuant to Section 13 or 15(d) of the Exchange Act of 1934
For the fiscal year ended: December 31, 2018

or
Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 0-6253

(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)
Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.01 par value	The NASDAQ Market®
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or in information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.). Yes No
The aggregate market value of the Registrant's Common Stock, par value $0.01 per share, held by non-affiliates on June 30, 2018, was $2,680,880,943 based upon the last trade price as reported on the NASDAQ Market® of $29.90.
The number of shares outstanding of the Registrant's Common Stock as of February 13, 2019, was 92,523,606.
Part III is incorporated by reference from the Registrant's Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 17, 2019.

Introduction

The Company has chosen to combine our Annual Report to Shareholders with our Form 10-K. We hope investors find it useful to have all of this information in a single document.

The Securities and Exchange Commission allows us to report information in the Form 10-K by "incorporated by reference" from another part of the Form 10-K, or from the proxy statement. You will see that information is "incorporated by reference" in various parts of our Form 10-K.

A more detailed table of contents for the entire Form 10-K follows:

FORM 10-K INDEX

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report may not be based on historical facts and should be considered “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 “believe,” “budget,” “expect,” “foresee,” “anticipate,” “intend,” “indicate,” “target,” “estimate,” “plan,” “project,” “continue,” “contemplate,” “positions,” “prospects,” “potential,” by future conditional verbs such as “will,” “would,” “should,” “could,” “might” or “may,” or by variations of such or by similar expressions. 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 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, other real estate owned and; 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.

PART I

ITEM 1. BUSINESS

Company Overview

Simmons First National Corporation (the “Company”) is a financial holding company registered under the Bank Holding Company Act of 1956, as amended. The Company is headquartered in Pine Bluff, Arkansas with total assets of $16.5 billion, loans of $11.7 billion, deposits of $12.4 billion and equity capital of $2.2 billion as of December 31, 2018. The Company, through its subsidiary bank, Simmons Bank, conducts banking operations at approximately 191 financial centers located in communities throughout Arkansas, Colorado, Kansas, Missouri, Oklahoma, Tennessee and Texas.

We seek to build shareholder value by, among other things, (i) focusing on strong asset quality, (ii) maintaining strong capital (iii) managing our liquidity position, (iv) improving our operational efficiency and (v) opportunistically growing our business, both organically and through acquisitions of financial institutions.

Subsidiary Bank

Our subsidiary bank, Simmons Bank, is an Arkansas state-chartered bank that has been in operation since 1903. Simmons First Investment Group, Inc., a wholly-owned subsidiary of Simmons Bank, is a registered investment advisor and a broker-dealer registered with the Securities and Exchange Commission ("SEC") and a member of the Financial Industry Regulatory Authority, Inc. Simmons First Insurance Services, Inc. and Simmons First Insurance Services of TN, LLC are also wholly-owned subsidiaries of Simmons Bank and are insurance agencies that offer various lines of insurance coverage.

Simmons Bank provides financial services to individuals and businesses throughout our market areas. Simmons Bank offers consumer, real estate and commercial loans, checking, savings and time deposits. Simmons Bank and its subsidiaries have also developed through their experience, scale and acquisitions, specialized products and services that are in addition to those offered by the typical community bank. Those products include credit cards, trust and fiduciary services, investments, agricultural finance lending, equipment lending, insurance and small business administration ("SBA") lending.

Community Bank Strategy

Historically, we utilized separately chartered community banks, supported by Simmons Bank, to provide full service banking products and services across our footprint. During 2014, we consolidated six smaller subsidiary banks into Simmons Bank in order to effectively meet the increased regulatory burden facing banks, to reduce certain operating costs, and to more efficiently perform operational duties. After the charter consolidation and the 2015 mergers discussed below, Simmons Bank operated using a three-region structure listed as follows:

Region	Headquarters
Arkansas Region	Pine Bluff, Arkansas
Kansas/Missouri Region	Springfield, Missouri
Tennessee Region	Union City, Tennessee

After the 2017 acquisitions discussed below, Simmons Bank revised its regions into the following divisions:

Division	Headquarters
North Texas (Fort Worth, Texas and Dallas, Texas)	Fort Worth, Texas
Southeast (Arkansas, Tennessee, South Missouri)	Pine Bluff, Arkansas
Southwest (Oklahoma, Kansas, Colorado, Missouri, South Texas)	Stillwater, Oklahoma

Growth Strategy

Over the past 29 years, as we have expanded our markets and services, our growth strategy has evolved and diversified. We have used varying acquisition and internal branching methods to enter key growth markets and increase the size of our footprint.

