

**Bank OZK**

**Transcript of the First Quarter 2025 Conference Call**

**April 17, 2025, 7:30 am**

**Note: Administrative communications of the operator and other greetings and social exchanges of no substantial import have been omitted from this transcript.**

Good morning, I am Jay Staley, Managing Director of Investor Relations & Corporate Development for Bank OZK. Thank you for joining our call this morning and participating in our question and answer session. In today's Q&A session, we may make forward-looking statements about our expectations, estimates, and outlook for the future. Please refer to our earnings release, Management Comments and other public filings for more information on the various factors and risks that may cause actual results or outcomes to vary from those projected in, or implied by, such forward-looking statements.

Joining me on the call to take your questions are:

- George Gleason, Chairman and CEO;
- Brannon Hamblen, President;
- Tim Hicks, Chief Financial Officer;
- Cindy Wolfe, Chief Operating Officer; and
- Jake Munn, President, Corporate and Institutional Banking.

We will now open up the lines for your questions. Let me now ask our operator, Michelle, to remind our listeners how to cue in for questions.

**Stephen Scouten – Piper | Sandler**

I know you guys said in the Management Comments, it's kind of hard to update guidance around RESG originations, and I totally appreciate that given all the uncertainty, but can you give us maybe some anecdotal kind of discussion about what your customers are thinking, how they've been reacting over the past couple of weeks and what you think customer demand, how that's changed maybe in the near term and kind of how you're thinking about walking through that demand profile in the future?

**Brannon Hamblen**

You read the Management Comments correctly. It's an uncertain time right now but let me give you some background. I've been talking to a number of market participants looking at the industry from a number of different angles. And of course, as we've said in several of the past quarters, the environment was such that equity was already having to work really hard to pencil deals. Sponsors were having to work hard to find their common equity or their preferred equity. So, it was an environment that already had some headwinds coming into the beginning of Q1. Off the 100 basis point drop in the last four months of '24, there was some hopefulness about direction and a lot of equity that had been on the sideline for a while.

So, as we looked forward into the year, we were expecting that we could outperform 2024 by some margin, as we said in Q1. Everyone is well aware of some of the uncertainty that's been introduced in the market over the last several weeks. So that's added another element, another consideration that our folks are having to look at. But I'd tell you, as I've talked to folks, the sentiment has been, yes, this is another more short-term uncertainty we believe, and long term believe it will be worked out. We don't know where short-term stops and long-term starts, but there's a level of confidence that it's going to make sense to do real estate deals. The uncertainty around that timing has caused us to put a pause on our guidance as it relates to that. We come into this quarter with a fairly decent closing pipeline for the quarter but as we look into the subsequent quarters, there's just enough uncertainty that we didn't feel like we could stand on solid ground to give additional guidance there. I will tell you that sponsors are, everyone is, pushing in to look at the potential impact of tariffs and how their general contracts are written. Who's going to be up for funding additional costs if they occur? But I would also say that there's others that readily state that it's just it's a mathematical problem. It's not necessarily a deal killer.

So, everybody is focused on the good deals that are out there and making sure they're underwriting those, structuring them correctly in light of the uncertainty. There will still be deals that are originated. But it's just difficult to say that what that volume is going to be over the remainder of the year.

**George Gleason**

And Stephen, you were focused on RESG volume. I would point out that we reiterated our prior guidance for mid-single digit to high-single digit total loan growth for the year. And of course, our first quarter was pretty strong with 3.8% growth not annualized in Q1. So, while we did pull down the RESG origination volume that we still think our cautious guidance at the beginning of the year was appropriate and still stands.

**Stephen Scouten**

That's a good point to make, George. Appreciate that. And I think what's really interesting there and maybe my follow-up would be, it looks like I think last four quarters, 65% of the loan growth has actually come from non-RESG loans, which is pretty impressive, and that handoff story continues to play out well ahead of what I would have thought and it's great to see. But I guess my question there is, do you, with this kind of uncertainty and maybe there's with tariffs, there's more of a focus on small business or C&I type of lending, people are a little more skittish. Does it make you guys think any differently about the, I guess, pace and the aggressiveness in which you would go after those loans and those new verticals versus RESG, which has traditionally been just your bread and butter, kind of your strongest, highest credit quality, most collateral type loans? I guess, does the environment make you think about the timing of that handoff any differently?

**George Gleason**

Yes. That's a great question. The Corporate and Institutional Banking Group Jake Munn runs for us, has obviously been the biggest contributor to that non-RESG growth, which, as you pointed out, has been the majority of our growth over the recent quarters, most recent quarters. So, I'll let Jake answer that question, Jake?

