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.

Pending Legislation

Because of concerns relating to competitiveness and the safety and soundness of the banking industry, Congress often considers a number of wide-ranging proposals for altering the structure, regulation, and competitive relationships of the nation's financial institutions. We cannot predict whether or in what form any proposals will be adopted or the extent to which our business may be affected.

Impacts of Growth

During 2017, through internal growth and through acquisitions, the consolidated 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 received approximately $5.9 million less in debit card fees on a pre-tax basis in the last six months of 2018. We expect a similar reduction in debit card fees in the first half of 2019 compared to the first half of 2018.

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. The CFPB has broad rule-making, supervisory and examination authority, as well as expanded data collecting and enforcement powers, all of which impacts the operations of Simmons Bank.

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.

ITEM 1A. RISK FACTORS

Risks Related to Our Industry

Our business may be adversely affected by conditions in the financial markets and general economic conditions.

Changes in economic conditions could cause the values of assets and liabilities recorded in the financial statements to change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses, or capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

The previous economic downturn elevated unemployment levels and negatively impacted consumer confidence. It also had a detrimental impact on industry-wide performance nationally as well as the Company's market areas. Since 2013, improvement in several economic indicators have been noted, including increasing consumer confidence levels, increased economic activity and a continued decline in unemployment levels.

Past market conditions have also led to the failure or merger of a number of prominent financial institutions. Financial institution failures or near-failures can result in further losses as a consequence of defaults on securities issued by them and defaults under contracts entered into with such entities as counterparties. Furthermore, declining asset values, defaults on mortgages and consumer loans, and the lack of market and investor confidence, as well as other factors, can all combine to increase credit default swap spreads, to cause rating agencies to lower credit ratings, and to otherwise increase the cost and decrease the availability of liquidity, despite very significant declines in Federal Reserve borrowing rates and other government actions. In the previous economic downturn, some banks and other lenders suffered significant losses and became reluctant to lend, even on a secured basis, due to the increased risk of default and the impact of declining asset values on the value of collateral. The foregoing can significantly weaken the strength and liquidity of some financial institutions worldwide.

The Company’s financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the states where we operate, and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, high business and investor confidence and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; natural disasters; or a combination of these or other factors.

The business environment in the states where we operate could deteriorate and adversely affect the credit quality of our loans and our results of operations and financial condition. There can be no assurance that business and economic conditions will remain stable in the near term.

Financial legislative and regulatory initiatives could adversely affect the results of our operations.

In response to the financial crisis affecting the banking system and financial markets, the Dodd-Frank Act was enacted in 2010, as well as several programs that have been initiated by the U.S. Treasury, the FRB, and the FDIC.

Some of the provisions of legislation and regulation that have adversely impacted the Company include: the Durbin Amendment to the Dodd-Frank Act which mandates a limit to debit card interchange fees and Regulation E amendments to the EFTA regarding overdraft fees. These provisions can limit the type of products we offer, the methods by which we offer them, and the prices at which they are offered. These provisions can also increase our costs in offering these products.

The CFPB has unprecedented authority over the regulation of consumer financial products and services. The CFPB has broad rule-making, supervisory and examination authority, as well as expanded data collecting and enforcement powers. The scope and impact of the CFPB’s actions can significantly impact the operations of the Company and the financial services industry in general.

These laws, regulations, and changes can increase our costs of regulatory compliance. They also can significantly affect the markets in which we do business, the markets for and value of our investments, and our ongoing operations, costs, and profitability. The ultimate impact of the many provisions in legislative and regulatory initiatives on the Company’s business and results of operations also depends upon regulatory interpretation and rulemaking. As a result, we are unable to predict the ultimate impact of future legislation or regulation, including the extent to which it could increase costs or limit our ability to pursue business opportunities in an efficient manner, or otherwise adversely affect our business, financial condition and results of operations.

Difficult market conditions have adversely affected our industry.

The financial markets have experienced significant volatility over the past several years. In some cases, the financial markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If financial market volatility worsens, or if there are more disruptions in the financial markets, including disruptions to the United States or international banking systems, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

Risks Related to Our Business

Our concentration of banking activities in Arkansas, Colorado, Kansas, Missouri, Oklahoma, Tennessee and Texas, including our real estate loan portfolio, makes us more vulnerable to adverse conditions in the particular local markets in which we operate.

Our subsidiary bank operates primarily within the states of Arkansas, Colorado, Kansas, Missouri, Oklahoma, Tennessee and Texas, where the majority of the buildings and properties securing our loans and the businesses of our customers are located. Our financial condition, results of operations and cash flows are subject to changes in the economic conditions in these seven states, the ability of our borrowers to repay their loans, and the value of the collateral securing such loans. We largely depend on the continued growth and stability of the communities we serve for our continued success. Declines in the economies of these communities or the states in general could adversely affect our ability to generate new loans or to receive repayments of existing loans, and our ability to attract new deposits, thus adversely affecting our net income, profitability and financial condition.

The ability of our borrowers to repay their loans could also be adversely impacted by the significant changes in market conditions in the region or by changes in local real estate markets, including deflationary effects on collateral value caused by property foreclosures. This could result in an increase in our charge-offs and provision for loan losses. Either of these events would have an adverse impact on our results of operations.

A significant decline in general economic conditions caused by inflation, recession, unemployment, acts of terrorism or other factors beyond our control could also have an adverse effect on our financial condition and results of operations. In addition, because multi-family and commercial real estate loans represent the majority of our real estate loans outstanding, a decline in tenant occupancy due to such factors or for other reasons could adversely impact the ability of our borrowers to repay their loans on a timely basis, which could have a negative impact on our results of operations.

Deteriorating credit quality, particularly in our credit card portfolio, may adversely impact us.

We have a sizeable consumer credit card portfolio. Although we experienced a decreased amount of net charge-offs in our credit card portfolio in recent years, the amount of net charge-offs could worsen. While we continue to experience a better performance with respect to net charge-offs than the national average in our credit card portfolio, our net charge-offs were 1.64% and 1.61% of our average outstanding credit card balances for the years ended December 31, 2018 and 2017, respectively. Future downturns in the economy could adversely affect consumers in a more delayed fashion compared to commercial businesses in general. Increasing unemployment and diminished asset values may prevent our credit card customers from repaying their credit card balances which could result in an increased amount of our net charge-offs that could have a material adverse effect on our unsecured credit card portfolio.

Changes to consumer protection laws may impede our origination or collection efforts with respect to credit card accounts, change account holder use patterns or reduce collections, any of which may result in decreased profitability of our credit card portfolio.

Credit card receivables that do not comply with consumer protection laws may not be valid or enforceable under their terms against the obligors of those credit card receivables. Federal and state consumer protection laws regulate the creation and enforcement of consumer loans, including credit card receivables. For instance, the federal Truth in Lending Act was amended by the "Credit Card Accountability, Responsibility and Disclosure Act of 2009," or the "Credit CARD Act," which, among other things:

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prevents any increases in interest rates and fees during the first year after a credit card account is opened, and increases at any time on interest rates on existing credit card balances, unless (i) the minimum payment on the related account is 60 or more days delinquent, (ii) the rate increase is due to the expiration of a promotional rate, (iii) the account holder fails to comply with a negotiated workout plan or (iv) the increase is due to an increase in the index rate for a variable rate credit card;

- requires that any promotional rates for credit cards be effective for at least six months;
- requires 45 days notice for any change of an interest rate or any other significant changes to a credit card account;
- empowers federal bank regulators to promulgate rules to limit the amount of any penalty fees or charges for credit card accounts to amounts that are "reasonable and proportional to the related omission or violation;" and
- requires credit card companies to mail billing statements 21 calendar days before the due date for account holder payments.

As a result of the Credit CARD Act and other consumer protection laws and regulations, it may be more difficult for us to originate additional credit card accounts or to collect payments on credit card receivables, and the finance charges and other fees that we can charge on credit card account balances may be reduced. Furthermore, account holders may choose to use credit cards less as a result of these consumer protection laws. Each of these results, independently or collectively, could reduce the effective yield on revolving credit card accounts and could result in decreased profitability of our credit card portfolio.

Our growth and expansion strategy may not be successful, and our market value and profitability may suffer.

We have historically employed, as important parts of our business strategy, growth through acquisition of banks and, to a lesser extent, through branch acquisitions and de novo branching. Any future acquisitions in which we might engage will be accompanied by the risks commonly encountered in acquisitions. These risks include, among other risks:

- credit risk associated with the acquired bank’s loans and investments;
- difficulty of integrating operations and personnel; and
- potential disruption of our ongoing business.

In addition to pursuing the acquisition of existing viable financial institutions as opportunities arise we may also continue to engage in de novo branching to further our growth strategy. De novo branching and growing through acquisition involve numerous risks, including the following:

- the inability to obtain all required regulatory approvals;
- the significant costs and potential operating losses associated with establishing a de novo branch or a new bank;
- the inability to secure the services of qualified senior management;
- the local market may not accept the services of a new bank owned and managed by a bank holding company headquartered outside of the market area of the new bank;
- the risk of encountering an economic downturn in the new market;
- the inability to obtain attractive locations within a new market at a reasonable cost; and
- the additional strain on management resources and internal systems and controls.

We expect that competition for suitable acquisition candidates will be significant. We may compete with other banks or financial service companies that are seeking to acquire our acquisition candidates, many of which are larger competitors and have greater financial and other resources. We cannot assure you that we will be able to successfully identify and acquire suitable acquisition targets on acceptable terms and conditions. Further, we cannot assure you that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions and de novo branching. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business and growth strategy and maintain or increase our market value and profitability.

Our recent results do not indicate our future results and may not provide guidance to assess the risk of an investment in our common stock.

We may not be able to sustain our historical rate of growth or be able to expand our business. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence. We may also be unable to identify advantageous acquisition opportunities or, once identified, enter into transactions to make such acquisitions. If we are not able to successfully grow our business, our financial condition and results of operations could be adversely affected.

Our cost of funds may increase as a result of general economic conditions, interest rates and competitive pressures.

Our cost of funds may increase as a result of general economic conditions, fluctuations in interest rates and competitive pressures. We have traditionally obtained funds principally through local deposits as we have a base of lower cost transaction deposits. Our costs of funds and our profitability and liquidity are likely to be adversely affected, if we have to rely upon higher cost borrowings from other institutional lenders or brokers to fund loan demand or liquidity needs. Also, changes in our deposit mix and growth could adversely affect our profitability and the ability to expand our loan portfolio.