Since 1990 we have completed 16 whole bank acquisitions, 1 trust company acquisition, 5 bank branch deals, 1 bankruptcy (363) acquisition, 4 FDIC failed bank acquisitions and 4 Resolution Trust Corporation failed thrift acquisitions.

In December 2009, we completed a secondary stock offering by issuing a total of 6,095,000 shares (split adjusted) of common stock, including the over-allotment, at a price of $12.25 per share, less underwriting discounts and commissions. The net proceeds of the offering after deducting underwriting discounts and commissions and offering expenses were approximately $70.5 million. The additional capital positioned us to take advantage of unprecedented acquisition opportunities through FDIC-assisted transactions of failed banks.

In 2010, we expanded outside the borders of Arkansas by acquiring two failed institutions through FDIC-assisted transactions. The first was a $100 million failed bank located in Springfield, Missouri, and the second was a $400 million failed thrift located in Olathe, Kansas.

In 2012, we acquired two additional failed institutions through FDIC-assisted transactions. The first was a $300 million failed bank located in St. Louis, Missouri, and the second was a $200 million failed bank located in Sedalia, Missouri.

In 2013, we completed the acquisition of Metropolitan National Bank ("Metropolitan" or "MNB") from Rogers Bancshares, Inc. ("RBI"). The purchase was completed through an auction of the MNB stock by the U. S. Bankruptcy Court as a part of the Chapter 11 proceeding of RBI. MNB, which was headquartered in Little Rock, Arkansas, served central and northwest Arkansas and had total assets of $950 million. Upon completion of the acquisition, MNB and our Rogers, Arkansas chartered bank, Simmons First Bank of Northwest Arkansas were merged into Simmons Bank. As an in-market acquisition, MNB had significant branch overlap with our existing branch footprint. We completed the systems conversion for MNB in March 2014 and simultaneously closed 27 branch locations that had overlapping footprints with other locations.

In August 2014, we completed the acquisition of Delta Trust & Banking Corporation ("Delta Trust"), including its wholly-owned bank subsidiary, Delta Trust & Bank. Also headquartered in Little Rock, Delta Trust had total assets of $420 million. The acquisition further expanded Simmons Bank's presence in south, central and northwest Arkansas and allowed us the opportunity to provide services that had not previously been offered with the addition of Delta Trust's insurance agency and securities brokerage service. We merged Delta Trust & Bank into Simmons Bank and completed the systems conversion in October 2014. At that time, we also closed 4 branch locations with overlapping footprints.

In February 2015, we completed the acquisition of Liberty Bancshares, Inc. ("Liberty"), including its wholly-owned bank subsidiary, Liberty Bank. Liberty was headquartered in Springfield, Missouri, served southwest Missouri and had total assets of $1.1 billion. The acquisition further enhanced Simmons Bank's presence not only in southwest Missouri but also in the St. Louis and Kansas City metropolitan areas. The acquisition also allowed us the opportunity to provide services that we had not previously offered in these areas such as trust and securities brokerage services. In addition, Liberty's expertise in SBA lending enhanced our commercial offerings throughout our geographies. We merged Liberty Bank into Simmons Bank and completed the systems conversion in April 2015.

Also in February 2015, we completed the acquisition of Community First Bancshares, Inc. ("Community First"), including its wholly-owned bank subsidiary, First State Bank. Community First was headquartered in Union City, Tennessee, served customers throughout Tennessee and had total assets of $1.9 billion. The acquisition expanded our footprint into Tennessee and allowed us the opportunity to provide additional services to customers in this area and expand our community banking strategy. In addition, Community First's expertise in SBA and consumer lending benefited our customers across each region. We merged First State Bank into Simmons Bank and completed the systems conversion in September 2015.