**Jake Munn**

Yes. I appreciate that, George. Stephen, good question there. We had a good strong quarter for CIB in first quarter. ABLG led from a total dollars deployed standpoint, CBSF led from a new relationship count standpoint. First quarter for diversified C&I lending holistically, if you look at the market, is typically the weakest. Second quarter and fourth quarter mimic one another. Third quarter is typically the strongest, so we do still feel good about the build and the momentum that we're getting in CIB as a whole. It's a part of that continued "growth, growth and diversification" strategy that we've talked about previously. Given that macroeconomic noise and some of those headwinds you mentioned, we're still conservatively looking at this on a quarter-by-quarter basis. But I can tell you our three legacy business lines being ABLG, EFCS and Fund Finance, still have great pipelines.

They continue to add new deals at a steady cadence. When we look at our Corporate Banking & Sponsor Finance business line that we only launched a few quarters ago, that group is really still in expansion mode, and we're actively looking at placing two additional teams out within our core footprint in two major metropolitan areas that would further drive growth. In addition to that, our LFCS group, which I'm sure we'll talk about later on in the call, is up and running. So we're starting to feel the benefit of additional fee income and business services that we can provide for our clients. And then lastly, I'm equally as excited to share on this call that we're actively pursuing and launching a natural resources group this year. We identified and sourced and brought over our new Executive Managing Director of that group, George McKean, who I've been a longtime colleague and friend and have great faith in. And so we'll be, over the next couple of quarters, working with our credit, risk partners, corporate finance, analytics, et cetera, to build that group up and ready for launch.

And so, as I mentioned, our pipelines remain robust. We're cautiously optimistic of the continued growth that you're seeing in CIB and that handoff we've discussed. All of our business lines really remain focused on credit quality first, and I've got all the faith in that team to continue to march that direction.

**George Gleason**

Stephen, I would add implicit in the reiteration, reaffirmation of our aggregate loan growth guidance for the year, even though we have withdrawn RESG origination volume guidance, implicit in that is the

growing confidence and expectation we have for other business lines to pick up the pace if and as needed to offset any reduction in RESG origination volume. So, we're feeling good about it.

**Manan Gosalia – *Morgan Stanley***

You noted it's an uncertain time. And I guess my question is, if this uncertainty remains and businesses are slow to make decisions, how are you thinking about the pace at which properties lease up and find permanent financing? And what conversations are you having with sponsors in terms of their ability to support properties for a longer period of time should we need that?

**Brannon Hamblen**

Absolutely. I'll speak about the last part of that question, Manan, conversations with sponsors. You guys have seen in our comments for a number of quarters, the evidence that we continue to update for you around how our sponsors are doing exactly that. We are up to \$957 million of total additional equity contributions over the 450 modifications and extensions that we have made. So yes, we are constantly having those conversations, and we're very pleased with the level at which they continue to support those. As it relates to leasing activity business decisions, we are seeing continued lease-up across the portfolio. So based on the facts that we've seen them so far, certainly, some have elongated lease-up periods. We've noted that, but we continue to see a healthy lease-up in the portfolio. We'll continue to monitor that. And as that occurs or as it's elongated, expect to continue to see our sponsors support these projects that, as we noted, are the newest and highest quality projects in the market. Our experience has been that those highest quality, best located projects do still obtain the majority of the leasing that does occur in the market.

So, the story is similar today as it was before. We, as you noted, have some additional noise in the market. It remains to be seen how long that lasts. But our sponsors have been great to step up through the higher for longer period that we've been through over the last couple of years, and we expect they'll continue to do so into the future.

**Manan Gosalia**

Maybe just to pivot over to NII. NII was relatively flat Q-on-Q despite, I think, the average Fed funds rate was down meaningfully. Can you talk about what drove that? And I see the new disclosure on securities

repayments in 2025. Can you talk about what reinvestment rates you're getting there? And maybe also speak to the duration that you're putting on the securities book? We noticed it's been increasing a little bit over the past couple of quarters.