We may not be able to raise the additional capital we need to grow and, as a result, our ability to expand our operations could be materially impaired.

Federal and state regulatory authorities require us and our subsidiary banks to maintain adequate levels of capital to support our operations. Many circumstances could require us to seek additional capital, such as:

- faster than anticipated growth;
- reduced earning levels;
- operating losses;
- changes in economic conditions;
- revisions in regulatory requirements; or
- additional acquisition opportunities.

Our ability to raise additional capital will largely depend on our financial performance, and on conditions in the capital markets which are outside our control. If we need additional capital but cannot raise it on terms acceptable to us, our ability to expand our operations or to engage in acquisitions could be materially impaired.

Accounting standards periodically change and the application of our accounting policies and methods may require management to make estimates about matters that are uncertain.

The regulatory bodies that establish accounting standards, including, among others, the Financial Accounting Standards Board and the SEC, periodically revise or issue new financial accounting and reporting standards that govern the preparation of our consolidated financial statements. The effect of such revised or new standards on our financial statements can be difficult to predict and can materially impact how we record and report our financial condition and results of operations. For example, in June 2016, the FASB issued Accounting Standards Update 2016-13, Measurement of Credit Losses on Financial Instruments, that will, effective January 1, 2020, substantially change the accounting for credit losses and other financial assets held by banks, financial institutions and other organizations. The standard removes the existing “probable” threshold in generally accepted accounting principles (“GAAP”) for recognizing credit losses and instead requires companies to reflect their estimate of credit losses over the life of the financial assets. Companies must consider all relevant information when estimating expected credit losses, including details about past events, current conditions, and reasonable and supportable forecasts. In December 2018, the Federal Reserve, OCC and FDIC released a final rule to revise their regulatory capital rules to address the upcoming change to the allowance measurement and subsequent concerns related to the impact on capital and capital planning. The rule provides an optional three-year phase-in period for the day-one adverse regulatory capital impact upon adoption of the standard. The impact of this final rule will depend on whether we elect to phase in the impact of the standard over a three-year period. The adoption of the standard may result in an overall material increase in the allowance for credit losses. However, the impact at adoption will be influenced by the portfolios' composition and quality at the adoption date as well as economic conditions and forecasts at that time. It is also possible that ongoing reported earnings and lending activity will be negatively impacted in periods following adoption.

In addition, our management must exercise judgment in appropriately applying many of our accounting policies and methods so they comply with generally accepted accounting principles. In some cases, management may have to select a particular accounting policy or method from two or more alternatives. In some cases, the accounting policy or method chosen might be reasonable under the circumstances and yet might result in our reporting materially different amounts than would have been reported if we had selected a different policy or method. Accounting policies are critical to fairly presenting our financial condition and results of operations and may require management to make difficult, subjective or complex judgments about matters that are uncertain.

The Federal Reserve Board’s source of strength doctrine could require that we divert capital to our subsidiary bank instead of applying available capital towards planned uses, such as engaging in acquisitions or paying dividends to shareholders.

The FRB’s policies and regulations require that a bank holding company, including a financial holding company, serve as a source of financial strength to its subsidiary banks, and further provide that a bank holding company may not conduct operations in an unsafe or unsound manner. It is the FRB’s policy that a bank holding company should stand ready to use available resources to provide adequate capital to its subsidiary banks during periods of financial stress or adversity, such as during periods of significant loan losses, and that such holding company should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks if such a need were to arise.

A bank holding company’s failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered an unsafe and unsound banking practice or a violation of the FRB’s regulations, or both. Accordingly, if the financial condition of our subsidiary banks were to deteriorate, we could be compelled to provide financial support to our subsidiary bank at a time when, absent such FRB policy, we may not deem it advisable to provide such assistance. Under such circumstances, there is a possibility that we may not either have adequate available capital or feel sufficiently confident regarding our financial condition, to enter into acquisitions, pay dividends, or engage in other corporate activities.

We may incur environmental liabilities with respect to properties to which we take title.

A significant portion of our loan portfolio is secured by real property. In the course of our business, we may own or foreclose and take title to real estate and could become subject to environmental liabilities with respect to these properties. We may become responsible to a governmental agency or third parties for property damage, personal injury, investigation and clean-up costs incurred by those parties in connection with environmental contamination, or may be required to investigate or clean-up hazardous or toxic substances, or chemical releases at a property. The costs associated with environmental investigation or remediation activities could be substantial. If we were to become subject to significant environmental liabilities, it could have a material adverse effect on our results of operations and financial condition.

Our management has broad discretion over the use of proceeds from future stock offerings.

Although we generally indicate our intent to use the proceeds from stock offerings for general corporate purposes, including funding internal growth and selected future acquisitions, our Board of Directors retains significant discretion with respect to the use of the proceeds from possible future offerings. If we use the funds to acquire other businesses, there can be no assurance that any business we acquire will be successfully integrated into our operations or otherwise perform as expected.

Our business is heavily reliant on information technology systems, facilities, and processes; and a disruption in those systems, facilities, and processes, or a breach, including cyber-attacks, in the security of our systems, could have significant, negative impact on our business, result in the disclosure of confidential information, damage our reputation and create significant financial and legal exposure for us.

Our businesses are dependent on our ability and the ability of our third party service providers to process, record and monitor a large number of transactions. If the financial, accounting, data processing or other operating systems and facilities fail to operate properly, become disabled, experience security breaches or have other significant shortcomings, our results of operations could be materially adversely affected.

Although we and our third party service providers devote significant resources to maintain and regularly upgrade our systems and processes that are designed to protect the security of computer systems, software, networks and other technology assets and the confidentiality, integrity and availability of information belonging to us and our customers, there is no assurance that our security systems and those of our third party service providers will provide absolute security. Financial services institutions and companies engaged in data processing have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyber-attacks and other means. Certain financial institutions in the United States have also experienced attacks from technically sophisticated and well-resourced third parties that were intended to disrupt normal business activities by making internet banking systems inaccessible to customers for extended periods. These “denial-of-service” attacks have not breached our data security systems, but require substantial resources to defend, and may affect customer satisfaction and behavior.

Despite our efforts and those of our third party service providers to ensure the integrity of our systems, it is possible that we may not be able to anticipate or to implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because security attacks can originate from a wide variety of sources, including persons who are involved with organized crime or associated with external service providers or who may be linked to terrorist organizations or hostile foreign governments. Those parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. These risks may increase in the future as we continue to increase our mobile payments and other internet based product offerings and expand our internal usage of web-based products and applications. If our security systems were penetrated or circumvented, it could cause serious negative consequences for us, including significant disruption of our operations, misappropriation of our confidential information or that of our customers, or damage our computers or systems and those of our customers and counterparties, and could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, customer dissatisfaction, significant litigation exposure, and harm to our reputation, all of which could have a material adverse effect on us.

Risks Related to Owning Our Stock

The holders of our subordinated notes and subordinated debentures have rights that are senior to those of our common shareholders. If we defer payments of interest on our outstanding subordinated debentures or if certain defaults relating to those debentures occur, we will be prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to our common stock.

We have subordinated debentures issued in connection with trust preferred securities. Payments of the principal and interest on the trust preferred securities are unconditionally guaranteed by us. The subordinated debentures are senior to our shares of common stock. As a result, we must make payments on the subordinated debentures (and the related trust preferred securities) before any dividends can be paid on our common stock. In addition, in the event of our bankruptcy, dissolution or liquidation, the holders of both the subordinated debentures and the subordinated notes must be satisfied before any distributions can be made to the holders of our common stock. We have the right to defer distributions on the subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid to holders of our capital stock. If we elect to defer or if we default with respect to our obligations to make payments on these subordinated debentures, this would likely have a material adverse effect on the market value of our common stock. Moreover, without notice to or consent from the holders of our common stock, we may issue additional series of subordinated debt securities in the future with terms similar to those of our existing subordinated debt securities or enter into other financing agreements that limit our ability to purchase or to pay dividends or distributions on our capital stock.

We may be unable to, or choose not to, pay dividends on our common stock.

We cannot assure you of our ability to continue to pay dividends. Our ability to pay dividends depends on the following factors, among others:

- We may not have sufficient earnings since our primary source of income, the payment of dividends to us by our subsidiary bank, is subject to federal and state laws that limit the ability of those banks to pay dividends;
- FRB policy requires bank holding companies to pay cash dividends on common stock only out of net income available over the past year and only if prospective earnings retention is consistent with the organization’s expected future needs and financial condition; and
- Our Board of Directors may determine that, even though funds are available for dividend payments, retaining the funds for internal uses, such as expansion of our operations, is a better strategy.

If we fail to pay dividends, capital appreciation, if any, of our common stock may be the sole opportunity for gains on an investment in our common stock. In addition, in the event our subsidiary bank becomes unable to pay dividends to us, we may not be able to service our debt or pay our other obligations or pay dividends on our common stock. Accordingly, our inability to receive dividends from our subsidiary bank could also have a material adverse effect on our business, financial condition and results of operations and the value of your investment in our common stock.

There may be future sales of additional common stock or preferred stock or other dilution of our equity, which may adversely affect the value of our common stock.

We are not restricted from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or preferred stock or any substantially similar securities. The value of our common stock could decline as a result of sales by us of a large number of shares of common stock or preferred stock or similar securities in the market or the perception that such sales could occur.

Anti-takeover provisions could negatively impact our shareholders.

Provisions of our articles of incorporation and by-laws and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. The combination of these provisions effectively inhibits a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of our common stock. These provisions could also discourage proxy contests and make it more difficult for holders of our common stock to elect directors other than the candidates nominated by our Board of Directors.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are currently no unresolved Commission staff comments.

ITEM 2. PROPERTIES

The principal offices of the Company and of Simmons Bank consist of an eleven-story office building and adjacent office space located in the central business district of the city of Pine Bluff, Arkansas. We have additional corporate offices located in Little Rock, Arkansas, including a twelve-story office building in Little Rock's River Market district.