In October 2015, we completed the acquisition of Ozark Trust & Investment Corporation ("Ozark Trust"), including its wholly-owned non-deposit trust company, Trust Company of the Ozarks. Headquartered in Springfield, Missouri, Ozark Trust had over $1 billion in assets under management and provided a wide range of financial services for its clients including investment management, trust services, IRA rollover or transfers, successor trustee services, personal representatives and custodial services. As our first acquisition of a fee-only financial firm, Ozark Trust provided a new wealth management capability that can be leveraged across the Company's entire geographic footprint.

In September 2016, we completed the acquisition of Citizens National Bank ("Citizens"), headquartered in Athens, Tennessee. Citizens had total assets of $585 million and strengthened our position in east Tennessee by nine branches. The acquisition expanded our footprint in east Tennessee and allowed us the opportunity to provide additional services to customers in this area and expand our community banking strategy. We merged Citizens into Simmons Bank and completed the systems conversion in October 2016.

In May 2017, we completed the acquisition of Hardeman County Investment Company, Inc. ("Hardeman"), headquartered in Jackson Tennessee, including its wholly-owned bank subsidiary, First South Bank. We acquired approximately $463 million in assets and strengthened our position in the western Tennessee market. We merged First

South Bank into Simmons Bank and completed the systems conversion in September 2017. As part of the systems conversion, we consolidated or closed three existing Simmons Bank and two First South Bank branches due to overlapping footprint.

In October 2017, we completed the acquisition of First Texas BHC, Inc. ("First Texas"), headquartered in Fort Worth, Texas, including its wholly-owned bank subsidiary, Southwest Bank. Southwest Bank had total assets of $2.4 billion. This acquisition allowed us to enter the Texas banking markets, and it also strengthened our specialty product offerings in the areas of SBA lending and trust services. The systems conversion was completed in February 2018, at which time Southwest Bank was merged into Simmons Bank.

Also in October 2017, we completed the acquisition of Southwest Bancorp, Inc. ("OKSB"), including its wholly-owned bank subsidiary, Bank SNB. Headquartered in Stillwater, Oklahoma, OKSB provided us with $2.7 billion in assets, allowed us additional entry into the Oklahoma, Texas and Colorado banking markets, and strengthened our Kansas franchise and our product offerings in the healthcare and real estate industries. The systems conversion was completed in May 2018, at which time Bank SNB was merged into Simmons Bank.

In November 2018, we announced that the Company had entered into an Agreement and Plan of Merger with Reliance Bancshares, Inc. (“Reliance”) of Des Peres, Missouri - part of the greater St. Louis metropolitan area. The transaction is expected to close during the second quarter of 2019 and will add approximately $1.5 billion in assets. In addition, we will add approximately 20 branches to the Simmons Bank footprint, substantially enhance our retail presence within the St. Louis market, and enter the state of Illinois for the first time.

Acquisition Strategy

Merger and Acquisition activities are an important part of the Company’s growth strategy. We intend to focus our near-term acquisition strategy on traditional acquisitions. We continue to believe that the current economic conditions combined with a more restrictive bank regulatory environment will cause many financial institutions to seek merger partners in the near-to-intermediate future. We also believe our community banking philosophy, access to capital and successful acquisition history positions us as a purchaser of choice for community banks seeking a strong partner.

We expect that our target areas for acquisitions will continue to be primarily banks operating in growth markets within the existing footprint of Arkansas, Colorado, Kansas, Missouri, Oklahoma, Tennessee and Texas markets. In addition, we will pursue opportunities with financial service companies with specialty lines of business and branch acquisitions within the existing markets as and when they arise.

As consolidations continue to unfold in the banking industry, the management of risk is an important consideration in how the Company evaluates and consummates those transactions. The senior management teams of both our parent company and bank have had extensive experience during the past twenty-nine years in acquiring banks, branches and deposits and post-acquisition integration of operations. We believe this experience positions us to successfully acquire and integrate banks.

