REFINITIV STREETEVENTS

EDITED TRANSCRIPT

SFNC.OQ - Q2 2022 Simmons First National Corp Earnings Call

EVENT DATE/TIME: JULY 21, 2022 / 2:00PM GMT

CORPORATE PARTICIPANTS

Edward J. Bilek *Simmons First National Corporation - Executive VP & Director of IR*

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

James M. Brogdon *Simmons First National Corporation - Executive VP, CFO & Treasurer*

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

Robert A. Fehlman *Simmons First National Corporation - President & COO*

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 - MD & 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

Good morning, and welcome to the Simmons First National Corporation Second Quarter 2022 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded. I would now like to turn the conference over to Ed Bilek. Please go ahead.

Edward J. Bilek - *Simmons First National Corporation - Executive VP & Director of IR*

Good morning, and thank you for joining our second quarter earnings call. My name is Ed Bilek, Director of Investor Relations at Simmons First National Corporation. Joining me today are several members of our executive management team, led by our Chairman and CEO, George Makris. The purpose of our call is to discuss the information contained in our earnings release and investor presentation issued this morning and to discuss our outlook for the remainder of 2022.

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

During today's call, we will make forward-looking statements about our future plans, goals, expectations, estimates, projections and outlook. I'd remind you that you should not place undue reliance on any forward-looking statements as actual results might 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 our SEC filings, including, without limitation, the description of certain risk factors contained in our Form 10-K for the year ended December 31, 2021. And the forward-looking information section of our earnings release.

Simmons assumes no obligation to update or revise any forward-looking statements or other information. Finally, during this call, we will discuss certain non-GAAP financial metrics we believe provide useful information to investors. Additional disclosures regarding non-GAAP metrics, including the reconciliations of these non-GAAP metrics to GAAP, are contained in our earnings release and investor presentation, which are included as exhibits to the Form 8-K we filed this morning with the SEC and are also available on the Investor Relations tab at simmonsbank.com.

Operator, we are ready to begin the Q&A.

REFINITIV

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question is from Brady Gailey with KBW.

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

I just wanted to start on loan growth. I mean even if you back out PPP and what you acquired, it was still a pretty good loan growth quarter. Maybe any commentary on what drove that and kind of how you're thinking about the future related to loan growth? I think in the past, you've talked about high single-digit loan growth, you were above that on a core basis this quarter. So any update there, any color on the growth you saw in 2Q?

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

Brad, this is Matt. I'll take that one initially. So yes, second quarter was really just a culmination of what we have been talking about for the last continuous quarters on that building of the pipeline and it kind of really getting back to business and really had a really nice Q2, and it was a nice diversified, even if we exclude Spirit, the acquisition in April, and they had positive loan growth. But if you exclude Spirit's well diversified between our Community, our Metro, Corporate divisions.

And then if you look at by product type, which is what we really want to focus internally is it was a good mix of construction, stabilized CRE and then C&I and then some consumer and some agri. So really like the diversification that we saw in Q2 And what we do in Q2 again, what we're seeing now is we still have a lot of momentum, we have a nice pipeline. But the current environment from an interest rate standpoint is changing.

So you see on Slide 13 the pipeline of $3 billion, we had a high watermark before June 30 of $3.4 billion. Now we're seeing as we close a lot of that business out, some of our pipeline is starting to fall out because of, one, our underwriting or having to resize some of our loan amounts. As in this environment, rapidly and we're taking a very good conservative view to make sure we're ready for the rising interest rates.

So some of those deals are having to resize. Some of our clients are saying, yes, we'll do that. Others are looking to maybe competition to see what they would do on those terms. And then we're also just seeing borrowers who maybe early on had an opportunity, but now they're thinking, man, we'll hold that off. We'll put that on the shelf just because the economics are changing. So we're seeing some pipeline fall out. So I don't think we'll see a Q2 loan growth again. But I do think we're going to stay with steady loan growth through the next 2 quarters.

Robert A. Fehlman - *Simmons First National Corporation - President & COO*

And you may have loan growth at these levels in Q2.

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

That's right.

Robert A. Fehlman - *Simmons First National Corporation - President & COO*

We have a loan growth.

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

We'll have loan growth, but not like we might not see a Q2. That's a really banner Q2 for us.