The Company and its subsidiaries own or lease additional offices in the states of Arkansas, Colorado, Kansas, Missouri, Oklahoma, Tennessee and Texas. The Company and Simmons Bank conduct financial operations from approximately 191 financial centers located in communities throughout Arkansas, Colorado, Kansas, Missouri, Oklahoma, Tennessee and Texas.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

No items are reportable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the NASDAQ under the symbol "SFNC."

As of February 13, 2019, there were 1,867 shareholders of record of our common stock.

See Part III, Item 12 of this Form 10-K for information relating to compensation plans under which our equity securities are authorized for issuance.

Stock Repurchase

The Company made no purchases of its common stock during the three months ended or years ended December 31, 2018 and 2017. Under the current stock repurchase plan, we can repurchase an additional 308,272 shares.

Performance Graph

The performance graph below compares the cumulative total shareholder return on the Company's Common Stock with the cumulative total return on the equity securities of companies included in the NASDAQ Composite Index and the SNL U.S. Bank & Thrift Index. The graph assumes an investment of $100 on December 31, 2013 and reinvestment of dividends on the date of payment without commissions. The performance graph represents past performance and should not be considered as an indication of future performance.

	Period Ending					
Index	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Simmons First National Corporation	100.00	111.85	144.14	177.78	166.33	143.46
NASDAQ Composite	100.00	114.75	122.74	133.62	173.22	168.30
SNL U.S. Bank & Thrift	100.00	111.63	113.89	143.78	169.07	140.45

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial data concerning the Company and is qualified in its entirety by the detailed information and consolidated financial statements, including notes thereto, included elsewhere in this report. The income statement, balance sheet and per common share data as of and for the years ended December 31, 2018, 2017, 2016, 2015, and 2014, were derived from consolidated financial statements of the Company, which were audited by BKD, LLP. Results from past periods are not necessarily indicative of results that may be expected for any future period.

Management believes that certain non-GAAP measures, including diluted core earnings per share, tangible book value, the ratio of tangible common equity to tangible assets, tangible stockholders' equity and return on average tangible equity, may be useful to analysts and investors in evaluating the performance of our Company. We have included certain of these non-GAAP measures, including cautionary remarks regarding the usefulness of these analytical tools, in this table. The selected consolidated financial data set forth below should be read in conjunction with the financial statements of the Company and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report. See the "GAAP Reconciliation of Non-GAAP Financial Measures" for additional discussion of non-GAAP measures.

	Years Ended December 31,				
(In thousands, except per share & other data)	2018	2017	2016	2015	2014
Income statement data:					
Net interest income	$552,552	$ 354,930	$ 279,206	$ 278,595	$ 171,064
Provision for loan losses	38,148	26,393	20,065	9,022	7,245
Net interest income after provision for loan losses	514,404	328,537	259,141	269,573	163,819
Non-interest income	143,896	138,765	139,382	94,661	62,192
Non-interest expense	392,229	312,379	255,085	256,970	175,721
Income before taxes	266,071	154,923	143,438	107,264	50,290
Provision for income taxes	50,358	61,983	46,624	32,900	14,602
Net income	215,713	92,940	96,814	74,364	35,688
Preferred stock dividends	—	—	24	257	—
Net income available to common shareholders	$215,713	$ 92,940	$ 96,790	$ 74,107	$ 35,688
Per share data[10]:					
Basic earnings	2.34	1.34	1.58	1.32	1.06
Diluted earnings	2.32	1.33	1.56	1.31	1.05
Diluted core earnings (non-GAAP) [1]	2.37	1.70	1.64	1.59	1.14
Book value	24.33	22.65	18.40	17.27	13.69
Tangible book value (non-GAAP) [2]	14.18	12.34	11.98	10.98	10.07
Dividends	0.60	0.50	0.48	0.46	0.44
Basic average common shares outstanding	92,268,131	69,384,500	61,291,296	56,167,592	33,757,532
Diluted average common shares outstanding	92,830,485	69,852,920	61,927,092	56,419,322	33,844,052

	Years Ended December 31,				
	2018	2017	2016	2015	2014
Balance sheet data at period end:					
Assets	$16,543,337	$15,055,806	$8,400,056	$7,559,658	$4,643,354
Investment securities	2,440,946	1,957,575	1,619,450	1,526,780	1,082,870
Total loans	11,723,171	10,779,685	5,632,890	4,919,355	2,736,634
Allowance for loan losses (excluding loans acquired) (3)	56,599	41,668	36,286	31,351	29,028
Goodwill and other intangible assets	937,021	948,722	401,464	380,923	130,621
Non-interest bearing deposits	2,672,405	2,665,249	1,491,676	1,280,234	889,260
Deposits	12,398,752	11,092,875	6,735,219	6,086,096	3,860,718
Other borrowings	1,345,450	1,380,024	273,159	162,289	114,682
Subordinated debt and trust preferred	353,950	140,565	60,397	60,570	20,620
Stockholders' equity	2,246,434	2,084,564	1,151,111	1,076,855	494,319
Tangible stockholders' equity (non-GAAP) (2)	1,309,413	1,135,842	749,647	665,080	363,698
Capital ratios at period end:					
Common stockholders' equity to total assets	13.58 %	13.85 %	13.70 %	13.84 %	10.65 %
Tangible common equity to tangible assets (non-GAAP) (4)	8.39 %	8.05 %	9.37 %	9.26 %	8.06 %
Tier 1 leverage ratio	8.78 %	9.21 %	10.95 %	11.20 %	8.77 %
Common equity Tier 1 risk-based ratio	10.22 %	9.80 %	13.45 %	14.21 %	n/a
Tier 1 risk-based ratio	10.22 %	9.80 %	14.45 %	16.02 %	13.43 %
Total risk-based capital ratio	13.35 %	11.35 %	15.12 %	16.72 %	14.50 %
Dividend payout to common shareholders	25.86 %	37.59 %	30.67 %	34.98 %	41.71 %
Annualized performance ratios:					
Return on average assets	1.37 %	0.92 %	1.25 %	1.03 %	0.80 %
Return on average common equity	10.00 %	6.68 %	8.75 %	7.90 %	8.11 %
Return on average tangible equity (non-GAAP) (2) (5)	18.44 %	11.26 %	13.92 %	12.53 %	10.99 %
Net interest margin (6)	3.97 %	4.07 %	4.19 %	4.55 %	4.47 %
Efficiency ratio (7)	52.85 %	55.27 %	56.32 %	59.01 %	67.22 %
Balance sheet ratios: (8)					
Nonperforming assets as a percentage of period-end assets	0.37 %	0.52 %	0.79 %	0.85 %	1.25 %
Nonperforming loans as a percentage of period-end loans	0.41 %	0.81 %	0.91 %	0.58 %	0.63 %
Nonperforming assets as a percentage of period-end loans and OREO	0.72 %	1.38 %	1.53 %	1.94 %	2.76 %
Allowance to nonperforming loans	164.41 %	90.26 %	92.09 %	165.83 %	223.31 %
Total allowance and credit coverage (non-GAAP) (9)	0.90 %	1.21 %	1.28 %	1.77 %	3.81 %
Allowance for loan losses as a percentage of period-end loans	0.67 %	0.73 %	0.84 %	0.97 %	1.41 %
	0.29 %	0.35 %	0.40 %	0.17 %	0.30 %

Net charge-offs (recoveries) as a percentage of average loans					
Other data					
Number of financial centers	191	200	150	149	109
Number of full time equivalent employees	2,654	2,640	1,875	1,946	1,338

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(1)Diluted core earnings per share is a non-GAAP financial measure. Diluted core earnings per share excludes from net income certain non-core items and then is divided by average diluted common shares outstanding. See “GAAP Reconciliation of Non-GAAP Financial Measures” below for a GAAP reconciliation of this non-GAAP financial measure.

(2)Because of Simmons’ significant level of intangible assets, total goodwill and core deposit premiums, management of Simmons believes a useful calculation for investors in their analysis of Simmons is tangible book value per share, which is a non-GAAP financial measure. Tangible book value per share is calculated by subtracting goodwill and other intangible assets from total common shareholders’ equity, and dividing the resulting number by the common stock outstanding at period end. See “GAAP Reconciliation of Non-GAAP Financial Measures” below for a GAAP reconciliation of this non-GAAP financial measure.

(3)The allowance for loan losses related to loans acquired (not shown in the table above) was $95,000 and $418,000 at December 31, 2018 and 2017, respectively, and $954,000 for the years ended December 31, 2016 and 2015. The total allowance for loan losses at December 31, 2018, 2017, 2016 and 2015 was $56,694,000, $42,086,000, $37,240,000 and $32,305,000, respectively.

(4)Tangible common equity to tangible assets ratio is a non-GAAP financial measure. The tangible common equity to tangible assets ratio is calculated by dividing total common shareholders’ equity less goodwill and other intangible assets (resulting in tangible common equity) by total assets less goodwill and other intangible assets as of and for the periods ended presented above. See “GAAP Reconciliation of Non-GAAP Financial Measures” below for a GAAP reconciliation of this non-GAAP financial measure.

(5)Return on average tangible equity is a non-GAAP financial measure that removes the effect of goodwill and other intangible assets, as well as the amortization of intangibles, from the return on average equity. This non-GAAP financial measure is calculated as net income, adjusted for the tax-effected effect of intangibles, divided by average tangible equity which is calculated as average shareholders’ equity for the period presented less goodwill and other intangible assets. See “GAAP Reconciliation of Non-GAAP Financial Measures” below for a GAAP reconciliation of this non-GAAP financial measure.

(6)Net interest margin is presented on a fully taxable equivalent basis that 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.

(7)The efficiency ratio is noninterest expense before foreclosed property expense and amortization of intangibles as a percent of net interest income (fully taxable equivalent) and noninterest revenues, excluding gains and losses from securities transactions and non-core items. See “GAAP Reconciliation of Non-GAAP Financial Measures” below for a GAAP reconciliation of this non-GAAP financial measure.

(8)Excludes all loans acquired except for their inclusion in total assets.

(9)The total allowance and credit coverage ratio is calculated by dividing total loans by the sum of the allowance for loan losses and credit discounts on the acquired and impaired loans. See “GAAP Reconciliation of Non-GAAP Financial Measures” below for a GAAP reconciliation of this non-GAAP financial measure.

(10)Share and per share amounts have been restated for the two-for-one stock split in February 2018.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies & Estimates

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, Acquired Loans

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 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. 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. A loan acquired is 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.