The process of merging or acquiring two banking organizations is extremely complex; it requires a great deal of time and effort from both buyer and seller. The business, legal, operational, organizational, accounting, and tax issues all must be addressed if the merger or acquisition is to be successful. Throughout the process, valuation is an important input to the decision-making process, from initial target analysis through integration of the entities. Merger and acquisition strategies are vitally important in order to derive the maximum benefit out of a potential deal.

Strategic reasons with respect to negotiated community bank acquisitions include, among other things:

- Potentially retaining the target institution’s senior management and providing them with an appealing level of autonomy post-integration. We intend to continue to pursue negotiated community bank acquisitions, and we believe that our history with respect to such acquisitions has positioned us as an acquirer of choice for community banks.
- We encourage acquired community banks, their boards and associates to maintain their community involvement, while empowering the banks to offer a broader array of financial products and services. We believe this approach leads to enhanced profitability after the acquisition.
- Taking advantage of future opportunities that can be exploited when the two companies are combined. Companies need to position themselves to take advantage of emerging trends in the marketplace.
- One company may have a major weakness (such as poor distribution or service delivery) whereas the other company has some significant strength. By combining the two companies, each company fills in strategic gaps that are essential for long-term survival.
- Acquiring human resources and intellectual capital can help improve innovative thinking and development within the Company.
- Acquiring a regional or multi-state bank can provide the Company with access to emerging/established markets and/or increased products and services.

Loan Risk Assessment

As part of our ongoing risk assessment and analysis, the Company utilizes credit policies and procedures, internal credit expertise and several internal layers of review. The internal layers of ongoing review include Division Presidents, Divisional Senior Credit Officers, the Chief Credit Officer, Divisional Loan Committees, a Senior Loan Committee, and a Directors' Credit Committee. Additionally, the Company has an Asset Quality Review Committee comprised of management that meets quarterly to review the adequacy of the allowance for loan losses. The Committee reviews the status of past due, non-performing and other impaired loans, reserve ratios, and additional performance indicators for Simmons Bank. The appropriateness of the allowance for loan losses is determined based upon the aforementioned performance factors, and provision adjustments are made accordingly.

The Board of Directors reviews the adequacy of its allowance for loan losses on a periodic basis giving consideration to past due loans, non-performing loans, other impaired loans, and current economic conditions. Our loan review department monitors loan information monthly. In order to verify the accuracy of the monthly analysis of the allowance for loan losses, the loan review department performs a detailed review of each loan product on an annual basis or more often if warranted. Additionally, we have instituted a Special Asset Committee for the purpose of reviewing criticized loans in regard to collateral adequacy, workout strategies and proper reserve allocations.

Competition

There is significant competition among commercial banks in our various market areas. In addition, we also compete with other providers of financial services, such as savings and loan associations, credit unions, finance companies, securities firms, insurance companies, full service brokerage firms and discount brokerage firms. Some of our competitors have greater resources and, as such, may have higher lending limits and may offer other services that we do not provide. We generally compete on the basis of customer service and responsiveness to customer needs, available loan and deposit products, the rates of interest charged on loans, the rates of interest paid for funds, and the availability and pricing of trust and brokerage services.

Principal Offices and Available Information

Our principal executive offices are located at 501 Main Street, Pine Bluff, Arkansas 71601, and our telephone number is (870) 541-1000. We also have corporate offices in Little Rock, Arkansas. We maintain a website at http://www.simmonsbank.com. On this website under the section “Investor Relations”, we make our filings with the SEC available free of charge, along with other Company news and announcements.

Employees

As of December 31, 2018, the Company and its subsidiaries had approximately 2,654 full time equivalent employees. None of the employees is represented by any union or similar groups, and we have not experienced any labor disputes or strikes arising from any such organized labor groups. We consider our relationship with our employees to be good and have been recognized with “Best Places to Work” awards in several of our markets.

SUPERVISION AND REGULATION

The Company

The Company, as a bank holding company, is subject to both federal and state regulation. Under federal law, a bank holding company generally must obtain approval from the Board of Governors of the Federal Reserve System (“FRB”) before acquiring ownership or control of the assets or stock of a bank or a bank holding company. Prior to approval of any proposed acquisition, the FRB will review the effect on competition of the proposed acquisition, as well as other regulatory issues.

