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CORPORATE PARTICIPANTS

George A. Makris *Simmons First National Corporation - Non Independent Chairman & CEO*

Matthew Steven Reddin *Simmons First National Corporation - Executive VP & Chief Banking Officer*

Robert A. Fehlman *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

Stephen Christopher Massanelli *Simmons First National Corporation - Executive VP, Chief Administrative Officer & IR Officer*

CONFERENCE CALL PARTICIPANTS

Brady Matthew Gailey *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

David Pipkin Feaster *Raymond James & Associates, Inc., Research Division - Research Analyst*

Gary Peter Tenner *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Matthew Covington Olney *Stephens Inc., Research Division - MD*

Stephen Kendall Scouten *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and Welcome to the Simmons First National Corporation Fourth Quarter Earnings Call and Webcast. (Operator Instructions)

I would now like introduce to this conference call, Mr. Steve Massanelli. You may begin.

Stephen Christopher Massanelli - *Simmons First National Corporation - Executive VP, Chief Administrative Officer & IR Officer*

Good morning, and thank you for joining our Fourth Quarter Earnings Call. My name is Steve Massanelli, and I serve as Chief Administrative Officer and Investor Relations Officer at Simmons First National Corporation.

Joining me today are George Makris, Chairman and Chief Executive Officer; Bob Fehlman, Chief Financial Officer and Chief Operating Officer; David Garner, Executive Director of Finance and Accounting and Chief Accounting Officer; and Matt Reddin, Chief Banking Officer.

The purpose of this call is to discuss information and data provided by the company in its quarterly earnings release issued this morning and to discuss the company's outlook for the future.

We will begin with prepared comments followed by a Q&A session.

We've invited institutional investors and analysts from the equity firms that provide research on the company to participate in the Q&A session. All other guests in this conference call are in listen-only mode. A recording of today's call, including our prepared remarks and the Q&A session will be posted on our website, simmonsbank.com under the Investor Relations page for at least 60 days.

During today's call, we'll make forward-looking statements about our future plans, goals, expectations, estimates, projections and outlook. I remind you that actual results could differ materially from those projected in or implied by the forward-looking statements due to a variety of factors.

Additional information concerning some of these factors is contained in the company's SEC filings including, without limitation, the description of certain risk factors contained in the company's Form 10-K for the year ended December 31, 2019, the Form 10-Q for the quarter ended June 30, 2020, and the forward-looking information section of the company's earnings press release issued this morning.

The company assumes no obligation to update or revise any forward-looking statements or other information.

Lastly, in this presentation, we'll discuss certain non-GAAP financial metrics we believe provide useful information to investors. Please note that additional disclosures regarding non-GAAP metrics, including the reconciliation of these non-GAAP metrics to GAAP are contained in the company's earnings press release and fourth quarter investor presentation, which are included as exhibits to the company's current report filed this morning with the SEC on Form 8-K and available on the Investor Relations page of the company's website, simmonsbank.com.

I'll now turn the call over to George Makris.

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Thanks, Steve, and welcome, once again, to our Fourth Quarter and Year-End Earnings Call.

I want to begin by thanking the 3,000 Simmons associates, who persevered during an unprecedented time to produce excellent results for our company, but as importantly, sustained service for our customers.

In our press release, we reported net income of $255 million for 2020, an increase of $17 million or 7.2% compared to 2019. 2020 diluted earnings per share were $2.31. Included in 2020 earnings were $9 million in net after-tax noncore items.

Excluding the impact of these items, the company's core earnings were $264 million for 2020.

Diluted earnings per share for the year were $2.40. Our return on average assets was 1.2%. Our return on average common equity was 8.7%. Our return on tangible common equity was 15.3% and our efficiency ratio was 54.7% for 2020.