**George Gleason**

Let me take the securities question, and then I'll let Tim provide some commentary on the net interest income question. But you'll notice in our Management Comments that this was the first quarter among many that we actually had some growth in the bond book. And with the very optimistic view of the economy early in the quarter, very early in the quarter and the steepening of the yield curve, the kind of medium term, short term, 15-year agency mortgage-backed product that we buy a lot of and some medium-dated municipal bonds backed up into our strike zone. So, we bought about \$320 million, I think, was the number of bonds when the 10-year treasury backed up into the 4.68% to 4.78% range. That was our buy range to execute on some of those strategies. We were very particular, very careful in what we bought in there. We weren't in that range for very long, but we did add some bonds and those had a very nice yield on them. We obviously went way far away from that when the 10-year got down to like 3.80% and it's now back, I think, to 4.30% or something today. So, we would probably not be a buyer in that 4.68%, 4.78% range now, but beyond that would be a buyer again.

So, I think we were very opportunistic in what we did and feel good about that. We've got obviously some lower rate bonds rolling off. We gave you that detail in Figure 4 on Page 6 of the Management Comments. It's not a huge volume, but it's about 13% of the portfolio, I guess, rolling off this year and another 16% rolling off next year in the low 3s weighted average yield for those. So, we would expect to reinvest those at improved rates in the 5% to 7% sort of tax equivalent yield range if we are consistent with our prior experience. So that's what I've got to say on investment securities.

Tim, you want to comment on the net interest income generally and including the fact that we had two fewer days in Q1 than we did in Q4, so that was really the difference?

**Tim Hicks**

Yes. Yes. That's right, George. Two fewer days in Q1, our NIM down two basis points, which was a good result there. We gave you some guidance on Page 8 under that Figure 7 on our net interest margin and

where we believe that should go under different rate scenarios. But certainly, during Q1, we had a great, as George mentioned earlier in the call, we had a very strong loan growth quarter and we believe we'll have continued growth in average earning assets throughout the year, which we continue to expect that would drive a record net interest income in at least one or more quarters in the rest of 2025 and certainly for the full year.

Cindy and Ottie and team did a great job driving down our COIBD during the quarter. We were down 29 basis points in the quarter. I think that's probably going to be one of the best in the industry for this quarter as more folks report. And you see our chart on Figure 6, we still have several more quarters of volume of time deposit maturities with weighted average rates in the mid 4% range. So, we still feel like we've got some opportunity to continue to decrease our COIBD. So, we were very pleased with our NII results for the quarter. And I think that sets us up in a pretty good spot for the rest of the year.

#### **George Gleason**

Cindy, do you want to provide color on kind of where we finished the quarter and on deposit costs since that's a big element, obviously, of net interest income?

#### **Cindy Wolfe**

A little color on March. Obviously, we're extremely pleased and proud, as Tim said, of the 29 bps decrease in the quarter. But if you want to know a little more about March and why we're, as Tim says, we expect to have more opportunity there with our maturities in the future. In March alone, we picked up 90 basis points of savings. So, we retained 88% of our maturing CDs in March, and we cut another 10 basis points in April on our published CD specials. So going forward, we're excited and I just have to point out the obvious here that even while doing that, we've grown deposits. And if you read anything about deposit growth and deposit acquisition right now, it's extraordinarily hard to grow deposits right now.

So, I couldn't be prouder of our team continuing to fund our balance sheet and drop those costs down. They have been working together for years now. They execute with extreme precision and discipline and also just aggressively out there growing our business with our amazing team of retail bankers and the amazing team in our wholesale deposit group.

**George Gleason**

The 90 basis points that we picked up in March, for clarification, that was the weighted average rate on time deposits rolling versus the weighted average rate on cost of interest-bearing deposits.

**Cindy Wolfe**

That's right. Yes. Thank you.

**George Gleason**

Our cost of interest-bearing deposits for the month of March was...

**Cindy Wolfe**

It was 3.71%.

**George Gleason**

So, seven basis points below the quarterly average. So, we're continuing to work hard to push those cost of interest-bearing deposits lower. And as Cindy mentioned, it's a battle out there, but it's a battle our team has done a really good job of winning.

**Manan Gosalia**

So, I think you mentioned last time that maybe one or two cuts would be slightly negative to NIM because your loan yields would come down faster. And then beyond that, the floors protect you on the loan side? Is that still something that you guys see happening more than two cuts and your NIM could be supported a little bit more?

**George Gleason**

Yes. And we alluded to that in the language, as Tim pointed out, below Figure 7 there on Page 8, where we said if the Fed reduces interest rates, we anticipate loan yields would decrease faster than our deposit costs likely resulting in some decrease in our net interest margin at least until time deposit reprice and our floor rates are reached on more variable rate loans, and we refer you to Figure 22, which shows the variable rate loans with each that hit their floor with each decrease in the Fed funds target rate and other similar market rates.