Robert A. Fehlman - *Simmons First National Corporation - President & COO*

Yes. Brady, just to remind everyone, there was a lot of noise in the quarter with the Spirit acquisition. If you look, excluding Spirit, our legacy growth was up 7%. And on an annualized basis, that's about 27%. And we'll also remind you, last year, we were derisking the balance sheet to be able to put ourselves in this position to be able to take advantage of some of this loan growth as we derisk some of our CRE last year and some other non-relationship loans.

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

Yes, yes. And then moving on to the buyback, it's great to see you all reengage and have a pretty big buyback quarter repurchasing about 1.6% of the company. I know you've been active the last couple of years. How are you thinking about the buyback going forward? Just as we're potentially headed into a recession. But at the same time, the stock is cheaper than I think you've repurchased -- the stock today is cheaper than where you've repurchased it historically. So how do you think about the buyback going forward?

Robert A. Fehlman - *Simmons First National Corporation - President & COO*

Well, good question, and we're really in a spot you'd really like to buy back a lot more. But like you said, the economy, there's some uncertainty going forward. We really think there's a good balanced approach to this is to return our current period earnings to our shareholders in the form of cash dividends and stock buyback. So we believe in the near term, that's what our focus will be on, that can change. But right now, we believe you take the current period earnings, less the cash dividends, and that's what we pretty much focus on for buyback in the current period .

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

And then the final one for me. Discount accretion popped up to about $10 million, which makes sense because of Spirit being in there. But -- and I know it's lumpy and hard to predict, but any idea where yield accretion will run on a quarterly basis for the next few quarters?

Robert A. Fehlman - *Simmons First National Corporation - President & COO*

Brady, I'll take that one. I would say, first off, the quarter after an acquisition is usually the highest. You have some refinancing, you have some payment -- payoffs coming in, really didn't have a lot of runoff at all with Spirit maintained and grew those balances. However, some of the loans that you acquired in day 1 do get refinanced, something happens. So we did have some of that, so it's a little elevated in this quarter.

Going into the balance of the year, I mean I'll just give you our budgeted estimate is probably about $6 million or so a quarter going for the balance of the year.

Operator

The next question is from David Feaster with Raymond James.

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

Maybe just touching on deposits. Keeping the organic deposits pretty stable this quarter is that's pretty impressive just given the environment. Maybe could you just walk us through some of the underlying trends that you're seeing on the deposit book and just how customer behaviors are especially since quarter end, just given the rate environment, prospects for more hikes, how do you expect deposits to trend going forward? Would you expect some outflows as you defend your deposit base And just -- any commentary on deposit costs, migration within your portfolio and any other trends you're seeing?

James M. Brogdon - *Simmons First National Corporation - Executive VP, CFO & Treasurer*

David, this is Jay. I'll start with that. Others may have some comments as well. The first thing I want to point you to is just the success we've had in retention of deposits with the Spirit acquisition. If you look at the deposits that we acquired on April 8 and our deposit balances at those same Spirit locations on June 30, they're essentially flat. So our retention levels have been even better than we modeled them to. We expected them to be very good, but that's clearly aiding in our -- in the numbers that you're alluding to and what you're seeing.

But I do think stepping away from just the acquisition element of that, the rates are moving up faster than any of us expected to. We are seeing behavior in our markets in certain communities where the competition is beginning to move up rates. So we're playing defense right now where we have to with customers in that regard. I think that will mean that betas begin to increase. I'm very pleased that our overall deposit costs were only up 4 basis points in Q2 compared to Q1.

That will be tough to maintain for us and the rest of the industry here, especially if we get another 75 basis point rate hike next week. So again, we're being very strategic around that. We're looking at our deposits by market, and we'll continue to be competitive and defend the market share that we have.

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

Okay. That's helpful. And then maybe just switching gears a bit to asset quality. You've seen continued improvement in overall credit and that's, I think, a big testament to the derisking that you all have taken. Maybe just at a high level, though, just curious your thoughts on the credit environment and from your standpoint and even a pulse of your clients. As you look out, are there any segments that you're maybe more cautious on or seeing some early signs or concern that you might be avoiding?

And at a high level, I mean, are we -- have we changed any underwriting standards? I know you guys are always tight, but just curious, any high-level thoughts on asset quality and your approach to credit and underwriting standards?