Employee Benefit 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 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 14, Employee Benefit Plans, in the accompanying 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 2017 and 2018 as the standard impacted how the income tax effects associated with stock-based compensation are recognized.

2018 Overview

Our net income for the year ended December 31, 2018 was $215.7 million and diluted earnings per share were $2.32, increases of $122.8 million and $0.99, compared to the same period in 2017. Net income for both 2018 and 2017 included several significant non-core items that impacted net income, mostly related to our acquisitions and branch right sizing initiatives. Excluding all non-core items, core earnings for the year ended December 31, 2018 was $220.2 million, or $2.37 diluted core earnings per share, compared to $119.0 million, or $1.70 diluted core earnings per share in 2017. See “GAAP Reconciliation of Non-GAAP Financial Measures for additional discussion and reconciliation of non-GAAP measures”.

In addition to producing record results for the entire year of 2018, we completed two successful system conversions for the banks acquired in late 2017 and a 2-for-1 stock split. We also announced yet another acquisition that will be completed in 2019. Throughout 2018, we experienced excellent organic growth in all our markets and balanced year-to-date loan yields with deposit costs in a rising-rate environment, all the while sustaining our reputable asset quality.

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 Notes to Consolidated Financial Statements included elsewhere in this report, for additional information related to these acquisitions.

In March, we completed an offering of $330.0 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 used approximately $232 million of the net proceeds from the sale of the Notes to repay outstanding indebtedness and the remainder for general corporate purposes. See Note 11, Other Borrowings and Subordinated Notes and Debentures, in the accompanying Notes to Consolidated Financial Statements included elsewhere in this report, for additional information related to the Notes.

During August 2017, we, through our subsidiary bank, Simmons Bank, were the successful bidder at public auction held to discharge certain indebtedness owed to Simmons Bank and became the sole shareholder of Heartland Bank in Little Rock, Arkansas. During the first quarter of 2018, Heartland Bank completed the sale of the majority of its branches, as well as all of its deposits, to Relyance Bank, N.A. Also during the first quarter of 2018, we completed the sale of certain loans and other facilities related to the Heartland Bank held for sale assets and liabilities and we continue our liquidation strategy for the few remaining assets. See Note 4 for additional information related to assets and liabilities held for sale related to Heartland Bank as of December 31, 2018.

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

During September 2018, we closed eight branch locations and two mobile 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.

Also in September 2018, we sold approximately $32 million of substandard rated loans that consisted of both legacy and acquired loans. The loans had adequate reserves, thus no additional provision expense was required. However, the sale increased net charge-offs by approximately $4.6 million.

In November 2018, we announced our Next Generation Bank strategic initiative that we believe positions us to provide competitive banking services well into the future. Through this program, we will evaluate our banking systems and functions and improve or replace with the latest in banking technologies. This initiative will transform our Bank in many ways, but most importantly it will assist us in our efforts to create a differentiated experience where our customers will engage seamlessly across all channels including digital.

2018 was a remarkable year and we are very proud of our associates and accomplishments. In addition to producing record results and growing $1.5 billion organically, we focused on improving our delivery of products and services to our customers throughout our existing footprint. We will carry this momentum into 2019 as we continue to improve our business processes, expanding our customer relationships and closing on our acquisition.

Stockholders' equity as of December 31, 2018 was $2.2 billion, book value per share was $24.33 and tangible book value per share was $14.18. Our ratio of common stockholders' equity to total assets was 13.6% and the ratio of tangible common stockholders' equity to tangible assets was 8.4% at December 31, 2018. See "GAAP Reconciliation of Non-GAAP Financial Measures" for additional discussion and reconciliation of non-GAAP measures. The Company's Tier I leverage ratio of 8.8%, as well as our other regulatory capital ratios, remain significantly above the "well capitalized". See Table 18 – Risk-Based Capital for regulatory capital ratios.

Total loans, including loans acquired, were $11.7 billion at December 31, 2018, an increase of $943.5 million, or 8.8%, from the same period in 2017. Acquired loans decreased by $1.78 billion, or 35.1%, net of discounts, while legacy loans (all loans excluding acquired loans) grew $2.72 billion, or 47.8%. Excluding the $942.8 million in loan balances that migrated from acquired loans, legacy loans grew $1.78 billion, or 31.2%. Our markets in North Texas, Northwest Arkansas, Southwest Tennessee, Middle Tennessee, St. Louis, Kansas City and Oklahoma City have all outpaced our average growth rate. 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 December 31, 2018, the allowance for loan losses for legacy loans was $56.6 million. The allowance for loan losses for loans acquired was $95,000 and the acquired loan discount credit mark was $49.3 million. The allowances for loan losses and credit marks provide a total of $106.0 million of coverage, which equates to a total coverage ratio of 0.90% of gross loans. The ratio of credit mark and related allowance to loans acquired was 1.48%.

Total assets were $16.5 billion at December 31, 2018 compared to $15.1 billion at December 31, 2017, an increase of $1.5 billion primarily due to strong organic loan growth.

Net Interest Income

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.

The FRB sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The FRB target for the Federal Funds rate, which is the cost to banks of immediately available overnight funds, had remained unchanged at 0.00% - 0.25% since December 2008 through December 16, 2015 at which time the FRB did raise the target to 0.25% - 0.5%. The FRB raised this target rate again to 0.5% - 0.75% on December 14, 2016. During 2017, the FRB raised this target rate in March, June and December ending at 1.25% - 1.50% as of December 14, 2017. In 2018, the FRB increased the target rate four times throughout the year ending at 2.25% - 2.50% as of December 20, 2018. Our loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit, had also remained unchanged at 3.25% from December 2008 to December 17, 2015 when the rate increased to 3.5%. On December 15, 2016, the prime interest rate increased to 3.75%. The prime interest rate increased three times during 2017 ultimately ending at 4.50% as of December 14, 2017. In 2018, the prime interest rate increased four times throughout the year ending at 5.50% as of December 20, 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 65% of our loan portfolio and approximately 75% of our time deposits have repriced in one year or less. Our current interest rate sensitivity shows that approximately 70% of our loans and 82% of our time deposits will reprice in the next year.

For the year ended December 31, 2018, net interest income on a fully taxable equivalent basis was $557.8 million, an increase of $195.2 million, or 53.8%, over the same period in 2017. The increase in net interest income was the result of a $283.3 million increase in interest income partially offset by a $88.1 million increase in interest expense.

The increase in interest income primarily resulted from an incremental $263.7 million of interest income on loans, consisting of legacy loans and loans acquired, and an increase of $14.8 million of interest income on investment securities. An increase in loan volume, resulting primarily from our acquisitions completed in the fourth quarter of 2017 as well as strong organic loan growth in 2018, generated $239.5 million of additional interest income. Furthermore, an increase in yield of 33 basis points led to an incremental $24.2 million in interest income during the year ended December 31, 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 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 years ended December 31, 2018, 2017 and 2016 interest income included $35.3 million, $27.8 million and $24.3 million, respectively, for the yield accretion recognized on loans acquired.

The $88.1 million increase in interest expense is primarily related to the growth in deposit accounts, higher cost of deposits due to the rising-rate environment and the additional subordinated and other debt. Interest expense increased $19.4 million due to deposit growth, primarily from the 2017 acquisitions, and $40.0 million due to the increase in yield of 51 basis points. Interest expense also increased $28.5 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 throughout 2018.

Our net interest margin was 3.97% for the year ended December 31, 2018, down 10 basis points from 2017. Normalized for all accretion, our core net interest margin at December 31, 2018 and 2017 was 3.72% and 3.76%, respectively. The decrease in both the net interest margin and the core net interest margin in 2018 is primarily due to the rising rate environment and the issuance of the subordinated debt in first quarter 2018, discussed above, outpacing our growth in interest income on loans and investment securities.

Since December 2017, the Federal Reserve Board increased the Fed Funds target rate by 100 basis points. Our deposit beta was 57% and the core loan beta was 50%. During this same period, loan yield has remained flat and core loan yield has increased 50 basis points while cost of deposits has risen 45 basis points. The cost of borrowed funds increased 86 basis points since December 2017. The issuance of subordinated debt decreased the net interest margin approximately 5 basis points during 2018.

Our net interest margin was 4.07% and 4.19% for the years ended December 31, 2017 and 2016, respectively.

Tables 1 and 2 reflect an analysis of net interest income on a fully taxable equivalent basis for the years ended December 31, 2018, 2017 and 2016, respectively, as well as changes in fully taxable equivalent net interest margin for the years 2018 versus 2017 and 2017 versus 2016.

Table 1: Analysis of Net Interest Margin
(FTE =Fully Taxable Equivalent)

	Years Ended December 31,		
(In thousands)	2018	2017	2016
Interest income	$680,687	$395,004	$301,005
FTE adjustment	5,297	7,723	7,722
Interest income - FTE	685,984	402,727	308,727
Interest expense	128,135	40,074	21,799
Net interest income - FTE	$557,849	$362,653	$286,928
Yield on earning assets - FTE	4.89 %	4.52 %	4.50 %
Cost of interest bearing liabilities	1.19 %	0.59 %	0.41 %
Net interest spread - FTE	3.70 %	3.93 %	4.09 %
Net interest margin - FTE	3.97 %	4.07 %	4.19 %

Table 2: Changes in Fully Taxable Equivalent Net Interest Margin

(In thousands)	2018 vs. 2017	2017 vs. 2016
Increase due to change in earning assets	$255,326	$96,661
Increase (decrease) due to change in earning asset yields	27,931	(2,661)
Decrease due to change in interest bearing liabilities	(45,351)	(10,470)
Decrease due to change in interest rates paid on interest bearing liabilities	(42,710)	(7,805)
Increase in net interest income	$195,196	$75,725

Table 3 shows, for each major category of earning assets and interest bearing liabilities, the average (computed on a daily basis) amount outstanding, the interest earned or expensed on such amount and the average rate earned or expensed for each of the years in the three-year period ended December 31, 2018. 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