So, you can see when we get down to three decreases, one decrease, we don't get a lot more. We go from 22% of the loans to 28% of the loans, 22% currently, to 28% of loans at their floors with a 25 bps increase. With a 50 bps decrease, that number goes to 44%. So, we get a lot more support from the floors and 44% number is a meaningful percent at their floors that will contribute to us protecting the margin quite a bit. So that's a big difference between a minus 25 and minus 50 in there.

**Tim Mitchell – *Raymond James***

I want to start on the buybacks subsequent to quarter end, which is great to see. And with the stock still trading around those levels, if there's any color you can give on your attitude, just kind of given all the uncertainty out there, but you still have a lot remaining under your program. Just curious if you can give us any thoughts.

**Tim Hicks**

Yes. I mean, as you said, if we continue to trade at current levels, we would expect to continue to repurchase throughout the quarter. Our current authorization ends at the end of the quarter, we would expect our Board to consider a new authorization sometime before the end of the quarter. But certainly, at the current levels, we'd buy some more. We bought back some more yesterday -- the data we gave you in the Management Comments was through the 15th and 16th, we had some additional purchases as well. So, it depends on stock price and a lot of other variables, but I think you could expect us to be somewhat active at this level.

**Tim Mitchell**

And then on expenses, if loan growth was more muted than you expected, I know it sounds -- you sound pretty confident in your outlook. But just your thoughts on weighing near-term EPS versus continuing to invest in branches and new people, just how you're thinking about that over the near term?

**George Gleason**

Well, we are very focused on taking advantage of and capitalizing on opportunities in the market. You saw that with our bond purchases early in the quarter. You saw that with our stock repurchases after quarter end here. And we believe, and you saw it in Cindy and her deposit teams being very strategic in the way they managed our deposit base to get probably one of the best quarter-over-quarter reductions

in our cost of interest-bearing deposits. So, we're leaning into opportunities that the market provides. And that's always been part of our culture and our company's history is to capitalize on opportunities when they're presented. We believed last year and continue to believe this year that we've got opportunities to both grow various parts of our balance sheet. Brannon and Jake have addressed that. If Alan Jessup or Ken Ronecker were here, or Dennis Poer who run other parts of our business, they would address the work they're doing to capitalize on growth opportunities on the asset side. We also think we've got real good opportunities to capitalize on growth on the deposit side.

So, we will continue to add team members to growing areas. Jake alluded to one recent hire in a new line of business in the energy area. We're continuing to add staff in mortgage, continuing to add staff in business banking, continue to ramp up our consumer banking pieces. So, we're growing, and we're adding people to grow, and that's reflected in the 10% growth in our noninterest expense in the quarter and consistent with our guidance, almost exactly consistent with our guidance of estimated 10% growth in noninterest expense this year. So, we're continuing to capitalize on that. And that includes opening a lot of retail branches.

And Cindy, I don't know if you know. Do you have a count on that?

**Cindy Wolfe**

Sure. We're excited about opening new branches. And this year alone, if you look at the schedule, the published schedule that we shared to plan all those branch openings, it's 34 branches. Now that is three in Q1, could be up to 11 or 12 in Q2, 12 in Q3, eight in Q4. But anyone who's developed real estate knows that that can swing by weeks or days as far as the exact timing of those openings based on construction schedules and all sorts of things that we can't control. But that's an estimate that we'll have probably around 30 more branches at the end of the year than we had at the beginning of the year. And those will take time to grow our deposits. So, we're making those moves now, and hiring staff, obviously, some of those are outright acquisitions of bank branch buildings, and we can get those opened really quickly. And the ones that are ground-up development can take months or even years to develop, but over time, we expect that to add meaningful deposit growth.

**George Gleason**

I would tell you, that is embedded in our 10% year-over-year guidance for growth in noninterest expense. So, we baked that branch addition and the staff for those into those projections as we have the projections for adding an energy group, growing CIB, growing business banking, growing our consumer banking functionality and mortgage. That's all built into our projections.

**Jordan Ghent – *Stephens Inc.***

I just wanted to ask about RESG, kind of the RESG mix going forward. I think last time you said it would be kind of upper 50% by year-end of '25 and into early '26. Is that still a kind of target we can be expecting?