Fourth quarter 2020 net income was $53 million, and diluted earnings per share for that period were $0.49, essentially flat from 2019. Included in fourth quarter earnings were $9 million in net after-tax noncore items. Excluding the impact of these items, for the fourth quarter of 2020, the company's core earnings was $62 million and core diluted earnings per share was $0.57.

As of December 31, 2020, total assets were $22 billion. Our loan balance was $13 billion and our deposit balance was $17 billion. Our capital remains very strong at quarter end. Our total risk-based capital ratio was 17%. Our common equity Tier 1 ratio was 13%, while our Tier 1 leverage ratio was 9%.

At December 31, 2020, the ratio of stockholders' equity was 13% and the ratio of tangible common equity was 8.5%. We've, once again, shared an extensive presentation on our website at www.simmonsbank.com, along with a press release and financial data, which gives much more detail regarding our quarterly results and other important information about our company.

We clearly indicated that 2020 would be an adjustment period for Simmons. However, no one anticipated the pandemic and its effect on all of us. Despite the challenges associated with crisis, we're very proud of our accomplishments related to our objectives for 2020.

Simmons is a diversified, core relationship financial institution. We have a great balance of small and large markets, the diversification of financial services which meet the customers' needs for a lifetime and beyond and a sense of commitment to the communities we serve.

During 2020, in culminating with the anticipated sale of our 4 Illinois branches in early 2021. We exited markets in South Texas, Colorado and Illinois in order to be able to focus even more on our core markets.

We reduced our branch network by 20% through branch sales and consolidation of service locations, which has allowed us to decrease costs and more efficiently provide our products and services.

During 2020, we also identified transactional relationships, including our energy portfolio and certain large CRE loans that we chose to help move out of the bank. Many of which will move because we prefer to lead our credits under our underwriting guidelines. And to the extent we participate in the syndicated credit, we want to make sure we have a core banking relationship with the borrower.

Our efforts created capacity in our commercial portfolio, we did not have before. We continue the evolution of our digital bank, which allows our customers to bank with us when they want, where they want. Our customers, both consumer and commercial continue to conduct more and more of the basic banking on our self-serve platforms.

COVID's first curve, and I believe we hit it out of the park.

During the year, we mobilized over 1,500 associates to work remotely. We provided over 8,000 PPP loans, totaling almost $1 billion in support of 100,000 jobs for our customers, many of whom were new to Simmons. We proactively provided loan modifications to many of our customers, which prevented them from going deeper in debt during such uncertain economic conditions.

We had a record year in our mortgage group, originating more than $1.3 billion in home loans, and we successfully completed our full exam cycle, including our first CFPB exam. We integrated Landmark Bank and the Simmons Bank during the beginning of the crisis and just as the economy was put on pause. That timing created unique challenges, but our folks sucked it up and made it through.

We repurchased over 6 million shares of our stock, and we contributed $3 million to the Simmons First Foundation to establish a fund, provide grants for conservation projects throughout our service here. So where are we today? The shorter answer is we're right where we want to be. Our deposits and liquidity are at an all-time high, giving us capacity we have not seen since 2013.

Our capital levels are at the top range for our industry. Our asset quality is stable and improving even in these economic terms. Our allowance for loan losses is at an unprecedented level. Our loan concentration levels are well below regulatory guidelines. Our regulatory compliance programs were validated during the year. Our profitability is excellent and our loan pipeline is starting to rebuild.

In March of last year, we could not have written the script that anticipated all that we've seen, that I believe today, we're in a really good position. While core loans and deposits will be the basis for our growth and success over time. Because of our diverse business model, we were able to manage all areas of the bank to produce outstanding results in 2020.

We are certainly not a one-trick pony. I'm very proud of our team and look forward to a very promising 2021.

I'll now turn the line over to our operator and invite questions from our analysts and institutional investors.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Gary Tenner with D.A. Davidson.

Gary Peter Tenner - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Just a couple of questions for me. The commentary about kind of working down some of the transactional relationships. I'm just wondering, was that particularly impactful in the fourth quarter in terms of the downdraft and loan balances in construction and commercial real estate or was that more of an outgrowth of just the lack of production during the middle part of the year?