The federal law generally prohibits a bank holding company from directly or indirectly engaging in non-banking activities. This prohibition does not include loan servicing, liquidating activities or other activities so closely related to banking as to be a proper incident thereto. Bank holding companies, including Simmons First National Corporation, which have elected to qualify as financial holding companies, are authorized to engage in financial activities. Financial activities include any activity that is financial in nature or any activity that is incidental or complimentary to a financial activity.

As a financial holding company, we are required to file with the FRB an annual report and such additional information as may be required by law. From time to time, the FRB examines the financial condition of the Company and its subsidiaries. The FRB, through civil and criminal sanctions, is authorized to exercise enforcement powers over bank holding companies (including financial holding companies) and non-banking subsidiaries, to limit activities that represent unsafe or unsound practices or constitute violations of law.

We are subject to certain laws and regulations of the state of Arkansas applicable to financial and bank holding companies, including examination and supervision by the Arkansas Bank Commissioner. Under Arkansas law, a financial or bank holding company is prohibited from owning more than one subsidiary bank, if any subsidiary bank owned by the holding company has been chartered for less than five years and, further, requires the approval of the Arkansas Bank Commissioner for any acquisition of more than 25% of the capital stock of any other bank located in Arkansas. No bank acquisition may be approved if, after such acquisition, the holding company would control, directly or indirectly, banks having 25% of the total bank deposits in the state of Arkansas, excluding deposits of other banks and public funds.

Federal legislation allows bank holding companies (including financial holding companies) from any state to acquire banks located in any state without regard to state law, provided that the holding company (1) is adequately capitalized, (2) is adequately managed, (3) would not control more than 10% of the insured deposits in the United States or more than 30% of the insured deposits in such state, and (4) such bank has been in existence at least five years if so required by the applicable state law.

Subsidiary Bank

During the fourth quarter of 2010, the Company realigned the regulatory oversight for its affiliate banks in order to create efficiencies through regulatory standardization. We operated as a multi-bank holding company and, over the years, acquired several banks. In accordance with the corporate strategy, in place at that time, of leaving the bank structure unchanged, each acquired bank stayed intact as did its regulatory structure. As a result, the Company's eight affiliate banks were regulated by the Arkansas State Bank Department, the Federal Reserve, the FDIC, and/or the Office of the Comptroller of the Currency ("OCC").

Following the regulatory realignment, Simmons First National Bank remained a national bank regulated by the OCC while the other affiliate banks became state member banks with the Arkansas State Bank Department as their primary regulator and the Federal Reserve as their federal regulator. Because of the overlap in footprint, during the fourth quarter of 2013 we merged Simmons First Bank of Northwest Arkansas into Simmons First National Bank in conjunction with our acquisition of Metropolitan, reducing the number of affiliate state member banks to six. During 2014 we consolidated six of our smaller subsidiary banks into Simmons First National Bank. After the subsidiary banks were merged into Simmons First National Bank, the OCC remained Simmons First National Bank's primary regulator.

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

The lending powers of the subsidiary bank are generally subject to certain restrictions, including the amount which may be lent to a single borrower. Our subsidiary bank is a member of the FDIC, which provides insurance on deposits of each member bank up to applicable limits by the Deposit Insurance Fund. For this protection, each bank pays a statutory assessment to the FDIC each year.

Federal law substantially restricts transactions between banks and their affiliates. As a result, our subsidiary bank is limited in making extensions of credit to the Company, investing in the stock or other securities of the Company and engaging in other financial transactions with the Company. Those transactions that are permitted must generally be undertaken on terms at least as favorable to the bank as those prevailing in comparable transactions with independent third parties.

Potential Enforcement Action for Bank Holding Companies and Banks

Enforcement proceedings seeking civil or criminal sanctions may be instituted against any bank, any financial or bank holding company, any director, officer, employee or agent of the bank or holding company, which is believed by the federal banking agencies to be violating any administrative pronouncement or engaged in unsafe and unsound practices. In addition, the FDIC may terminate the insurance of accounts, upon determination that the insured institution has engaged in certain wrongful conduct or is in an unsound condition to continue operations.