	Years Ended December 31,								
	2018			2017			2016		
(In thousands)	Average Balance	Income/ Expense	Yield/ Rate (%)	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	$409,092	$5,996	1.47	$225,466	$1,933	0.86	$199,983	$756	0.38
Investment securities - taxable	1,725,313	43,083	2.50	1,307,176	28,517	2.18	1,059,240	21,706	2.05
Investment securities - non-taxable	516,769	19,231	3.72	444,378	19,045	4.29	454,349	19,337	4.26
Mortgage loans held for sale	29,550	1,336	4.52	13,064	605	4.63	27,506	1,102	4.01
Assets held in trading accounts	—	—	—	41	—	—	4,752	16	0.34
Loans	11,355,890	616,338	5.43	6,918,293	352,627	5.10	5,109,492	265,810	5.20
Total interest earning assets	14,036,614	685,984	4.89	8,908,418	402,727	4.52	6,855,322	308,727	4.50
Non-earning assets	1,734,748			1,166,533			904,911		
Total assets	$15,771,362			$10,074,951			$7,760,233		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Liabilities:									
Interest bearing liabilities:									
Interest bearing transaction and savings deposits	$6,691,030	$56,903	0.85	$4,594,733	$18,112	0.39	$3,637,907	$8,050	0.22
Time deposits	2,344,303	30,307	1.29	1,430,701	9,644	0.67	1,263,317	7,167	0.57
Total interest bearing deposits	9,035,333	87,210	0.97	6,025,434	27,756	0.46	4,901,224	15,217	0.31
Federal funds purchased and securities sold under agreements to repurchase	110,986	423	0.38	117,147	347	0.30	112,030	273	0.24
Other borrowings	1,309,430	23,654	1.81	567,959	8,621	1.52	188,085	4,148	2.21
Subordinated debt and debentures	341,254	16,848	4.94	79,880	3,350	4.19	60,206	2,161	3.59
Total interest bearing liabilities	10,797,003	128,135	1.19	6,790,420	40,074	0.59	5,261,545	21,799	0.41
Non-interest bearing liabilities:									

Non-interest bearing deposits	2,697,235			1,788,385			1,333,965		
Other liabilities	120,027			105,331			56,575		
Total liabilities	13,614,265			8,684,136			6,652,085		
Stockholders’ equity	2,157,097			1,390,815			1,108,148		
Total liabilities and stockholders’ equity	$15,771,362			$10,074,951			$7,760,233		
Net interest spread			3.70			3.93			4.09
Net interest margin		$557,849	3.97		$362,653	4.07		$286,928	4.19

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Table 4: Volume/Rate Analysis

	Years Ended December 31,					
	2018 vs. 2017			2017 vs. 2016		
(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	$2,171	$1,892	$4,063	$107	$1,070	$1,177
Investment securities - taxable	10,030	4,536	14,566	5,338	1,473	6,811
Investment securities - non-taxable	2,877	(2,691)	186	(426)	134	(292)
Mortgage loans held for sale	745	(14)	731	(648)	151	(497)
Assets held in trading accounts	—	—	—	(8)	(8)	(16)
Loans	239,503	24,208	263,711	92,298	(5,481)	86,817
Total	255,326	27,931	283,257	96,661	(2,661)	94,000
Interest expense:						
Interest bearing transaction and savings accounts	10,967	27,824	38,791	2,533	7,529	10,062
Time deposits	8,477	12,186	20,663	1,024	1,453	2,477
Federal funds purchased and securities sold under agreements to repurchase	(19)	95	76	13	61	74
Other borrowings	13,122	1,911	15,033	6,115	(1,642)	4,473
Subordinated notes and debentures	12,804	694	13,498	785	404	1,189
Total	45,351	42,710	88,061	10,470	7,805	18,275
Increase (decrease) in net interest income	$209,975	$(14,779)	$195,196	$86,191	$(10,466)	$75,725

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, assessment of current economic conditions, past due and non-performing loans and historical 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 2018, 2017 and 2016 was $38.1 million, $26.4 million and $20.1 million, respectively. 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 an increased provision.

The provision on loans acquired for 2018 included $3.3 million due to decreases in the expected cash flows on certain purchased credit impaired loans as identified by our required ongoing evaluation of credit marks.

Our provision expense for the year ending December 31, 2017 included building reserves for three commercial credits from the Wichita market which had specific impairments identified. Charge-offs of $7.6 million were recorded during 2017 related to these loans. $1.9 million in provision expense was recorded during the year ended December 31, 2017 as a result of a decrease in expected cash flows from our required ongoing evaluation of credit marks on certain purchased credit impaired loans.

Our provision expense for the year ended December 31, 2016 included replenishment of a $5.4 million single charge-off related to a nonaccrual loan acquired from Metropolitan National Bank. The loan was charged down to the appraised liquidation value of the collateral and the charged-off amount was added back to the allowance for loan losses during the year, resulting in the increase in provision. The provision expense for 2016 also included replenishment of a $2.0 million charge-off related to potential customer fraud on an agricultural loan, which carried a pass rating.

See Allowance for Loan Losses section for additional information.

Non-Interest Income

Total non-interest income was $143.9 million in 2018, compared to $138.8 million in 2017 and $139.4 million in 2016. Non-interest income for 2018 increased $5.1 million, or 3.7%, from 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.

During 2018, we had increases in trust income and service charges that were partially offset by reductions in debit card fees and mortgage and SBA lending income. Trust income increased $4.6 million, or 24.5%, and total service charges increased by $4.0 million, or 8.7%. The increase in total service charges was due to the additional accounts acquired from the 2017 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 2017 acquisitions. Conversely, SBA lending premium income decreased $1.8 million when compared to 2017 as a result of remaining selective in our decisions regarding loan sales as premium rates have continued to be lower in recent months compared to the beginning of 2018. The decrease in mortgage lending income was due to less mortgage lending transactions as a result of continually rising interest rates throughout the year. Additionally, as of July 1, 2018, we became subject to the interchange rate cap as established by the Durbin amendment. Consequently, during the last six months of 2018, debit card fees decreased $5.9 million which contributed to the net $2.4 million reduction in debit card fees for 2018 when compared to 2017. For further discussion regarding the Durbin amendment and the expected future impact, see the “Impacts of Growth” section in Part I, Item 1, Business.

There was a $617,000 decrease in non-interest income from the year ended December 31, 2017 compared to the same period of 2016 primarily due to net gains recorded on the sale of securities of $1.1 million compared to $5.8 million in 2016. In addition, 2017 non-interest income from mortgage and SBA lending was $3.2 million less than 2016. These decreases were partially offset by the $3.7 million gain on the sale of the property and casualty insurance lines of business and increases in trust income, service charges and debit and credit card fees.

During 2017 and 2016 we recorded net gains of $264,000 and $241,000, respectively, on the sale of several branch locations which was part of our branch right sizing strategy. We actively market our former branch facilities in an effort to dispose of these non-earning assets.

Table 5 shows non-interest income for the years ended December 31, 2018, 2017 and 2016, respectively, as well as changes in 2018 from 2017 and in 2017 from 2016.

Table 5: Non-Interest Income

(Dollars in thousands)	Years Ended December 31, 2018	2017	2016	2018 Change from 2017		2017 Change from 2016	
Trust income	$23,128	$18,570	$15,442	$4,558	24.5 %	$3,128	20.3 %
Service charges on deposit accounts	42,508	36,079	32,414	6,429	17.8	3,665	11.3
Other service charges and fees	7,469	9,919	12,872	(2,450)	(24.7)	(2,953)	(22.9)
Mortgage and SBA lending income	11,043	13,316	16,483	(2,273)	(17.1)	(3,167)	(19.2)
Investment banking income	3,141	2,793	3,471	348	12.5	(678)	(19.5)
Debit and credit card fees	32,268	34,258	30,740	(1,990)	(5.8)	3,518	11.4
Bank owned life insurance income	4,415	3,503	3,324	912	26.0	179	5.4
Gain on sale of securities, net	61	1,059	5,848	(998)	(94.2)	(4,789)	(81.9)
Gain on sale of premises held for sale, net	—	264	241	(264)	(100.0)	23	9.5
Gain on sale of insurance lines of business, net	—	3,708	—	(3,708)	*	3,708	*
Other income	19,863	15,296	18,547	4,567	29.9	(3,251)	(17.5)
Total non-interest income	$143,896	$138,765	$139,382	$5,131	3.7 %	$(617)	(0.4)%

*Not meaningful

Recurring fee income (service charges, trust fees, debit and credit card fees and other fees) for 2018 was $105.4 million, an increase of $6.5 million, or 6.6%, when compared with the 2017 amounts. The majority of the increase was in trust income and service charges, previously discussed.

Recurring fee income for 2017 was $98.8 million, an increase of $7.4 million, or 8.0%, when compared with 2016. Trust income increased by $3.1 million, or 20.3%, service charges on deposit accounts increased $3.7 million, or 11.3% and debit and credit card fees increased by $3.5 million, or 11.4%. The increases in service charges and debit and credit card fees were due to additional accounts acquired from the 2017 acquisitions of Hardeman, OKSB and First Texas. The increase in trust income was from continued positive growth in our existing personal trust and investor management client base.

During 2016, we were intently focused on our bond portfolio strategy that involved actively looking to reduce the number of issuances we held in our portfolio and monitoring the market conditions for opportunities to sell securities and replace with comparable yields while only marginally extending the duration of the portfolio. As a result, our net gains on the sale of securities increased significantly during 2016 and we reverted back to a normalized level during 2017, resulting in the subsequent decreases in 2018 and 2017.

Mortgage and SBA lending income decreased by $3.2 million during 2017 compared to 2016 primarily due to the seasonal nature of the mortgage volume as well as the timing of selling the guaranteed portion of SBA loans. Investment banking income decreased $678,000 during 2017 compared to 2016 as a result of the closure of our Institutional Division and exit from its lines of business in the third quarter of 2016.

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 2018 was $392.2 million, an increase of $79.9 million, or 25.6%, from 2017. The increase was primarily attributable to the incremental operating expenses of the 2017 acquired franchises, with the largest increases being in salaries and employee benefits, occupancy expense and deposit insurance with incremental costs of $62.4 million, $8.5 million and $5.0 million, respectively, when compared to 2017.

These increases were partially offset by reductions in merger related costs, furniture and equipment expense, professional services and marketing expense. Compared to 2017, merger related costs decreased $17.1 million, or 78.2%, due to the timing of the 2017 acquisitions. Similarly, the decrease in furniture and equipment expense of $3.0 million, or 15.7%, and the decrease in marketing expense of $2.7 million, or 24.5%, was due to the incremental costs incurred during 2017 related to the acquisitions. Professional services decreased $2.8 million, or 14.4%, primarily related to the 2017 incremental costs for exam fees, auditing and accounting services and general consulting expenses associated with our preparations to pass $10 billion in assets.