Matthew Steven Reddin - *Simmons First National Corporation - Executive VP & Chief Banking Officer*

Yes. Gary, this is Matt Reddin. Yes, we did experience, as you would think, just because of year-end timing, some of our borrowers wanting to exit to the permanent market.

We did have one of our largest borrowers in Kansas City, an industrial developer took. They sold their entire self-storage unit plus they exited multiple industrial buildings to department market, which was an $80 million total transaction, but we also saw multiple transactional out of Texas and St. Louis that -- we knew that it -- really even heading into 2020 prior to the pandemic and the timing hit at the end of the year.

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Gary, let me add a couple of things. One is, most of the reduction was planned. And I think we've been pretty clear, Reliance Bank in their portfolio and then some transactional loans in Texas. I think you can see, based on the loan yield change quarter-over-quarter that many of the loans that we exited had very, very low rates.

So it was planned. But also in our presentation, we have a slide on our loan pipeline because I think that also gives a true picture to what was out there to fill up our loan portfolio as these loans were leaving the bank.

Usually, we only report ready-to-close. But we have 3 distinct buckets opportunity proposal ready to close, and we thought it was important to show all 3 of those buckets from last December until now. Because it really shows the lack of demand in the marketplace after COVID hit. And we certainly depend on new originations to fill the bucket back up for those planned amortizations. And then when we have loans that we'd like to move out of the bank, we depend on new production.

I am happy to report that our pipeline is starting to rebuild. And Matt, I think our approved, ready-to-close as of last week, exceeded $230 million, which is a healthy pipeline for us.

So I think it's a combination of both. You asked if it was planned or just lack of new production, it's combination. We're starting to see light at the end of the tunnel.

Gary Peter Tenner - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Right. So I appreciate the color. I'm just wondering based on what the pipeline looks like and any more planned run-off to the degree there is, excluding PPP changes, is 12/31, do you think the kind of low point here in terms of loan balances? Or do you think it gets a little bit lighter before it starts to grow from here?

Matthew Steven Reddin - *Simmons First National Corporation - Executive VP & Chief Banking Officer*

It's Matt, again. No question. Our pipeline is building. Our borrowers, our relationship borrowers are active. And so we're starting to do more and more projects or moving more and more business our way. But the first quarter, there's a little bit of unknown. I think there will be some continued payoffs on what we would call plan transactional, non-relationship customers that had not exited in 2020 that still plan to. Those look to happen more in the first quarter. Some could slide in the second quarter.

So the question on if it's the low, I would say unknown, but I'd say we're real close, is how I would phrase that.

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

There are a couple of other categories like mortgage warehouse that we're at all-time highs. At the end of the year, we really don't expect that loan balance to sustain over 2021.

We still have some more energy credits that we expect to move out of the bank during the first half of the year.

So there will be certain pockets of business, but the core business, and that is what we're generating out of each one of our divisions. But we're expecting to have a good year this year from an origination standpoint.

Operator

Our next question comes from David Feaster with Raymond James.

David Pipkin Feaster - *Raymond James & Associates, Inc., Research Division - Research Analyst*

I just wanted to kind of follow up on the growth conversation. Could you just give us a sense of the composition of your loan pipeline? Where you're seeing demand by segment and geography. And just thoughts on new loan yields?

And then just a quick clarification question on your mid-single-digit loan growth guidance. I would -- I assume that's ex PPP, but just wanted to clarify that.

Matthew Steven Reddin - *Simmons First National Corporation - Executive VP & Chief Banking Officer*

Correct. So I can give you a little deeper color on kind of the loan portfolio, I mean, the loan pipeline. We're very pleased kind of going into 2021, how diversified our pipeline is, geographically, and in product type. We spent a lot of time in 2020, pre-COVID. But we continue the investment in more commercial banking infrastructure on what I would call the C&I side.