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

Sure, David. This is Matt. I'll start and anyone else can jump in. So we're staying to our -- to what we do on conservative underwriting. But what I would tell you kind of of what we're seeing now we have taken an approach over a month ago, around really relooking at where we're underwriting on just a core loan sizing. So we're new business, new business today. We're doing 6.5% to make sure we can build in the cushion. And that has definitely is changing the economics of not at a certain category, but all opportunities.

Some are still working very, very well. But I will tell you, at a macro level, the -- with cap rates staying low, we're still in a scenario where deals are trying to get done, but the economics just aren't working like they should. And so there's fallout that we're seeing in our pipeline. And we're also seeing really good clients just back away from opportunities.

But we're staying to what we do. And so sometimes we may lose an opportunity because of where it needs to loan size at and the market may take it. We're seeing definitely the market take it as others are maybe taking a little more optimistic view where rates may ultimately move after this rate increase. Hopefully, that makes sense to you. So we're staying to where we're at, but we are seeing some competition kind of bet on the future.

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

David, this is George. Let me mention one other thing, too. And you can probably notice in our presentation that we still have very healthy levels of reserve for certain CRE industry classes. And that was very appropriate during COVID probably not quite as appropriate today. So you will probably see us change our focus from industry to more loan specific, and our analysts are currently going through and stressing the loans that are on our book. And today, we're very comfortable with our level of reserve, which we believe is on the high side of the industry today, which is sort of typical of Simmons conservative outlook, but the numbers are what they are in our asset quality actually improved.

And I will tell you what we put on the books from Spirit of Texas was good, asset quality. No real problems that we've uncovered there. So we're starting from a good point, and our reserve level is very nice right now. You probably saw that our reserves to nonperforming loans is 330%. We've discussed internally several years ago that benchmark is sort of 150%. So we feel very good about the way we have manage the protection in case of an economic downturn. But I think this time, we're going to be more focused on loan by loan and not so much category by category.

Robert A. Fehlman - *Simmons First National Corporation - President & COO*

And David, one other point, just as a reminder, this acquisition of Spirit this quarter is we did book the double count under CECL that we basically put some 28-something million discount on the loan side and then $33 million related to both the allowance and the unfunded commitment that we booked. So that was relatively close to in line the net of those 2 to our projections as we went in.

So nothing unusual that we bump those up for some issues that we saw in there. We were pleased with the adjustments. In fact, if you look at one of the slides in there, we compare all of our acquisition assumptions to what we see this quarter, all of it is very favorable for the quarter.

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

That's great. Yes. No, you're absolutely right. And then maybe just one last one, just kind of shifting back to the growth outlook. You guys have had a lot of success on the hiring front. It looks like we had another couple of hires. Just curious your appetite for hires, where you're maybe most focused on adding to the team? And then just where we are in the contribution from? We had a nice team lift out last year. Just curious how that commercial finance lending team is doing?

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

So David, yes, I'll start on that. We -- well, first answer is we're definitely on the hunt for new talent. At our size and our footprint and what we can do as a bank, we're definitely in the market to bring on new contributors, and I'll go into where here in a second. But kind of first, the commercial financing, we've had a night this second quarter. A lot of our true C&I core growth that I mentioned earlier came from that group. So they're having success. They've come into the system and starting to deliver on what we hope they would do, and we think they'll continue to do that through the remaining part of the year and into the future, so they're really solidified.

I will give you a few highlights on new hires for the second quarter, had a nice leadership team on the commercial side and St. Louis joined the team. We've had some nice pickups in Nashville, some real contributors. But we've also really focused on the build-out of our what we call Community Banking in our Metro markets, business bankers, BDOs, and we've had some real success in Q2 with some real nice talent from multiple areas and some promotions internally.

So -- and then also, you're blocking, tackling community bankers, we brought in many new talented bankers on the '22 that we mentioned there. As far as where we're looking for new opportunities, like I said, we're open throughout the footprint, but we're definitely -- we're using this volatile environment in the mortgage side right now. We're seeing some nice opportunities on the mortgage side to bring on some nice historical producers because they may be an independent. We have so much sustainability.

We're able to bring in some new quality originators on the team. And then for sure as far as specific markets, we want to build out the Spirit of Texas footprint. They've got a great team there. But now with our capabilities, Houston, San Antonio, Austin, those are key areas that we're trying to expand with our balance sheet on those existing teams. But George, you may have other comments, but that's some high-level comments on hiring.