Excluding the non-core merger related costs, branch right sizing expenses, and the $5 million donation to the Simmons Foundation during 2017, non-interest expense for 2018 increased $101.1 million, or 35.5%, from 2017, primarily due to the incremental operating expenses of the 2017 acquisitions, previously discussed. Our investment in the Next Generation Banking Initiative began during 2018 with increases in software amortization and IT costs related to planned upgrades to many of our banking systems.

Non-interest expense for 2017 was $312.4 million, an increase of $57.3 million, or 22.5%, from 2016. Merger related costs as well as salaries and employee benefits contributed to the majority of the increase. During 2017, merger related costs increased $17.1 million and salaries and employee benefits increased $20.9 million. These increases were primarily attributable to incremental costs associated with the Hardeman, OKSB and First Texas acquisitions.

Also during 2017, professional services and marketing expense increased by $4.9 million and $4.2 million, respectively. The increase in professional services was primarily related to the three 2017 acquisitions and incremental costs for exam fees, auditing and accounting services and general consulting expenses associated with our preparations to pass $10 billion in assets. The increase in marketing expense was also primarily due to the additional costs associated with the 2017 acquisitions.

Conversely, branch right sizing expense decreased by $3.2 million during 2017 primarily due to closing ten branches during 2016. We recorded $3.6 million in branch rightsizing costs during 2016, primarily associated with the closure and maintenance of ten underperforming branches as part of our branch right sizing initiative. Due to the close proximity of the closed branches with other Simmons Bank branches, customers were not negatively impacted by the closings.

Excluding the non-core merger related costs, branch right sizing expenses, and the $5 million donation to the Simmons Foundation during 2017, non-interest expense for 2017 increased $38.4 million, or 15.6%, from 2016, primarily due to the incremental operating expenses of the acquired companies, such as salaries and employee benefits, and increased professional fees previously discussed. See the Reconciliation of Non-GAAP Measures section for details of the non-core items.

Amortization of intangibles recorded for the years ended December 31, 2018, 2017 and 2016, was $11.0 million, $7.7 million and $5.9 million, respectively. The current year increase is the result of a full year of amortization expense related to the intangibles added from the Hardeman, OKSB and First Texas acquisitions in 2017. The Company's estimated amortization expense for each of the following five years is: 2019 – $10.57 million; 2020 – $10.55 million; 2021 – $10.49 million; 2022 – $10.44 million; and 2023 – $10.16 million. The estimated amortization expense decreases as intangible assets fully amortize in future years.

Table 6 below shows non-interest expense for the years ended December 31, 2018, 2017 and 2016, respectively, as well as changes in 2018 from 2017 and in 2017 from 2016.

Table 6: Non-Interest Expense

(Dollars in thousands)	Years Ended December 31, 2018	2017	2016	2018 Change from 2017		2017 Change from 2016	
Salaries and employee benefits	$216,743	$154,314	$133,457	$62,429	40.5 %	$20,857	15.6 %
Occupancy expense, net	29,610	21,159	18,667	8,451	39.9	2,492	13.4
Furniture and equipment expense	16,323	19,366	16,683	(3,043)	(15.7)	2,683	16.1
Other real estate and foreclosure expense	4,480	3,042	4,461	1,438	47.3	(1,419)	(31.8)
Deposit insurance	8,721	3,696	3,469	5,025	136.0	227	6.5
Merger related costs	4,777	21,923	4,835	(17,146)	(78.2)	17,088	*
Other operating expenses:							
Professional services	16,685	19,500	14,630	(2,815)	(14.4)	4,870	33.3
Postage	5,785	4,686	4,599	1,099	23.5	87	1.9
Telephone	5,947	4,262	4,294	1,685	39.5	(32)	(0.8)
Credit card expenses	14,338	12,188	11,328	2,150	17.6	860	7.6
Marketing	8,410	11,141	6,929	(2,731)	(24.5)	4,212	60.8
Operating supplies	2,346	1,980	1,824	366	18.5	156	8.6
Amortization of intangibles	11,009	7,668	5,945	3,341	43.6	1,723	29.0
Branch right sizing expense	1,341	434	3,600	907	*	(3,166)	(87.9)
Other expense	45,714	27,020	20,364	18,694	69.2	6,656	32.7
Total non-interest expense	$392,229	$312,379	$255,085	$79,850	25.6 %	$57,294	22.5 %

*Not meaningful

Income Taxes

The provision for income taxes for 2018 was $50.4 million, compared to $62.0 million in 2017 and $46.6 million in 2016. The effective income tax rates for the years ended 2018, 2017 and 2016 were 18.9%, 40.0% and 32.5%, respectively.

On December 22, 2017, the President signed tax reform legislation (the “2017 Act”) which included a broad range of tax reform provisions affecting businesses, including corporate tax rates, business deductions, and international tax provisions. The 2017 Act reduced the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017. The 2017 Act resulted in a one-time non-cash adjustment to income of $11.5 million during 2017.

The effective income tax rate was lower during 2018 than 2017 largely due to the 2017 Act, as well as the discrete tax benefits related to tax accounting for a cost segregation study, excess tax benefits related to restricted stock and a state tax deferred tax asset adjustment. See Note 9, Income Taxes, for further discussion related to these discrete tax benefits recognized during the year.

Loan Portfolio

Our legacy loan portfolio, excluding loans acquired, averaged $6.915 billion during 2018 and $5.493 billion during 2017. As of December 31, 2018, total loans, excluding loans acquired, were $8.430 billion, compared to $5.706 billion on December 31, 2017, an increase of $2.72 billion, or 47.8%. This marks the seventh consecutive year that we have seen annual growth in our legacy loan portfolio. 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). The growth in the legacy portfolio is attributable to strong loan growth in new markets from the 2017 acquisitions as well as loans migrating from the acquired loan portfolio, discussed below.

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 December 31, 2018 included $942.8 million in balances that migrated from acquired loans during the period. These migrated loan balances are included in the legacy loan balances as of December 31, 2018. Excluding the migrated balances from the growth calculation, our legacy loans have grown at a 31.2% rate during 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, industry and 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.

Consumer loans consist of credit card loans and other consumer loans. Consumer loans were $405.5 million at December 31, 2018, or 4.8% of total loans, compared to $465.5 million, or 8.2% of total loans at December 31, 2017. The decrease in consumer loans was primarily due to decreases in our liquidating indirect lending and consumer finance portfolios. We exited these lines of business in early 2017 and the portfolios continue to pay down.

The credit card portfolio balance at December 31, 2018, increased by $18.8 million when compared to the same period in 2017. Our credit card portfolio has remained a stable source of lending for several years.

Real estate loans consist of construction loans, single family residential loans and commercial loans. Real estate loans were $5.966 billion at December 31, 2018, or 70.8% of total loans, compared to $4.240 billion, or 74.3% of total loans at December 31, 2017, an increase of $1.727 billion, or 40.7%. Our construction and development ("C&D") loans increased by $686.6 million, or 111.8%, single family residential loans increased by $345.8 million, or 31.6%, and commercial real estate ("CRE") loans increased by $694.5 million, or 27.4%.

Commercial loans consist of non-real estate loans related to businesses and agricultural loans. Total commercial loans were $1.939 billion at December 31, 2018, or 23.0% of total loans, compared to the $973.5 million, or 17.1% of total loans at December 31, 2017, an increase of $965.9 million, or 99.2%.

During 2018, the increases in our loan portfolio were indirectly driven by our acquisitions. As the size of the bank grows, so do our deposits and capital base, allowing us to focus on and solicit substantially larger loan and banking relationships in our expanded markets. We met our 2018 loan growth expectations across all of our categories and we do expect to grow our portfolio in 2019, although on a smaller scale.

With modest improvement through 2017 and 2018, our ability to originate new loans within the oil and gas industry expanded. The recent acquisitions of OKSB and First Texas added expertise and relationship opportunities within those expanded footprints. While we do not consider the volume to be excessive or constitute a concentration, it is important to note that the exposure to the oil and gas industry will continue to be weighed as a growth opportunity and monitored closely for industry trends.

We have loans to individuals and businesses involved in the healthcare industry, including businesses and personal loans to physicians, dentists and other healthcare professionals, and loans to for-profit hospitals, nursing homes, suppliers and other healthcare-related businesses. These loans expose us to the risk that adverse developments in the healthcare industry will lead to increased levels of nonperforming loans. The laws regarding healthcare have impacted the provision of healthcare in the United States and contribute to prolonged and increased uncertainty as to the environment in which healthcare providers will operate.

With the acquisition of OKSB our exposure to the healthcare industry has increased, however we do not consider the volume to be excessive or constitute a concentration, and performance of this sector of our portfolio has been satisfactory.

Table 7 reflects the legacy loan portfolio, excluding loans acquired.

Table 7: Loan Portfolio

	Years Ended December 31,				
(In thousands)	2018	2017	2016	2015	2014
Consumer:					
Credit cards	$204,173	$185,422	$184,591	$177,288	$185,380
Other consumer	201,297	280,094	303,972	208,380	103,402
Total consumer	405,470	465,516	488,563	385,668	288,782
Real Estate:					
Construction	1,300,723	614,155	336,759	279,740	181,968
Single family residential	1,440,443	1,094,633	904,245	696,180	455,563
Other commercial	3,225,287	2,530,824	1,787,075	1,229,072	714,797
Total real estate	5,966,453	4,239,612	3,028,079	2,204,992	1,352,328
Commercial:					
Commercial	1,774,909	825,217	639,525	500,116	291,820
Agricultural	164,514	148,302	150,378	148,563	115,658
Total commercial	1,939,423	973,519	789,903	648,679	407,478
Other	119,042	26,962	20,662	7,115	5,133
Total loans, excluding loans acquired, before allowance for loan losses	$8,430,388	$5,705,609	$4,327,207	$3,246,454	$2,053,721

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.

On September 9, 2016, we completed the acquisition of Citizens and issued 1,671,482 shares of the Company's common stock valued at approximately $41.3 million as of September 9, 2016 plus $35.0 million in cash in exchange for all outstanding shares of Citizens common stock. Included in the acquisition were loans with a fair value of $340.9 million.