So we now see our pipeline showing about 50% true commercial clients, not commercial real estate. That's across categories of businesses that are doing very well right now. But we do have some repeat CRE borrowers that -- relationships that we're going to -- they're active again.

So we'll see that pipeline grow as well. But it's -- we say the stabilized growth a lot in our company as we've integrated multiple banks.

And now we're in a position that we are in that stabilized growth. It's not just heavily weighted towards a certain category. Where we're seeing opportunity, we actually grew loans in the fourth quarter right here in Little Rock. Little Rock had some success. I think that just proves up just a flight to quality on market share here. So we had a nice little growth in the fourth quarter. I think that will continue. We have a nice pipeline here.

Northwest Arkansas is -- really didn't miss a beat as it relates to COVID due to their economic wherewithal. DFW, there -- it's continuing do well, plenty of opportunities in our pipeline there. If you looked at a percentage of where the growth opportunities and even where our pipeline is, it's in DFW.

I think you will also see Kansas City continue to perform for us in 2021. I think St. Louis, 2 years post-Reliance, they see this -- having some nice opportunities come our way.

And then, I think, you'll see Nashville for us rebound in 2021. So I would say, overall, health of the pipeline where it's coming from, it's very diversified.

David Pipkin Feaster - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. That's great color. And then just could you give us some thoughts on how -- the puts and takes regarding the margin. I mean, we're going to see some loan growth and improving earning asset mix. Appreciate the color on the securities book. But just as you start getting some of these together, I mean, do you think the margin has troughed here, and we should see some expansion? And just any color that you could give us on the core NIM, exclusive of PPP would be helpful.

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

Yes. David, this is Bob. I would tell you, first, on the margin. I think we're at the bottom of it and actually had an improvement this quarter. What we'll see going into the first quarter is continued investment in the investment portfolio. We see possibly another -- up to another $1 billion going into the investment portfolio over the next couple of months, maybe into the second quarter.

So that mix in yield will be a pickup. As Matt and George have said, loans, we believe, are on demand coming back up. So that's a positive.

And then cost of deposits, we think there's still some room in cost of deposits. We saw a 7 basis point pickup on our cost of interest-bearing deposits, 5 on cost of deposits. So that's a positive. And we, again, think that -- I think we'll have more in the first quarter as we continue to work on our cost of deposits.

Also, you add in the PPP outside of that, we will have a benefit from the PPP in Q1 as we have more forgiveness. We had about $100 million in forgiveness in Q4.

And so we're still at about $875 million on what I call PPP-1, so I would expect that to be forgiven or paid off in the first and second quarter this year is what we're planning for.

David Pipkin Feaster - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. Okay. That's helpful. And then just last one for me. Could you just talk about capital priorities? It was good to see that you guys were somewhat active in repurchases. But just curious how you balance buybacks versus M&A here given where you're trading? And maybe just some high-level thoughts on M&A, whether your strategy has changed, what kinds of transactions you'd be interested in by size and region and just how conversations are going?

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Well, I'll start. Bob can pipe in here, shortly. I think we used our capital very wisely in 2020 in our stock repurchase program. We bought over 6 million shares during the year at an average price of less than $20 a share. Wish we could repeat that, but glad to see the price where it is, to be honest with you. And because the price is where it is and the multiples have come back nicely, we are having some active M&A discussion right now.

Our strategy with regard to M&A has not changed, our priority is still in market expansion opportunities. If we found an opportunity in a contiguous market that made long-term strategic sense, we would certainly be interested, but our priority is in market.

So David, I would tell you that based on current circumstances today, M&A would probably be our top priority for capital deployment. But we're not ruling out additional buybacks. We still have about $50 million left in our currently authorized plan. So both of those are still on the table, M&A because current conditions has moved to the top.