**George Gleason**

I think you'll see a continuation of the trend that we've seen over the last half dozen quarters or so where RESG's percentage of our total book comes down, CIB's and our community banking, commercial banking part of our book, along with indirect lending goes up. So, I think that trend is there. Whether we're at 50% RESG or 55% at the end of the year or 57%, the trend is there. It's a long-term trend, and I'm not going to reaffirm specific guidance because I don't have that number in front of me and haven't reprojected that. But the trend is there. RESG is going to become a lower percentage of our book. Now longer term, it's still going to grow. It will be bigger in five years than it was two years ago in my estimation, my expectation, but it will be a lower percentage of our book. So, we expect, as we've been very clear on this, we're not in any way pulling back from that business. We're fully committed to its business. But these other business units are going to continue to outgrow it in most quarters going forward for the next several years until RESG is a much smaller percentage of our book, even if it's bigger in dollars.

**Jordan Ghent**

Perfect. And then maybe just another question. I noticed that there was the Maryland land loan that was moved to substandard nonaccrual. But I did notice that the LTV on it was pretty healthy, pretty low at 51%, especially compared to the other substandard accruals. Is there any color you could give on this on why it was moved to substandard accrual?

**George Gleason**

It is substandard accrual, I know you said in your first sentence there, substandard nonaccrual. It is substandard accrual. And Brannon, do you want to take that question?

**Brannon Hamblen**

We've based that on the appraisal that we have that was a 2024 appraisal, that's where valuation was at that point in time. That is a healthy LTV. We'll be updating that appraisal in the near future. But it's just a complicated land development loan that has some similarity, I guess, you would say in that context to the Chicago land loan, large complex. So, we've taken what we believe is the right approach with that asset in where we rated it in the reserve that we took on it. So that's really the story on that asset.

**George Gleason**

Yes. I want to add a little bit to that. Most of our land loans in our RESG portfolio are land bridge loans to go to on projects that are going toward near-term vertical development. There are a few loans in the book that are more land development loans, the Chicago land loan that we have in other real estate foreclosed assets is one of those. And this loan is one of those few that really is a land development loan, Maryland land. That's really where the similarity on this probably ends. We're in active positive discussions with the sponsor on this. This loan has migrated on here because of the nature of those discussions and the fact that it's approaching a maturity. It's premature to assume that it is going to pan out the same way the Chicago land did. It may, it may not. It may continue to progress in a very positive manner going forward. We don't know, but the uncertainty around that is we approach maturity and discussions with the customer is the reason it's on there. So, I think it's an appropriate place to put it. We'll have more clarification on that next quarter as we continue discussions with the sponsor about their plan forward and as we get a new appraisal on it in connection with this upcoming maturity.

**Jordan Ghent**

Perfect. Thanks for all that updated discussions. And then maybe just kind of one follow-up regarding that Chicago land loan. Can you give any update on what's the appetite to market this property? It kind of sounds like you can be a little bit more patient and just kind of wanting to understand how aggressively you might market it going forward?

**George Gleason**

It is a very significant asset. If you're reading the commentary, particularly in Chicago about it, you understand the significant potential and importance of this asset to the future of Chicago and development in Chicago. It's a significant asset. So, we'll be as patient as we need to be to get the right sponsor in there who has the capital and the expertise to develop this land to its full potential or significant potential, and we'll take the time to do that. With that said, we've already had several parties indicate an interest in it, very serious interest, it would seem. Time will tell on that, but this is a very valuable piece of land.

The City of Chicago is very interested in the outcome of this development because it's important to the city, and it's gotten quite a bit of attention already as folks have come to know that we've taken title to it and are looking for the right path forward. So, we'll be as patient as we need to be. But it wouldn't surprise me if things moved on this fairly quickly just because of the value and importance of the land. Now you shouldn't take that to mean we're going to have it sold in a quarter, a big complicated land piece like this with a lot of interaction with the city and city entitlements and TIF districts and those things, it takes a good while to formulate a plan and develop full due diligence to formulate a big plan to go forward with a project like this. So, it will take a little while, but we're optimistic from the initial unsolicited feedback we've had from the market.

**Samuel Varga – UBS**

I wanted to turn back a little bit to just the discussion around how the macro environment is impacting originations. Could you touch on the other side of that equation, the payoffs? I guess does the recent volatility speed up repayments at all?