On February 27, 2015, we completed the acquisition of Liberty and issued 10,362,674 shares of the Company's common stock valued at approximately $212.2 million as of February 27, 2015 in exchange for all outstanding shares of Liberty common stock. Included in the acquisition were loans with a fair value of $780.7 million.

On February 27, 2015, we also completed the acquisition of Community First and issued 13,105,830 shares of the Company's common stock valued at approximately $268.3 million as of February 27, 2015, plus $9,974 in cash in exchange for all outstanding shares of Community First common stock. We also issued $30.9 million of preferred stock in exchange for all outstanding shares of Community First preferred stock. Included in the acquisition were loans with a fair value of $1.1 billion.

On August 31, 2014, we completed the acquisition of Delta Trust, and issued 3,259,030 shares of the Company's common stock valued at approximately $65.0 million as of August 29, 2014, plus $2.4 million in cash in exchange for all outstanding shares of Delta Trust common stock. Included in the acquisition were loans with a fair value of $311.7 million and foreclosed assets with a fair value of $1.8 million.

On September 15, 2015, we entered into an agreement with the FDIC to terminate all loss share agreements. Under the early termination, all rights and obligations of the Company and the FDIC under the FDIC loss share agreements, including the clawback provisions and the settlement of loss share and expense reimbursement claims, have been resolved and terminated. As a result, we have reclassified loans previously covered by FDIC loss share to acquired loans not covered and reclassified foreclosed assets previously covered by FDIC loss share to foreclosed assets not covered.

Table 8 reflects the carrying value of all acquired loans:

Table 8: Loans Acquired

	Years Ended December 31,				
(In thousands)	2018	2017	2016	2015	2014
Consumer:					
Other consumer	$15,658	$51,467	$49,677	$75,606	$8,514
Real Estate:					
Construction	429,605	637,032	57,587	77,119	46,911
Single family residential	566,188	793,228	423,176	501,002	175,970
Other commercial	1,848,679	2,387,777	690,108	854,068	390,877
Total real estate	2,844,472	3,818,037	1,170,871	1,432,189	613,758
Commercial:					
Commercial	430,914	995,587	81,837	154,533	56,134
Agricultural	1,739	66,576	3,298	10,573	4,507
Total commercial	432,653	1,062,163	85,135	165,106	60,641
Other	—	142,409	—	—	—
Total loans acquired (1)	$3,292,783	$5,074,076	$1,305,683	$1,672,901	$682,913

(1)Loans acquired are reported net of a $95,000 allowance at December 31, 2018, $418,000 allowance at December 31, 2017 and a $954,000 allowance at December 31, 2016 and 2015.

The majority of the loans originally acquired in the OKSB, First Texas, Hardeman, Citizens, Liberty, Community First and Delta Trust 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, Hardeman, Citizens, Liberty, Community First and Delta Trust 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 2018, we recorded approximately $3.3 million in a provision for these loans and charge-offs of $3,622,000, resulting in an allowance for loan losses for purchased impaired loans at December 31, 2018 of $95,000. During 2017, we recorded $1.9 million of provision for these loans and charge-offs of $2.4 million, resulting in an allowance for loan losses for purchased impaired loans at December 31, 2017 of $418,000. We recorded $626,000 provision for these loans with a subsequent charge-off, resulting in no increase to the allowance for loan losses for purchased impaired loans at December 31, 2016. During 2015, we recorded $736,000 provision for these loans with a subsequent charge-off, resulting in no increase to the allowance for loan losses for purchased impaired loans at December 31, 2015. See Note 2 and Note 6 of the Notes to Consolidated Financial Statements for further discussion of loans acquired.

Table 9 reflects the remaining maturities and interest rate sensitivity of loans at December 31, 2018.

Table 9: Maturity and Interest Rate Sensitivity of Loans

(In thousands)	1 year or less	Over 1 year through 5 years	Over 5 years	Total
Consumer	$169,619	$178,384	$73,125	$421,128
Real estate	3,580,636	5,026,256	204,033	8,810,925
Commercial	1,598,792	762,357	10,927	2,372,076
Other	111,159	7,883	—	119,042
Total	$5,460,206	$5,974,880	$288,085	$11,723,171
Predetermined rate	$2,639,317	$3,499,894	$45,146	$6,184,357
Floating rate	2,820,889	2,474,986	242,939	5,538,814
Total	$5,460,206	$5,974,880	$288,085	$11,723,171

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 bank subsidiary 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 $18.4 million from December 31, 2017 to December 31, 2018. Nonaccrual loans decreased by $11.4 million during 2018, primarily commercial loans. Foreclosed assets held for sale decreased by $6.6 million.

During 2018, we sold approximately $32 million of substandard rated loans that consisted of both legacy and acquired loans. The loans had adequate reserves, thus no provision expense was required. However, the sale increased net charge-offs by approximately $4.6 million.

Total non-performing assets, excluding all loans acquired, increased by $12.2 million from December 31, 2016, to December 31, 2017. Total non-performing loans increased by $6.8 million from December 31, 2016 to December 31, 2017, primarily due to two credit relationships totaling $11.0 million in the Wichita market. Nonaccrual loans increased by $6.5 million during 2017, primarily CRE and other consumer loans.

During 2017, $3.2 million of previously closed branch buildings and land was reclassified to OREO from premises held for sale. There was no deterioration or further write-down of these properties. Also, as part of the First South Bank conversion, 5 branches were closed during the third quarter 2017. Under ASC Topic 360, there is a one year maximum holding period to classify premises as held for sale. However, under Arkansas State Banking laws former branch buildings must be recorded as OREO.

Total non-performing assets, excluding all loans acquired, increased by $2.8 million from December 31, 2015 to December 31, 2016. Total non-performing loans increased by $20.5 million from December 31, 2015 to December 31, 2016, while foreclosed assets held for sale decreased by $17.9 million as we were able to rid ourselves of several significant non-performing assets through liquidation during 2016. Nonaccrual loans increased by $21.4 million during 2016, primarily CRE loans. The increase in the non-performing loans was primarily the result of a single credit totaling $7.1 million and other migrated assets that deteriorated since acquisitions. The majority of these balances were related to acquired loans that have migrated, residential loans that have entered loss mitigation, and certain balances remaining outstanding which were related to potential fraudulent activity on an agricultural loan relationship discussed above.

During 2016, $652,000 of previously closed branch buildings and land was reclassified to OREO from premises held for sale. There was no deterioration or further write-down of these properties.

Total non-performing assets, excluding all loans acquired and foreclosed assets covered by FDIC loss share agreements, increased by $6.0 million from December 31, 2014, to December 31, 2015. During 2015, $6.1 million of previously closed branch buildings and land was reclassified to OREO from premises held for sale. There was no deterioration or further write-down of these properties. This increase was partially offset by the reduction in other foreclosed assets of $6.0 million.

Total non-performing loans increased by $5.9 million from December 31, 2014 to December 31, 2015.

From time to time, certain borrowers experience declines in income and cash flow. As a result, these 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 $9.2 million at December 31, 2018, compared to $12.9 million at December 31, 2017 and $14.2 million at December 31, 2016. The majority of our TDR balance remain in the CRE portfolio with the largest balance comprised of three 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. Our asset quality metrics have improved over the past year and strong asset quality remains a primary focus of our strategy. The allowance for loan losses as a percent of total legacy loans was 0.67% as of December 31, 2018. Non-performing loans equaled 0.41% of total loans, a 40 basis point decrease from December 31, 2017. Non-performing assets were 0.37% of total assets, a 15 basis point decrease from December 31, 2017. The allowance for loan losses was 164% of non-performing loans. Our annualized net charge-offs to total loans for 2018 was 0.29%. Excluding credit cards, the annualized net charge-offs to total loans for the same period was 0.25%. Annualized net credit card charge-offs to total credit card loans were 1.64%, compared to 1.61% during 2017, and 182 basis points better than the most recently published industry average charge-off ratio as reported by the Federal Reserve for all banks.

We have had substantial growth from new loans and from loans migrating from acquired to legacy. When acquired loans renew, they are evaluated and if considered a pass quality credit they will migrate to the legacy portfolio and require less reserves. In addition, new loans also only require the minimum allowance consideration.

We do not own any securities backed by subprime mortgage assets, and offer no mortgage loan products that target subprime borrowers.

Table 10 presents information concerning non-performing assets, including nonaccrual and restructured loans and other real estate owned (excluding all loans acquired).

Table 10: Non-performing Assets

	Years Ended December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Nonaccrual loans [1]	$34,201	$45,642	$39,104	$17,714	$12,038
Loans past due 90 days or more (principal or interest payments)	224	520	299	1,191	961
Total non-performing loans	34,425	46,162	39,403	18,905	12,999
Other non-performing assets:					
Foreclosed assets held for sale	25,565	32,118	26,895	44,820	44,856
Other non-performing assets	553	675	471	211	97
Total other non-performing assets	26,118	32,793	27,366	45,031	44,953
Total non-performing assets	$60,543	$78,955	$66,769	$63,936	$57,952
Performing TDRs	$6,369	$7,107	$10,998	$3,031	$2,233
Allowance for loan losses to non-performing loans	164 %	90 %	92 %	166 %	223 %
Non-performing loans to total loans [2]	0.41 %	0.81 %	0.91 %	0.58 %	0.63 %
Non-performing assets (including performing TDRs) to total assets [2]	0.40 %	0.57 %	0.93 %	0.89 %	1.30 %
Non-performing assets to total assets [2]	0.37 %	0.52 %	0.79 %	0.85 %	1.25 %

(1) Includes nonaccrual TDRs of approximately $2.8 million, $5.8 million, $3.2 million, $2.5 million and $1.0 million at December 31, 2018, 2017, 2016, 2015 and 2014, respectively.
(2) Excludes all loans acquired except for their inclusion in total assets.

There was no interest income on the nonaccrual loans recorded for the years ended December 31, 2018, 2017 and 2016.

At December 31, 2018, impaired loans, net of government guarantees and acquired loans, were $39.8 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 the last five years is shown in table 11.