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

And David, this is Bob. I would point out a couple of things on our capital levels. Historically, we all look at what's your TCE and what is your leverage ratio. But those in these days are what I would say somewhat understated because the amount of loans we have in the PPP, which are not risk rated and also the liquidity levels we have at about $3.5 billion.

So the ratios we look at today, that we focus on are the CET1 ratio, which is at 13.4%. That was 10.9% last year, a year ago. Our total risk-based capital is 16.8%. So those are the ratios we focus on right now when it risk weights your balance sheet.

David Pipkin Feaster - *Raymond James & Associates, Inc., Research Division - Research Analyst*

That's helpful. And just -- so being in market, does that mean you're focused on maybe the smaller end of the curve? Or how large of a transaction would you be interested in?

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Well, our general guideline, David, is a bank of $1 billion of assets or more. And that is primarily because of the makeup of their personnel who are ready to go to work for a larger institution with more bullets to use in the marketplace, where we have had some issues in the past or with smaller banks who have lending staffs who really just want to work at a small community bank.

Our objective is when we merge with an organization, we want their talent to come along with them. And what we found is that banks under $1 billion, generally speaking, we don't have as much success in retaining the staff as we do in banks over $1 billion.

So I would just say that's a general guideline that we use as we're trying to determine who might be a good partner.

Operator

Our next question comes from Brady Gailey with KBW.

Brady Matthew Gailey - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

So I wanted to ask about, not organic loan growth, but the strategic exits of certain markets that you have done? I heard you say that Southern Illinois will happen here in a couple of weeks. I know you've gotten out of Denver and South Texas.

Are there any other markets out there that you would think about exiting? Or are you pretty happy with where the franchise sits right now?

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Brady, we're really happy with where we sit. There are no more markets on the chop and block, if you will. In Illinois, we have 4 branches there. We have about $160 million of deposits. We have $1 million of total loans. So those branches were established by Reliance Bank as a source of deposits. And they did a great job. We just don't have the infrastructure over there to support the Illinois side or St. Louis. We have 20 some odd branches in St. Louis that we're really focused on.

So it made sense for us. So nothing else on the chop and block. We really like what we have, and we're committed to grow in all those markets.

Brady Matthew Gailey - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. And then George, you guys have done a great checkout of taking expenses out of the franchise. I mean, having your branch count down 20% a year is a big number. Is there more work to be done there? Or do you feel like a lot of those expense reductions have really played out and it should just be kind of a normal expense growth rate from here?

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Well, we have some more consolidation to do. And I'll give you a couple of examples. In Dallas, we're getting ready to move into new Dallas headquarters. And that will consolidate 2 branches that had just piecemeal pieces of our business there. So we're going to be much more efficient in a single location in Dallas than we were in 2 separate locations.

We're getting ready to open a new corporate headquarters in Downtown Nashville. That will replace one location that we had that was just inadequate to handle the growth that we're experiencing in the Nashville market.

In our Pine Bluff market, we're building a new branch out in the Fayetteville area, but we're going to consolidate 3 more branches into 2 in the Pine Bluff community.

So it's the adjustment in existing markets that's going to lead to fewer number of branches, but not necessarily full cost saves because we're going to upgrade some facilities into true banking centers. So it's just more of an adjustment now than it is a pure closing of branches.

Brady Matthew Gailey - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. And then finally for me, I just wanted to follow up on the bank M&A conversation. When you're looking at a transaction, can you just remind us what are your targeted metrics? Like do you like a certain amount of EPS accretion? Or do you have a limit as far as tangible book value dilution are earned back just kind of talk to us about when you're pricing a deal, what are the metrics that you focus on?

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

Brady, this is Bob. I would tell you, we're very disciplined in our M&A pricing and have been, as you know. And first off, we start with reasonable assumptions on whether it's cost saves, the loan mark, synergies and revenue. All of that, we're very conservative on those, I would say.