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

Yes, I think that's right. And David, we've got potential all across our footprint. And we talk about that every time we acquire a bank and that is those banks do not have the breath, the products and services that we have. And it's going to be a multiyear opportunity for us to continue to build out wealth, credit card, agri, lending. We hired a new Head of Agri Lending, the first one we've ever had because we've got so much potential in an area where we really want an expert.

So we just believe that time is going to take care of that. And we have certainly not been disappointed in our ability to attract good talent with the diversified set of products and services that we offer here. Many of these bankers are coming to us because they were restricted in their ability to take care of the customers' needs. And that's not the case here.

Operator

The next question is from Matt Olney with Stephens.

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

I'll take the expense question. I think we're now at $137 million of adjusted expenses in 2Q. And I'm guessing there's some more cost savings, but perhaps some reinvestments. So what's the outlook on expenses from here?

James M. Brogdon - *Simmons First National Corporation - Executive VP, CFO & Treasurer*

Matt, it's Jay. I think you're right. There's probably a little bit left. I'll remind you we do a simultaneous close and convert. So we certainly are able, I think, relative to a lot of other transactions you may see and evaluate, we're able to pull forward the time line meaningfully around achieving some of those cost saves. I would point out in the quarter or this quarter, when you look at our adjusted expense numbers, there is a foundation donation in there. We called that out in the slides of $1.6 million.

And so I think about that number a little bit as you're thinking about expense run rate. The other big number or a big item that would be in there is we have in that quarter of an acquisition, we have some nonretained salaries that will impact you in Q2 and won't be there as to really partly any degree in Q3 and going forward.

So I think you're right, there's a little bit of cost saves left. I think there's some opportunity relative to the run rate number you're seeing there. The only headwind I mentioned, you called it reinvestment. We're always doing that, but there's still a lot of wage pressures out there and inflation pressures out there. I think we've done a great job over the past year at combating those. And I think we're still having some success there, but the pressure definitely exists.

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

Okay. Perfect. That's helpful. And then shifting over towards funding and liquidity. It looks like the overnight assets have now come down quite a bit, and we're getting pretty close to the 2019 levels. Any more room to move that down? Or are we kind of where we need to get to? And then just thinking about funding the loan growth at the back half of the year, do you think you'll see the securities portfolio move lower or just deposits move higher? Just how are you thinking about funding the back half of the year's loan growth?

James M. Brogdon - *Simmons First National Corporation - Executive VP, CFO & Treasurer*

I think it's a combination of all of that. I mean first of all, Matt, I think we would target cash levels, absolute cash levels, we'd be comfortable anywhere in kind of that $500 million, $700 million top range. So there's still a little bit of room there relative to where we are today. I would again remind you that we have a little over $1 billion in floating rate securities in our securities portfolio. We're not heavily investing in the securities portfolio today. We would much rather invest that in loans and with the top success we saw in growth -- in loan growth this quarter. We'll continue to earmark liquidity for that.

But we'll keep having success, I think, on the deposit side. We're very focused there. As I think I've called it earlier, we're playing defense where we need to, but we'll also play offense here. I think there's a great opportunity in a market like this for us to look community by community and really try to grow our deposit market share. So that's a key focus for us as well. So yes, I think we've got a lot of levers to pull on the liquidity side here to fund the growth.

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

Okay. That's great. And then I also wanted to ask just more generally about SBA. I think legacy Simmons had a nice little SBA unit. And I think the Spirit deal, I think, also came with the SBA team as well. So just would love to hear more about kind of operationally how you're running that? And then fundamentally, what you're seeing in the market? We're just hearing data points of margins getting a little bit tight in SBA. I just love to hear kind of what you're seeing out there?

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

Sure, Matt. It's Matt. Just a couple -- very thankful for that Spirit team. I would say it really helped us double down and invest in our existing SBA team to build it out quickly versus a 2-year plan is with their bankers and their back office kind of gave us some resources to push it forward. I will say kind of as it relates to SBA, at Simmons and overall, PPP, we chose, and we pushed it through our SBA unit. The $1.3 billion in loans of PPP, that was their focus for 2 years.