Table 11: Allowance for Loan Losses

(Dollars in thousands)	2018	2017	2016	2015	2014
Balance, beginning of year	$41,668	$36,286	$31,351	$29,028	$27,442
Loans charged off:					
Credit card	4,051	3,905	3,195	3,107	3,188
Other consumer	6,637	3,767	1,975	1,672	1,638
Real estate	5,905	7,989	7,517	1,580	2,684
Commercial	6,623	7,837	3,956	1,415	1,044
Total loans charged off	23,216	23,498	16,643	7,774	8,554
Recoveries of loans previously charged off:					
Credit card	1,005	1,021	907	890	896
Other consumer	557	2,239	516	538	470
Real estate	991	990	351	203	1,566
Commercial	745	103	365	180	326
Total recoveries	3,298	4,353	2,139	1,811	3,258
Net loans charged off	19,918	19,145	14,504	5,963	5,296
Provision for loan losses [1]	34,849	24,527	19,439	8,286	6,882
Balance, end of year [2]	$56,599	$41,668	$36,286	$31,351	$29,028
Net charge-offs to average loans [3]	0.29 %	0.35 %	0.40 %	0.24 %	0.30 %
Allowance for loan losses to period-end loans [3]	0.67 %	0.73 %	0.84 %	0.97 %	1.41 %
Allowance for loan losses to net charge-offs [3]	284.16 %	217.64 %	250.18 %	525.76 %	548.11 %

(1) Provision for loan losses of $3,299,000 attributable to loans acquired, was excluded from this table for 2018 (total year-to-date provision for loan losses is $38,148,000) and $1,866,000 was excluded from this table for 2017

(total 2017 provision for loan losses is $26,393,000). Charge offs of $3,622,000 on loans acquired were excluded from this table for 2018 resulting in an ending balance in the allowance related to loans acquired of $95,000. There were $2,400,000 in charge-offs for loans acquired during 2017 resulting in an ending balance in the allowance related to loans acquired of $418,000. Provision for loan losses of $626,000 attributable to loans acquired was excluded from this table for the year ended December 31, 2016 (total provision for loan losses for the year ended December 31, 2016 is $20,065,000). Provision for loan losses of $736,000 attributable to loans acquired was excluded from this table for the year ended December 31, 2015 (total provision for loan losses for the year ended December 31, 2015 is $9,022,000).

(2) Allowance for loan losses at December 31, 2018 includes a $95,000 allowance for loans acquired (not shown in the table above). Allowance for loan losses at December 31, 2017 includes $418,000 and $954,000 allowance for loans acquired for the years ended December 31, 2016 and 2015. The total allowance for loan losses at December 31, 2018, 2017, 2016 and 2015 was $56,694,000, $42,086,000, $37,240,000 and $32,305,000 respectively.
(3) Excludes all acquired loans.

Provision for Loan Losses

The amount of provision added to the allowance each year 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

The Company may also consider additional qualitative factors in future periods for allowance allocations, including, among other factors, (1) seasoning of the loan portfolio, (2) the offering of new loan products, (3) specific industry conditions affecting portfolio segments and (4) the Company's expansion into new markets.

As of December 31, 2018, the allowance for loan losses reflects an increase of approximately $14.9 million from December 31, 2017, while total loans, excluding loans acquired, increased by $2.7 billion over the same 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 12: Allocation of Allowance for Loan Losses

	December 31,									
	2018		2017		2016		2015		2014	
(Dollars in thousands)	Allowance Amount	% of loans[(1)]	Allowance Amount	% of loans[(1)]	Allowance Amount	% of loans[(1)]	Allowance Amount	% of loans[(1)]	Allowance Amount	% of loans[(1)]
Credit cards	$3,923	2.4%	$3,784	3.2%	$3,779	4.3%	$3,893	5.5%	$5,445	9.1%
Other consumer	2,380	2.4%	3,489	4.9%	2,796	7.0%	1,853	6.4%	1,427	5.0%
Real estate	29,743	70.8%	27,281	74.3%	21,817	70.0%	19,522	67.9%	15,161	65.9%
Commercial	20,514	23.0%	7,007	17.1%	7,739	18.2%	5,985	20.0%	6,962	19.8%
Other	39	1.4%	107	0.5%	155	0.5%	98	0.2%	33	0.2%
Total [(2)]	$56,599	100.0%	$41,668	100.0%	$36,286	100.0%	$31,351	100.0%	$29,028	100.0%

(1) Percentage of loans in each category to total loans, excluding loans acquired.
(2) Allowance for loan losses at December 31, 2018 includes a $95,000 allowance for loans acquired (not shown in the table above). Allowance for loan losses at December 31, 2017 includes $418,000 while the allowance for loan losses at December 31, 2016 and 2015 includes a $954,000 allowance for loans acquired. The total allowance for loan losses at December 31, 2018, 2017, 2016 and 2015 was $56,694,000, $42,086,000, $37,240,000 and $32,305,000, respectively.

Investments and Securities

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as either held-to-maturity, available-for-sale or trading.

Held-to-maturity securities, which include any security for which management has the positive intent and ability to hold until maturity, are carried at historical cost, adjusted for amortization of premiums and accretion of discounts. Premiums and discounts are amortized and accreted, respectively, to interest income using the constant yield method over the period to maturity. Interest and dividends on investments in debt and equity securities are included in income when earned.

Available-for-sale securities, which include any security for which management has no immediate plans to sell, but which may be sold in the future, are carried at fair value. Realized gains and losses, based on amortized cost of the specific security, are included in other income. Unrealized gains and losses are recorded, net of related income tax effects, in stockholders' equity. Premiums and discounts are amortized and accreted, respectively, to interest income, using the constant yield method over the period to maturity. Interest and dividends on investments in debt and equity securities are included in income when earned.

Our philosophy regarding investments is conservative based on investment type and maturity. Investments in the portfolio primarily include U.S. Government agencies, mortgage-backed securities and municipal securities. Our general policy is not to invest in derivative type investments or high-risk securities, except for collateralized mortgage-backed securities for which collection of principal and interest is not subordinated to significant superior rights held by others.

Held-to-maturity and available-for-sale investment securities were $289.2 million and $2.2 billion, respectively, at December 31, 2018, compared to the held-to-maturity amount of $368.1 million and available-for-sale amount of $1.6 billion at December 31, 2017.

As of December 31, 2018, $17.0 million, or 5.9%, of the held-to-maturity securities were invested in obligations of U.S. government agencies, all of which will mature in one year or less. In the available-for-sale securities, $154.3 million, or 7.2%, were in U.S. government agency securities, 12.9% of which will mature in less than five years.

In order to reduce our income tax burden, $256.9 million, or 88.8%, of the held-to-maturity securities portfolio, as of December 31, 2018, was invested in tax-exempt obligations of state and political subdivisions. In the available-for-sale portfolio, there was $314.8 million invested in tax-exempt obligations of state and political subdivisions. A portion of the state and political subdivision debt obligations are non-rated bonds and representing relatively small issuances, primarily in Arkansas, which are evaluated on an ongoing basis. There are no securities of any one state or political subdivision issuer exceeding ten percent of our stockholders' equity at December 31, 2018.

We had approximately $13.3 million, or 4.6% of the held-to-maturity portfolio invested in mortgaged-backed securities at December 31, 2018. In the available-for-sale portfolio, approximately $1.5 billion, or 70.8% were invested in mortgaged-backed securities. Investments 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 available for sale securities.

We had $65,000 of gross realized gains and $4,000 of gross realized losses from the sale of securities during the year ended December 31, 2018. We had $2.4 million of gross realized gains and $1.3 million of gross realized losses from the sale of securities during the year ended December 31, 2017. We had $5.8 million of gross realized gains and no gross realized losses from the sale of securities during the year ended December 31, 2016.

Trading securities, which include any security held primarily for near-term sale, are carried at fair value. Gains and losses on trading securities are included in other income. Our trading account is established and maintained for the benefit of investment banking. As of December 31, 2017, the balance in trading securities was zero, and remained at zero during 2018.

Declines in the fair value of held-to-maturity and available-for-sale 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 held to maturity until they mature, at which time we expect to receive full value for the securities. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Furthermore, as of December 31, 2018, management also had the ability and intent to hold the securities classified as available-for-sale 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 December 31, 2018, management believes the impairments detailed in the table below 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.

Table 13 presents the carrying value and fair value of investment securities for each of the years indicated.

Table 13: Investment Securities

	Years Ended December 31,							
	2018				2017			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Held-to-Maturity								
U.S. Government agencies	$16,990	$ —	$(49)	$16,941	$46,945	$ 7	$(228)	$46,724
Mortgage-backed securities	13,346	5	(412)	12,939	16,132	8	(287)	15,853
State and political subdivisions	256,863	3,029	(954)	258,938	301,491	5,962	(222)	307,231
Other securities	1,995	17	—	2,012	3,490	—	—	3,490
Total HTM	$289,194	$ 3,051	$(1,415)	$290,830	$368,058	$ 5,977	$(737)	$373,298
Available-for-Sale								
U.S. Government agencies	$157,523	$ 518	$(3,740)	$154,301	$141,559	$ 116	$(1,951)	$139,724
Mortgage-backed securities	1,552,487	3,097	(32,684)	1,522,900	1,208,017	246	(20,946)	1,187,317
State and political subdivisions	320,142	171	(5,470)	314,843	144,642	532	(2,009)	143,165
Other securities	157,471	2,251	(14)	159,708	118,106	1,206	(1)	119,311
Total AFS	$2,187,623	$ 6,037	$(41,908)	$2,151,752	$1,612,324	$ 2,100	$(24,907)	$1,589,517

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Table 14 reflects the amortized cost and estimated fair value of securities at December 31, 2018, by contractual maturity and the weighted average yields (for tax-exempt obligations on a fully taxable equivalent basis, assuming a 26.135% tax rate) of such securities. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Table 14: Maturity Distribution of Investment Securities

	December 31, 2018							
(In thousands)	1 year or less	Over 1 year through 5 years	Over 5 years through 10 years	Over 10 years	No fixed maturity	Total Amortized Cost	Par Value	Fair Value
Held-to-Maturity								
U.S. Government agencies	$16,990	$—	$—	$—	$ —	$16,990	$17,000	$16,941
Mortgage-backed securities	—	—	—	—	13,346	13,346	13,488	12,939
State and political subdivisions	12,589	60,564	87,597	96,113	—	256,863	256,924	258,938
Other securities	—	—	1,173	822	—	1,995	2,022	2,012
Total	$29,579	$60,564	$88,770	$96,935	$			