When we look at the final results, our target is to have EPS accretion. It depends on the deal size. So we look at it 2 ways: EPS accretion, as we're going to see it; and number two, on a stand-alone basis, what kind of accretion is that unit we're buying, providing an accretion.

We would want a meaningful, what I would say, anywhere from 4% to 8% accretion is what you would hope to have on these deals. Now again, the smaller deal, you're not going to get that level of accretion overall.

The next very important to us is what is the tangible book value dilution? And more importantly, what is the earn back period. If you're going to have more cash in the deal, it's going to be more dilutive, but you're probably going to earn it back quicker.

So the earn back period, we have always targeted less than 3 years. Most of our deals, we've announced, have been 2 years or less, and we've hit those numbers. We also calculate our internal rate of return, and we use the same assumption from one deal to the next deal. So it's more of a comparable nature, and our target is to be 15% or higher.

And then after that, we look at what does it do to our capital, do we need additional capital? Or are we able to utilize our excess capital and we look at each of the different levels in there. So those are the main focus. And all of that, obviously, is after we've gone through the geographic footprint, is it the right location? Is it the right culture fit for the company? And is it the right organization? We do all of that before we get to the financial piece of it.

Operator

Our next question comes from Stephen Scouten with Piper Sandler.

Stephen Kendall Scouten - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

I'm curious a little bit on your plans for additional liquidity, Bob. I know you mentioned maybe another $1 billion in securities. But I'm just wondering if you can give a little more color on how you're thinking about that. Obviously, it clearly remains really high, but securities yields are obviously very low. And I'm just kind of wondering how you're thinking about that, what sort of duration you're locking in today?

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

Well, we gave some little color on it on Page 17 of the slide deck. But what we invested in the last 3 months and where we plan to go going forward. And it's what I would call more of a barbell approach. We do have some munis that go a little longer term that are picking up a little better yield, going shorter on the treasuries, agencies and mortgage backs.

What we're timing out there with the liquidity. We waited a couple of quarters without putting it to use, just uncertainty of times. And this quarter, as you can see, we basically went up $1 billion in liquidity, almost, in cash and still invested $1.2 billion in our security portfolio.

We have PPP loans that will be paying off in the next 3 to 4 months, we'll have PPP-2 coming on after that. All of that to say, we believe we have plenty of liquidity, and it was time to put some of that money to work. Now what we can do, as time goes on, is when the loan pipeline and the loan balances begin to increase, we'll be able to -- we can slow down repurchases into the security portfolio next year, as we get maturities rolling off and other liquidity.

So we plan to balance it in there, but our target right now is we ended the quarter at about $3.8 billion. We're targeting to be over $5 billion, around $5 billion or so in our security portfolio, sometime in 2021.

Again, we'll invest in a barbell. And our yield, we've picked up about $2.15 in yield. So that was coming from 10, 11 basis points, overnight money, we invested in. We did -- we do have some extensions out there. Average in duration is about 8 years when you put the whole portfolio together.

Stephen Kendall Scouten - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Got it. Yes, I see that now on Slide 17. And then I guess, within that, what is kind of that churn of your existing securities portfolio? How much cash flows do you anticipate that could come and I don't know, per quarter or per year, if loan growth does begin to materialize?

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

I don't have that right in front of me, but it's roughly, I would guess, $0.5 billion to $750 million a year is ballpark of what we have. And that's before putting these new balances on, which you'd expect to.

But -- and keep in mind, this last year, we had -- we sold $1.5 billion in securities, and most of that was taking advantage of the gains, knowing most of those were going to pay off through calls. And -- so we've been pretty active. We've kept our guys busy in the investment security group this year, buying and selling, they've been very, very active.

Stephen Kendall Scouten - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Got it. Okay. And then maybe just 1 other one for me. Your loan loss reserve remains very high, 198, I think, ex PPP. So that seems sufficient to me. So I'm wondering kind of how you think about loan loss reserves, one, but then also, if you can talk a little bit about the charge-offs you had this quarter? I think you've remained a bit higher than peers on a net charge-off basis for the last couple of quarters. So just kind of thinking about credit a little bit there.