And so now the second quarter, this quarter, we had some decent production in loan growth in SBA. But now with the Spirit behind us integrated fully, we feel like SBA is going to be back to normal $100 million a year production going forward. But the last 2 years was really PPP.

James M. Brogdon - *Simmons First National Corporation - Executive VP, CFO & Treasurer*

Yes. And I'll just chime in with one other comment on that, too, Matt. You alluded to just margins out there on SBA. All the SBA production we're doing is in footprint. This is customer driven. It's not any kind of nationwide lending efforts. So it's very core to who we are and who our customers are. And we have the ability to balance sheet those, where the margins may not make sense to sell them for a gain or an international margin. Those are good in-footprint quality loans that we can balance sheet as well.

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

Great. And then I also want to ask about the overdraft NSF fees. We've seen a number of your peers announced changing of some pricing over the last few months. Just remind us where are we as far as the pricing for Simmons on those products? Have there been any adjustments recently? Or is there anything on the way there?

Robert A. Fehlman - *Simmons First National Corporation - President & COO*

Well, Matt, this is Bob. We haven't announced any decisions yet. We continue to look at it. As of today, I don't think we're out of the market. But we do think with the changes, there will be probably some changes probably towards the end of this year. We haven't really set a time yet. But we continue to look at what our current trends and the best practices out there. So there will be changes. I don't think it will be off the chart material, but it will be some impacts, but not really disclose any right now.

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

Okay. And as far as the time line, Bob, you mentioned towards the year-end we'll hear more about that. Is that right?

Robert A. Fehlman - *Simmons First National Corporation - President & COO*

Yes. I would expect by year-end, it could be Q3, Q4.

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

Matt, we're taking a look at all the elements of our deposit account pricing, including overdrafts, NSFs, those kinds of things. And what we're going to end up with is something that's very justifiable from a cost perspective and a benefit to the consumer. I think the industry has moved just toward, okay, what's the market there, and that's hard to justify. So our analysis is more long-term cost benefit analysis so that when we settle on fees, we can justify that in the marketplace.

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

Okay. I just have one more question, I guess, for George. I think last time on the call, we talked about M&A. And you kind of tucked down M&A potential for this year. I'm curious if there's any changes in your M&A appetite at this point?

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

Matt, there's not. In addition, to having such a long runway ahead of us from an organic perspective, market uncertainty just makes any of those discussions theoretical. And I will tell you, we are having no substantial conversations about M&A at all right now.

Operator

The next question is from Gary Tenner with D.A. Davidson.

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

Just wanted to ask about the increase to your accretion assumptions around Spirit. Just wondering, is that really driven by the difference in the rate environment since announcement or any other notable changes in your expectations there?

Robert A. Fehlman - *Simmons First National Corporation - President & COO*

Yes. It's pretty much related to the rate. When we did our initial assumptions last November, where the tenure was at that point, and you see where it is, obviously, at April 8. So I guess, the negative adjustment to the discount from the interest rate portion of it related to the credit was lower than we had projected originally.

So net wise, it was still a ballpark range of where we expected. All of that, as you know, is really a timing difference, whether you get it on day 1 or you get it later.

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

All right. And then most of the questions were mostly answered. But just on that service charge question a moment ago, I am sure service came up less than I would have thought from Spirit. So were there any kind of temporary waivers or anything related to the service charge line that maybe didn't -- was a headwind for the quarter? Or was that a pretty fully loaded quarter?

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

Yes. I wouldn't say that there were waivers. What I would tell you is we delayed moving Spirit to the Simmons pricing structure, which is sort of typical in most of our acquisitions until our customers get used to Simmons and we get used to them, there's usually a delay in integrating those 2 cost structures. So that's primarily the reason.

The second reason is Spirit's consumer base where a lot of those fees are generated, wasn't nearly as big as the Simmons on a comparative basis. So even if we put them on our pricing structure, it wouldn't make that much of a difference.

Operator

(Operator Instructions) The next question is from Stephen Scouten with Sandler O'Neill.

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

I wanted to dig back into loan growth real quickly. Just I was wondering if you could frame up maybe some bands of what you think could be the potential growth over the next couple of quarters? I know Matt, you said not as strong as this quarter, but this quarter was phenomenal, 27% linked quarter annualized. I mean are we talking back to a mid-single-digit kind of run rate expectation? Or is it now a double-digit sort of number given what you've seen in the growth in the pipeline?