Risk-Weighted Capital Requirements for the Company and the Subsidiary Bank

Since 1993, banking organizations (including financial holding companies, bank holding companies and banks) were required to meet a minimum ratio of Total Capital to Total Risk-Weighted Assets of 8%, of which at least 4% must be in the form of Tier 1 Capital. A well-capitalized institution was one that had at least a 10% “total risk-based capital” ratio.

Effective January 1, 2015, the Company and its subsidiary bank became subject to new capital regulations (the “Basel III Capital Rules”) adopted by the Federal Reserve in July 2013 establishing a new comprehensive capital framework for U.S. Banks. The Basel III Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions compared to the previous U.S. risk-based capital rules. Full compliance with all of the final rule’s requirements will be phased in over a multi-year schedule. For a tabular summary of our risk-weighted capital ratios, see

"Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital" and Note 21, Stockholders' Equity, of the Notes to Consolidated Financial Statements.

The final rules include a new common equity Tier 1 capital to risk-weighted assets (CET1) ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. CET1 generally consists of common stock; retained earnings; accumulated other comprehensive income and certain minority interests; all subject to applicable regulatory adjustments and deductions. The Company and its subsidiary 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).

A banking organization's qualifying total capital consists of two components: Tier 1 Capital and Tier 2 Capital. Tier 1 Capital is an amount equal to the sum of common shareholders' equity, hybrid capital instruments (instruments with characteristics of debt and equity) in an amount up to 25% of Tier 1 Capital, certain preferred stock and the minority interest in the equity accounts of consolidated subsidiaries. For bank holding companies and financial holding companies, goodwill (net of any deferred tax liability associated with that goodwill) may not be included in Tier 1 Capital. Identifiable intangible assets may be included in Tier 1 Capital for banking organizations, in accordance with certain further requirements. At least 50% of the banking organization's total regulatory capital must consist of Tier 1 Capital.

Tier 2 Capital is an amount equal to the sum of the qualifying portion of the allowance for loan losses, certain preferred stock not included in Tier 1, hybrid capital instruments (instruments with characteristics of debt and equity), certain long-term debt securities and eligible term subordinated debt, in an amount up to 50% of Tier 1 Capital. The eligibility of these items for inclusion as Tier 2 Capital is subject to certain additional requirements and limitations of the federal banking agencies.

The Basel III Capital Rules expanded the risk-weighting categories from the previous 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.

Under the new capital regulations, the minimum capital ratios are: (1) a CET1 capital ratio of 4.5% of risk-weighted assets; (2) a Tier 1 capital ratio of 6.0% of risk-weighted assets; (3) a total risk-based capital ratio of 8.0% of risk-weighted assets; and (4) a leverage ratio (the ratio of Tier 1 capital to average total adjusted assets) of 4.0%. The FDIC's prompt corrective action standards changed when these new capital regulations became effective. Under the new standards, in order to be considered well-capitalized, the bank must have a ratio of CET1 capital to risk-weighted assets of 6.5% (new), a ratio of Tier 1 capital to risk-weighted assets of 8% (increased from 6%), a ratio of total capital to risk-weighted assets of 10% (unchanged), and a leverage ratio of 5% (unchanged); and in order to be considered adequately capitalized, it must have the minimum capital ratios described above.

Federal Deposit Insurance Corporation Improvement Act

The Federal Deposit Insurance Corporation Improvement Act ("FDICIA"), enacted in 1991, requires the FDIC to increase assessment rates for insured banks and authorizes one or more "special assessments," as necessary for the repayment of funds borrowed by the FDIC or any other necessary purpose. As directed in FDICIA, the FDIC has adopted a transitional risk-based assessment system, under which the assessment rate for insured banks will vary according to the level of risk incurred in the bank's activities. The risk category and risk-based assessment for a bank is determined from its classification, pursuant to the regulation, as well capitalized, adequately capitalized or undercapitalized.