**Brannon Hamblen**

This past quarter, you saw a little bit of drop-off in the repayment volume that we had relative to past quarters, but I wouldn't take that as indicative of repayment certainly in the near term. I mean we've noted that as some of the noise, the macroeconomic noise and uncertainty unfolds, it does have an impact on these decisions. But our guys stay very close to our sponsorship in terms of their plans and their expectations. And for the very near term, we do expect those repayments to return to a level that was more akin to what we saw in the latter part of '24. And we would expect that to, as we said, result

in elevated repayments for the year. Things can change, though from month-to-month, quarter-to-quarter. So, we'll keep our eye on it. But based on what information we have today, we do expect those repayments to be elevated over Q2 and to continue to do so over the remainder of the year.

**George Gleason**

Brannon, we might give a little interim color. I believe, already in the first 10 days or so, two weeks of April, we've had six RESG loans pay off. I believe the balances were, what, \$250 million to \$300 million range total.

**Brannon Hamblen**

Correct. That is correct.

**George Gleason**

Yes. And those loans, most of them, if not all of them, were loans we expected to pay off in Q1. But for one reason or another, the closings almost drug out another week or two. That's certainly not unusual. Big transactions, whether we're closing them or somebody else, have a lot of moving parts to them and a lot of lawyers and others involved in that closing process and those closings sometimes get hung up on one issue or another and take several weeks longer than expected or sometimes even months longer than expected. So that's not unusual, but it did throw our expectations off a little bit from Q1 to Q2.

**Brannon Hamblen**

Yes. To your point, five of those six paid off in the first three days of the month. So, point well made.

**George Gleason**

Yes, they just barely missed the tape.

**Samuel Varga**

Awesome. And then just a more housekeeping item, and it's probably for Tim. On the buybacks, the capital ratios have been, CET1 especially, has been pretty flattish, it seems, when I look at the preliminary for the first quarter. Is it fair to say that the buybacks are there and you're going to be opportunistic and sort of keep capital ratios flattish through that? I mean is that a governor on it? Or if

valuations stay where they are today, you'd be willing to actually lower CET1 to take advantage of those opportunities to buy back shares?

**Tim Hicks**

Yes. Certainly, we had really good growth and then really strong earnings during Q1, which, as you pointed out, kept our CET1 ratios and most of our ratios relatively flat, some were down a few basis points, some were up a few basis points. But yes, I mean the share repurchases right now with such a compelling value, we would be willing to let the CET1 come down slightly. But that certainly is a consideration, not only stock price, but our capital ratios and our outlook for growth for the remainder of the year. So, if they came down slightly in one quarter, it's likely that they would bounce back up in subsequent quarters as we go throughout the year.

So, we're really pleased that we've held on to our share repurchase authorization up to this point. We've been very patient. And as George has pointed out, we've got a history of being very opportunistic on a lot of different fronts, and this is one of those cases where our patience has paid off, and we're really able to utilize that share repurchase authorization at very compelling values right now.

**Timur Braziler – Wells Fargo Securities**

I wanted to circle back on the Chicago exposure and the relationship with Sterling Bay in particular. Clearly, you took back a good chunk of the land in Lincoln Yards. You do have other exposure to Sterling Bay. I'm just wondering, as the quarter progressed, how are you thinking about the other loans that you have to Sterling Bay? And if there was maybe a broader consideration, whether it's for incremental allowance, risk rating, what it might be for that sponsor in particular?

**Brannon Hamblen**

I would tell you that those loans are unique. There is a commonality in the sponsorship, but you have to understand every one of those projects, you've got different types of projects. You've got significant leasing in a number of those projects. You have different capital stacks in those projects. You have different capital partners, as part of those projects, that are considerations. So, it's not our practice to broad brush a situation like that in a portfolio that just happens to have the same sponsorship name.

**Timur Braziler**

And I guess, more specifically, the remaining loans in Lincoln Yards themselves. How are you guys thinking about the development and the fact that it has been a little bit of a mess with just the city and the fact that the city is so involved. Is there an incremental risk that either the full build-out or the leasing up of the additional properties on Lincoln Yard themselves gets pushed out and just how that might translate to the loans?

**Brannon Hamblen**

Yes, yes. So again, I would restate what I said before, you have different capital partners in different loans. You sort of lumped in a lot of issues there that are not necessarily tied together, but we treat each one of them individually as to their situation. As George noted, that's a phenomenal location and piece of real estate that has a tremendous amount of opportunity, a tremendous amount of interest. It needs, as George alluded to, the right sponsorship to execute on that. But I would also remind you that our basis in these loans, we enter these to be prepared for things not going as planned. And we're pleased with the fact that we've got diversity of property type and again to lump all those in would be a mistake.