Matthew Steven Reddin - *Simmons First National Corporation - Executive VP & Chief Banking Officer*

Yes, Stephen, this is Matt. I would say on the charge-offs we did in the fourth quarter, we had certain credits that we had been dealing with for a while that did come to a resolution that resulted in some charge-offs. We actually -- I can think of one specific that -- you heard George talk about earlier, we -- how we exited South Texas. We took a nice charge there on a non-relationship out-of-market transaction that we dealt with in the fourth quarter.

So I would say that was -- there was just a culmination of a lot of resolution in the fourth quarter, which was -- overall, was a positive on the reserve standpoint. George, you might have comments on the overall, where we stand on the reserve?

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Yes. So our reserve is at an all-time high. And in our opinion, there is still maybe some residual unknown in certain categories like office and maybe some retail that we'll have a better handle on, later this year. But we think we're properly reserved in those categories. And you can see how much of our allowance is dedicated to those industry classes.

Going forward, we would expect just normal provisions based on loan growth. And I think I've said this before that we've built this provision with the expectation that it would absorb reasonable losses in the portfolio.

So we've got to be disciplined as we go forward and where we have recognized that risk and made a provision for it. We're going to have to be willing to take that against our allowance and not be too quick to jump out there and just rebuild that allowance back up to a 2% range. I really don't believe 2% is a long-term percentage for us.

And when you take a look at our slide on our ACL, you will notice that more than 50% of our total allowance is management adjustment factors. So the calculations themselves only support about 50% of what we have in our allowance. The rest are based on industry-specific or maybe specific reserves on certain troubled credits.

So we're -- we feel very good about that. I'll also say this, Stephen, that in addition to those charge-offs that we recognized, I think we've been very aggressive and conservative in our risk ratings. Our classified loans went up. That is primarily because of some of the hotel loans that were in our modified state. And you can see that what we consider to be troubled, the modified loans has gone down tremendously.

And I think a lot of that has to do with the fact that we went out early in the process and didn't create additional risk for our borrowers. So we're very comfortable with our risk ratings. All modified loans have been reviewed and appropriately rated. So I think our accuracy in our loan portfolio as far as risk goes, is about as good as it's been in a long time.

Stephen Kendall Scouten - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Got it. That's really helpful color. And maybe just one kind of small follow-up to that. So if 2% is not the right number long term and who knows when long term really is, if that's year-end 2022, 2023, when we get to more normalized environment. But are we talking more like 150 in your mind? Or what's the right way to think about where that goes longer term?

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Well, really, the only thing I can point to is our original CECL calculation that came in on January 1, and that number was about, if I recall, 150. So based on normal conditions, the CECL calculations, it appears at that point in time, 150 was the appropriate number.

Operator

(Operator Instructions)

Our next question comes from Matt Olney with Stephens Inc.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

I wanted to ask about core loan yields. If I back out the PPP and the accretion, looks like the core loan yield saw some nice expansion this quarter. Any color you can provide on this? Any kind of miscellaneous fees are recognized in the fourth quarter? Just trying to appreciate if there could be additional pressure from this 4.60% core level from here?

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

Matt, this is Bob. I'll start it. And I would say, first off, as some of these loans that we talked about exiting the company were at low rates. I mean they were extremely low rates. And these have been on the list pretty much all year to move. So that was part of it. The other piece of it would also be the PPP loans in the fourth quarter. We did have $100 million. So you had the additional fee income that was accreted that quarter.

On an accretion level, I think accretion income was almost the exact same $8.9 million on a linked-quarter basis.

So it wasn't in accretion. So I think Q4 was more of a good trend line for me going forward. That's what we use when we used our budget process. I do think Q3 was a little lower. But as you get into Q4, I think that was a better trend line.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

And Bob, just to clarify, I'm looking at that 4.60% core loan yield on your slide deck on Slide 50. I think that does not include PPP or the accretable. Am I interpreting that right?