FDICIA substantially revised the bank regulatory provisions of the Federal Deposit Insurance Act and other federal banking statutes, requiring federal banking agencies to establish capital measures and classifications. Pursuant to the regulations issued under FDICIA, a depository institution will be deemed to be well capitalized if it significantly exceeds the minimum level required for each relevant capital measure; adequately capitalized if it meets each such measure; undercapitalized if it fails to meet any such measure; significantly undercapitalized if it is significantly below any such measure; and critically undercapitalized if it fails to meet any critical capital level set forth in regulations. The federal banking agencies must promptly mandate corrective actions by banks that fail to meet the capital and related requirements in order to minimize losses to the FDIC. At their most recent regulatory examinations, the Company’s subsidiary bank was determined to be well capitalized under these regulations.

The federal banking agencies are required by FDICIA to prescribe standards for banks and bank holding companies (including financial holding companies) relating to operations and management, asset quality, earnings, stock valuation and compensation. A bank or bank holding company that fails to comply with such standards will be required to submit a plan designed to achieve compliance. If no plan is submitted or the plan is not implemented, the bank or holding company would become subject to additional regulatory action or enforcement proceedings.

A variety of other provisions included in FDICIA may affect the operations of the Company and the subsidiary bank, including new reporting requirements, revised regulatory standards for real estate lending, “truth in savings” provisions, and the requirement that a depository institution give 90 days prior notice to customers and regulatory authorities before closing any branch.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), which significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act included provisions affecting large and small financial institutions alike, including several provisions that profoundly affected how community banks, thrifts, and small bank and thrift holding companies are regulated. Among other things, these provisions abolish the Office of Thrift Supervision and transfer its functions to the other federal banking agencies, relax rules regarding interstate branching, allow financial institutions to pay interest on business checking accounts, and impose new capital requirements on bank and thrift holding companies.

The Dodd-Frank Act also established the Bureau of Consumer Financial Protection (the “CFPB”) as an independent entity within the Federal Reserve, which will be given the authority to promulgate consumer protection regulations applicable to all entities offering consumer financial services or products, including banks. Additionally, the Dodd-Frank Act included a series of provisions covering mortgage loan origination standards affecting, among other things, originator compensation, minimum repayment standards, and pre-payment penalties. The Dodd-Frank Act contained numerous other provisions affecting financial institutions of all types, many of which have an impact on our operating environment, including among other things, our regulatory compliance costs.

FDIC Deposit Insurance and Assessments

Our customer deposit accounts are insured up to applicable limits by the FDIC’s Deposit Insurance Fund (“DIF”) up to $250,000 per separately insured depositor.

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 minus the average tangible equity of the insured depository institution during the assessment period, whereas assessments were previously based on the amount of an institution’s insured deposits.

The minimum deposit insurance fund rate will increase from 1.15% to 1.35% by September 30, 2020, and the cost of the increase will be borne by depository institutions with assets of $10 billion or more. Our subsidiary bank, Simmons Bank, exceeds $10 billion in total assets, and it is, therefore, subject to the assessment rates assigned to larger banks, which may result in higher deposit insurance premiums. The FDIC adopted a final rule on February 7, 2011 that implemented these provisions of the Dodd-Frank Act.

On April 26, 2016, the FDIC approved a final rule to improve the deposit insurance assessment system for the established small insured depository institutions and the rule became effective on July 1, 2016. This final rule determined assessment rates using financial measures and supervisory ratings derived from a statistical model estimating the probability of failure over three years. The final rule eliminated risk categories, but established minimum and maximum assessment rates based on regulatory composite ratings.

The final rule maintained the range of initial assessment rates that apply once the Deposit Insurance Fund Reserve Ratio reaches 1.15% and as such initial deposit insurance assessment rates fall once the reserve ratio reaches that threshold. The reserve ratio reached 1.15% as of September 30, 2016.

In addition, the final rule provided that surcharges on large banks end and small banks are eligible for assessment credits once the Deposit Insurance Fund Reserve Ratio reaches 1.35%. The reserve ratio reached 1.35% as of September 30, 2018, and we were notified by the FDIC that Simmons Bank was entitled to $3.6 million in assessment credits.