**George Gleason**

Timur, let me add another comment or two. We've had a number of successful executions with the Sterling Bay Group and a positive long-term history with them. So that's important to note. And secondly, the city's interest and engagement in this project, we view as very positive. I mean the developer who ends up developing this project to its ultimate potential is going to be a developer that is going to work closely with the city because there's city infrastructure and collaboration that is required on a project of this scale that sits right sort of at the confluence of several significant urban suburban areas in the city.

So, it's going to take a sponsor who is very capable of working with the city and the city is going to have to be engaged. So, we view that constructively, not negatively. And if there was a negative innuendo in the question there about city involvement, we actually view that as positive, not negative.

**Timur Braziler**

Okay. And then my follow-up, just the growth, growth and diversification strategy. I'm just wondering your thoughts on that strategy going into a period of uncertainty like we're in today, more specifically just in growing out CIB as aggressively as you guys have been growing it. I'm just wondering; A), does that growth rate still make sense as we look at it today, just given the level of uncertainty? And then I guess, if it does, just B), what the conviction that you guys have in making some of those loans to industries that maybe could be more an acute risk if the economy does sour more quickly?

**George Gleason**

Well, I would tell you, I think our conviction, our belief that it's the absolute right thing to do in our growth, growth and diversification strategy is as strong as it's been any time since we started down that path five or six years ago when we brought in and began to build the first team that is now part of Jake's group and then a year later, added another team on a different business line and third year added another team on a different product line. So, we absolutely believe it's the right thing to do. We've got tremendous confidence in the team that we have built over the years and that Jake has significantly augmented in the last year plus.

And these are experienced veteran folks. They share our commitment. As Jake articulated in his earlier comments that asset quality is always paramount. They're doing business with high-quality customers. And I think they'll do a good job. I think we will achieve more diversification, and that will be healthy for our company, healthy for our stock price and will not dilute our asset quality but contribute to better asset quality through broader diversification.

**Jake Munn**

Yes. And to piggyback off of that, George, if I can. It's a good question, a fair question. As previously mentioned, we're really just now hitting our stride with some of these new business units that have come online. And when we look out over the broader opportunity that's out there, specifically in that just general C&I space, call it, middle market to upper middle market corporate space, the bank doesn't have much asset there historically. And so, pushing into that, there's really a whole world available for us to continue to grow within.

I want to reiterate though, just given that market uncertainty and some of those macroeconomic headwinds that you mentioned, if you look at the opportunities we're pursuing, vast majority of them have a sponsor behind them or publicly traded. So, we've got a nice tertiary source repayment potentially there or access to capital markets, if you will. Average client or if not most of our clients are over \$10 million plus in EBITDA. They've been around for years and years, so they've gone through multiple business cycles and economic cycles. And so, they've gotten hardened balance sheets. We've taken a page out of RESG's book. If you look at our average LTEV, it's down in the 50-percentile range on these two when we're going to enterprise value lending. And then also to reiterate, we don't do leverage lending when we're actively doing our enterprise value lending, which is very different than many of our peers. And so holistically, if you look at the type of opportunities we're pursuing in CIB, strong balance sheet, ample equity in and a long running history of success for these companies through multiple business and economic cycles.

So, to George's point, we're cautiously optimistic, and we anticipate continued growth across the CIB business lines. And the new CIB business lines that we've launched work kind of in tandem with the existing ones, ABLG, EFCS and Fund Finance. And so, if we start to see pricing pressure or structuring pressure in one of those areas, it allows us to pull the lever on another area to continue to pursue that growth. And so that diversified nature that we've built out strategically is really what's going to continue to propel our growth there successfully.

**Brian Martin – *Janney Montgomery Scott***

I joined a bit late here, so if you covered this, George, I apologize, and I'll go back and listen to the transcript. But just in terms of the -- just with the tariffs and kind of the uncertainty and just the opportunities, I guess when you look at the reserves today, I guess are you -- with the Moody's forecast, I don't know how you guys changed your -- if at all, changed your outlook in terms of reserving or just how we should think about that going forward? Or if you could just give a little bit of color if you haven't already done so, just on how we should think about that going forward?

**George Gleason**

Brian, let me make a few comments on that, and then I'll let Tim make a comment. In our Management Comments on Page 22, where we show that progression of our ACL build over the last 11 quarters and

I'll let Tim talk to that. We make a comment that if you read it and sort of read between the lines, there's been a steady array of challenges that our customers have faced that have prompted that ACL build. And the recession was always coming. The recession was coming. And the recession was coming from the lingering effects of the pandemic, from remote work, from all sorts of things and then it was the Fed raising rates, 500, 525 basis points, I guess, 525 basis points of Fed rate increases. Then it was, gosh, the Fed is not going to cut quickly. So we're going to have a recession. We're going to have higher for longer. We're going to have a recession, and you could throw in all sorts of -- the war in Ukraine, the conflict in the Middle East, the recession risk in Europe and trade tensions and supply chain disruptions and now we've got the little tariff tantrum going on.