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

Core would have PPP in it.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

Okay. Core does have PPP.

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

Well, given it's -- I'd have to go back to that one slide.

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

It's without PPP.

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

Okay. That one does. I'm sorry, I was referring to in the internal report I had. Yes. So that would all be just in the loan portfolio. And again, I'd say the bulk of that is the mix in that loan portfolio when you take $1 billion of loans that are on a lower rate.

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Matt, I think we did have some extraordinary fees on some early payoffs, but not material.

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

That's correct.

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

So maybe, Matt, 4.50%, 4.60% would be that appropriate range, considering those onetime early payment fees.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

Okay. That's helpful. And then what about -- any color on some of the new and renewed loan production this quarter? How does it compare to that 4.50% 4.60% number?

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Well, on our loan pipeline slide, we also give the average rates.

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

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George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

And I believe I'm flipping over to that. On that pipeline, at the end of the fourth quarter, the average rate was 4.12%. So still above 4%.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

Okay. Okay. And then I want to shift over on the operating expenses. And you guys gave us some great color and some good outlooks there in some of your slide decks.

And I think the press release mentioned the NGB update. Just -- as NGB now within all the run rates in the fourth quarter, just trying to figure out what's incremental from NGB that's not in 4Q?

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

I think it is. And so NGB, when it started a couple of years ago, we had 2 real distinct components. One was infrastructure; the second was new products and services, particularly the digital bank. The infrastructure pretty much done. So all the expense associated with outsourcing our core processing, upgrading our networks, redundancy in the branches, those kinds of things are pretty much behind us. So we're in a maintenance mode there.

Our digital bank, a lot of that has been done, but we have a road map this year to enhance at digital bank. We believe that long term, it's going to be a great opportunity for us. We started the online account origination pilot in the fourth quarter. We will start rolling that out at the end of the first quarter.

One division at the time because we believe that the demand is going to be so great that we're going to have to make sure that we support that online account opening with the appropriate back office, if you will.

So we're going to take that piece by piece. But by the end of the year, we will have that fully implemented. We're going -- last year, we integrated our credit card product with our digital bank. We've got other enhancements like that for 2021. So our focus now is not as much on infrastructure, it really is on product enhancement.

And to that end, we do have some capital expense in this year's budget to support that. But nothing like the $100 million that we set aside 2 or 3 years ago for the entire project.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

Okay. Sounds good. And then you guys gave us a nice schedule of your expectations for accretable income for 2021. Do you guys have something similar or some commentary you can give us on expected income from PPP over the next few quarters?

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

Well, what I can tell you on PPP is, right now, we have -- obviously, we're earning the 1% on it. But there's -- on PPP-1, there's roughly about $17 million or so that is still the fees that are accrued. So those will come to income. And I would assume right now, first, second quarter is what we budgeted. That's what our SBA group is telling us. And that doesn't include PPP-2. We don't have any idea where PPP-2 would be, but our modeling is estimating it could be, what, Matt, half of what we did last time or so.

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Yes. And just for your information, after 1 week, so we didn't get to start until last Tuesday. We've got over 2,000 loan applications, totaling $200 million in the pipeline right now.

So that's a production after 1 week. We don't really know where it's all going to come out. We have several inquiries that haven't turned into applications yet. And then, of course, we're being proactive going out at our customers to see if the current program would be beneficial to do.

Operator

And I'm not showing any further questions at this time. I'd like to turn the call back over to Mr. Makris.

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Well, thanks to each one of you for joining us today. We're, once again, very pleased with the way 2020 turned out. We're very optimistic about 2021. I think we're well positioned in all aspects of our bank's organization to take advantage of an improving economy. Now thanks again to each one of you, and have a great day.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect. And have a wonderful day.

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