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

Stephen, just in all candid, that's hard to say right now. I think it could easily trend back to high single digit, but we could also be in mid-double teens. But just this current environment and what we're seeing in the pipeline with real opportunities that are falling out, a lot of times by the borrower. So it's just hard to say, but now do we have some nice built-in loan growth through unfunded commitments, construction. And what I know in our core community markets are going to happen, yes, that's going to be there. But to hit on all cylinders, that's just hard to predict right now in this kind of rate environment.

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

Okay. That's fair. And then thinking about your asset sensitivity, what you saw in the quarter on the deposit side, it seems like it probably outperformed. What you would have been modeling, which is great. I guess, can you give us any color in terms of what's embedded in those expectations in terms of maybe loan betas or deposit betas and kind of how you're tracking relative to that?

James M. Brogdon - *Simmons First National Corporation - Executive VP, CFO & Treasurer*

Yes. I'll mention a couple of things there, Stephen. So first of all, we are through as of June 30, all but 5% of our floors in the loan portfolio. And when we -- assuming we get a rate hike next week, I think we'll be through over 99% of those floors. So when you think about loan betas going forward, I think they're going to be very high. I think given a lot of the comments Matt has said, our ability to kind of flex that pricing muscle on new originations is better than it was earlier in the year when a lot of folks were still willing to buy down on the yield side.

So I think our rate sensitivity on the yield side will be good going forward and present a lot of opportunity for us. You're right on the deposit beta side, that has certainly exceeded any and all of our expectations, at least expectations that we model to because we model those fairly conservatively. But given the pace of rate increases, I think we will move betas up going forward in a way that's somewhat notable. And so I see that trend coming into the third quarter here. But those betas on the deposit side are still going to be, in my mind, meaningfully lower than what I've walked through on the yield side.

Robert A. Fehlman - *Simmons First National Corporation - President & COO*

Stephen, going back to loans, I did want to point out one item is related to loan growth. If you look at the period end numbers, we're at $14.5 billion -- I'm sorry, 15 -- at end of period, it was $15.1 billion, average balance was $14.5 billion. So you're going to see some of that benefit hit in Q3 where some of that growth came on towards the end of the quarter. So just keep that in mind also.

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

Got it. Okay. And then maybe last thing for me. It's just -- on the net charge-off expectations, do you guys have a range that you think about for maybe a longer-term net charge-off percentage that you would expect? I mean I know there's been some lumpiness maybe throughout the years, but this quarter was phenomenal and all the credit metrics continue to improve. So we think that would be lower than maybe what we've seen in the past. I'm just kind of wondering how you're thinking about that.

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

Stephen, really, the only thing I can point to with our expectations is our budget and our incentive plans. And we generally use 20 basis points on an annual basis as sort of the benchmark to earn incentives. So historically, at Simmons and even recently, 20 basis points, we would like. But in certain market conditions, it would be acceptable. And all of our bankers, all of our management are focused on that charge-off number. So that's really the only way I know to answer that is what our internal expectations are and we put money behind those expectations.

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

Yes. Yes. No, that frames it up very well. I appreciate that, George. Congrats on seeing all that growth and the work kind of pull through this quarter. Good to see.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to George Makris for any closing remarks.

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

Well, thanks very much for joining us today. I want to take this opportunity to reflect for just a minute on the past several years and how they relate to our current market position. As you all know, we had an objective to gain access to growth markets while maintaining and growing our emphasis on Community Banking. I would say that I believe we've achieved our original purpose. You take a look at our footprint today, the potential for organic revenue growth in all of our business lines is a great multiyear opportunity.

I think we've invested ahead of the industry in several key areas. Our development of our digital bank is our national recognition as a market leader. We will continue to invest in deepening our relationships in our markets and growing our share for all the products and services we offer. We're committed to supporting the communities we serve, and that's evident by the results of our community development programs and our philanthropic commitments.

Our brand value has been greatly enhanced. We're very fortunate to have a contingent of ambassadors, including PGA Star Will Zalatoris and our affiliation with all women's athletics at 10 major universities and our footprint is a cutting-edge sponsorship with long-term value. Our performance this quarter is reflective of the potential we have created over the past several years and bodes well for the future as we continue to build a better bank. Thanks again to all of you for your support. Have a great day.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.