So there's been just a steady progression of risk that our customers have had to deal with. And as those risks have increased and a handoff from one apparent risk to the next apparent risk have occurred, we just kept building our ACL realizing that the cumulative impact of all these risks could manifest itself in more and more challenges for our customers. Our customers have done an exceptionally good job and if you look over that 11-quarter period of time, our provision expense has been 4x our actual losses. And that tells you that, one, we're being very cautious in our build of the ACL. And two, our customers have just continued to perform very well even under a constantly evolving and shifting array of risks and challenges, all of which have threatened a recession or adverse situation of some kind or another.

We looked at all that coming into the year through the fourth quarter when everybody was euphoric to the extreme and said, wow, that's probably excessive euphoria and built our ACL in the fourth quarter of last year, even though everybody was in euphoric mindset because we were adopting a very conservative set of scenarios at that point in time, and being appropriate, prudent and cautious regarding the outlook, as that euphoria has turned more recently into just doom and gloom. We think the doom and gloom is overdone as the euphoria was 3 months earlier. And that the economy and the outcomes are going to be somewhere in that. But being cautious and being prudent and wanting to make sure we've got an appropriate ACL in the quarter just ended. We built our ACL, again, \$19 million. And so Tim, why don't you talk about our specific scenario of selections in the quarter just ended and anything else I missed in my comments?

**Tim Hicks**

Yes. Thanks, George. As you pointed out, I mean, we have increased, more than doubled over that 11 quarter period. Our ACL increased 113%, which was a net \$339 million increase given all the -- as you pointed out -- all the risks and uncertainties that have been present over those 11 quarters. We have been consistently weighted to downside scenarios. And during the quarter just ended, we did shift even more of our weightings to those downside scenarios. You can see in that last paragraph, we mentioned that the weightings we assigned each of the Moody's S4, which is a recessionary scenario and Moody's stagflation scenario, each of those exceeded the weighting that we had to the Moody's baseline scenario. So we've been including stagflation in our downside scenarios for the last several quarters and continue to view that as something that should be considered in our ACL calculations.

**Brian Martin**

And maybe just one, not the Chicago land, George, but the other properties in OREO that was -- had the contract out there. Did you provide any update on where that stands today? Or do you have an update on that?

**George Gleason**

Yes. We've got that updated. The Los Angeles land is updated on Page 25 in our Management Comments. And in our -- when we finished the fourth quarter, that land had fallen out of contract because the prospective purchaser of that land didn't make the contract extension payments that they were supposed to make at the end of the year. We -- reasonably quickly, I think -- it took about a month for the sponsor to come back and work out a new contract. We had already canceled the old contract and captured the \$3 million of nonrefundable earnest money that we applied that reduced our carry value on that asset from \$59.95 million to \$56.95 million where it is today.

But as part of the sponsor reengaging with that contract, they had to pay us \$2.5 million in fees that was in our noninterest income in the quarter just ended and put up an additional \$1.5 million in nonrefundable earnest money deposits. So \$4 million they put up, that was in addition to the \$6 million that they had previously paid to us and all the money that they've spent on it. The contract currently

expires June 30. They have one extension option, which they negotiated for 3 additional months to September 30. To exercise that extension option, they've got to pay us \$1 million fee and put up another \$1 million of nonrefundable earnest money by June 30.

Our current expectation of the most likely scenario given their apparent commitment to this project is that they'll probably take that extension and probably pay those payments on or before June 30 and extend to September 30. It's impossible to know for sure if this project closes or not. But certainly, they - by the time they do that, they will put up, if they exercise the extension, they will have paid us \$12 million in fees and earnest money toward the project that seems pretty serious interest to me, and they will have spent millions of dollars of other money on due diligence and work on the project.

So, I think there's -- it's more likely that, that sale closes than not, but I'm not going to celebrate it until it closes, and the money is in our account. If it closes that contract, this closing should result in a small gain on sale.

Thank you, guys, for joining us today. We appreciate all the questions. We appreciate your interest in OZK, and we look forward to talking with you in about 90 days, more or less. Thanks so much.