

Bank OZK

Transcript of the Fourth Quarter 2025 Conference Call

January 21, 2026, 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;
- Cindy Wolfe, Chief Operating Officer;
- Tim Hicks, Chief Financial 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, Shannon, to remind our listeners how to queue in for questions.

Stephen Scouten – Piper | Sandler

I wanted to start with one around the loan sale in the quarter and your outlook on credit, net charge-offs and such. And I was wondering what could lead you all to potentially lean further into the potential loan sales like you had on that one credit this quarter? And given the commentary in the Management Comments around 2027 loss trends and a belief that those will improve, what gives you confidence to that end and in that kind of positive outlook as we get beyond the CRE cycle?

George Gleason

Yes. Great question. Thank you, Stephen. I appreciate it. Brannon, do you want to talk about the loan sale first, and then I'll take the second part of his question.

Brannon Hamblen

Absolutely, Stephen. Yes, we would be happy to say that contrary to some speculation that was out there, we sold that loan at par. We collected all our outstanding principal and all our accrued interest on the note sale. But I would reiterate what we said in our Management Comments, Stephen, that the note sale does not reflect any change in our strategy.

We've sold RESG loans from time to time in the past -- and in this particular case -- I would say that our note sales historically have been sort of one-off unique cases. In this case, there was an overlap between the project that was -- that secured that loan in multiple situations where the sponsor there and its equity partners were no longer willing to or able to support those projects. And that would include the large land development in Lincoln Yards that we sold in the third quarter, the Lincoln Yards life science project that's classified substandard nonaccrual -- so it's a particular fact pattern. It doesn't happen often. It's not a change in strategy. It's just the normal course of business as those occur.

George Gleason

All right. And Stephen, on the other question you asked, we've given guidance in our Management Comments that we expect our 2026 results to look a lot like our 2024 and 2025 results in various respects. We've also detailed in considerable length in the Management Comments there, the challenging environment that our sponsors have been operating in for a number of years. And that should be no surprise to anyone because we've talked about it, particularly, at length over the last 14

quarters as we have built that ACL up. And we've depicted that ACL build in a chart in Figure 23 of our Management Comments.

So there was a build based on the expectation that the longer this challenging cycle drags on for our sponsors, the more likely it would be that individual sponsors on some individual projects would run into trouble and either choose to no longer support their projects or become unable to support their projects. And we've seen that over the last couple of years. And I think we've managed that really well. And the ACL build was a prudent preparation for the environment we're in.

I think we're getting towards the later stages, we really are in the later stages of the CRE cycle. We're seeing a lot of green shoots out there on leasing and property sales. We're seeing a lot of refinances because of the surge in credit availability, liquidity that has really manifested itself in the sector in the last couple of quarters. And obviously, the 100 basis points of Fed fund rate reductions in late -- in the last 4 months of 2024 and the 75 basis points of additional Fed fund rate reductions in the last 4 months of last year are providing some relief to sponsors on the interest cost.

So we're not all the way through the cycle, but we think 2026 is pretty near the end of working through that cycle. And we think we will see a decided upturn in not just improvements in the conditions for our sponsors, but also new volume and so forth. There's been a real constraint on new origination volume in recent years, and a lot of that is just the lack of equity and the fact that the market needed to balance supply and demand. We're seeing that come more and more into balance in various markets on various product types across the country. So we think our guidance is good, and we're very optimistic about 2027. We think 2026 is another year like 2025 where we're just working through the environment with our sponsors.

Stephen Scouten

Got it. Very helpful context there. And then just one other one for me around fee income growth potential. I mean, I know that it's never really been a big part of the story, or a demonstrable proportion of income at OZK, but it sounds like there's a lot of tailwinds there with the investments that have been made in CIB. So I'm just kind of curious what that could look like, not only in 2026, but beyond. And if

you feel like there's really longer-term tailwinds there on the fee income side of things and if that could be a multiyear kind of growth pattern.

George Gleason

Stephen, we're early in the process. So we haven't talked about it a lot. But clearly, if you read our Management Comments closely, not only do we want to continue to achieve this diversification in our earning assets, which is well in tow and clearly evident, but we also want to see longer term -- and you won't see huge strides in this in the short term -- but longer term, we want to see fee income become a much larger part of our revenue. So we're so early in it that we've not talked about it a lot. We've given some general hints about it.

But perhaps Jake could comment on CIB and then I'll comment on a couple of other items. Jake, do you want to talk about the fee income pieces of what you're doing.

Jake Munn

Yes, I'm happy to, George. As you all know, we've discussed on previous earnings calls, our Loan Syndication and Corporate Services ("LSCS") business line within CIB was planted about 18 months ago and continues to build. Those services provide kinds of shared services bank-wide, including our capital markets program, it includes our interest rate hedging program, our loan syndications desk, our permanent placement solutions and also includes some foreign exchange capabilities and some additional capabilities that George alluded to that we'll be rolling out here over the course of the next couple of quarters. All of that will continue to grow in line with CIB. CIB is their primary customer base for those shared services. But that being said, we're starting to see some nice penetration, for instance, with the interest rate hedging providing caps to our RESG customers, whether that be that or swaps that we're providing to some of our community bank customers. We are starting to see some nice growth and lift there through LSCS and some of those noninterest income initiatives that we're rolling out.

George Gleason

And then outside of CIB, obviously, we're into now, or about to start, our third year in the mortgage business. It was a very slow rollout. In year one, we gained traction in this last year, and we expect to continue to gain traction. So mortgage lending fee income by originating loans as many, many banks do

resell in the secondary market, is a good source of fee income for us. And then we've really put an increased emphasis on growing our trust and wealth business, really venturing into the wealth sector more so than just the fiduciary trust business that has historically been what we've done. But we're growing both those parts of that business.

And then we've also launched a private banking business. It's small. We're just really working with the first group of customers that we've carefully selected to help us work out all the bugs and make sure that we're delivering the quality of service and enhanced experience that those private banking customers need. but that is a good opportunity for revenue. And of course, we're enhancing and working really hard to increase our treasury management services, which is a large lift because we really want to improve that because of the fact that a lot of our CIB customers have needs in that regard for specification and products that we've not had in the past that we did not need for our smaller commercial bank C&I customers.

So we've spent a lot of money, hired a lot of people, built a lot of technology, acquired a lot of technology to launch all of these different lines of business. I think you'll see some incremental improvements in the noninterest income line in 2026. As a result of that, I think you'll see the real impact of that in 2027 and subsequent years.

Manan Gosalia – *Morgan Stanley*

So I wanted to start on credit. You called out uncertainties, particularly in office and life sciences in the Management Comments. Can you give us some more color on what you're seeing there? I guess, especially on the life sciences side, how long do you think it will take for the life sciences market to rebound? What are you hearing from sponsors? How have those conversations changed? And if you could also remind us on the levels of protection that are built into some of the larger life sciences loans.

Brannon Hamblen

As we've said in the past, we've seen different results for different projects in different markets. We've got some that have had great success and others that have been slower. I think the segments obviously faced some strong headwinds -- you've had all the different macroeconomic factors that we've experienced and, very specifically, cuts to funding from NIH and its impact on demand for space over the

last couple of years, and a lot less in sort of the venture capital raise space. But the good side of that coin is there hasn't been really any additional spec life science start across the country. There have been starts with pre-leasing in them. And we actually see that our originators see those out there. And we've got -- we see tenants expanding so it's a little bit of a dichotomy in some of those outcomes. But again, the good news is not additional supply being added to the challenge and you've got continued, albeit muted, demand in some markets chewing into that. It's going to take time.

You see a great impact from -- in certain markets, demand that's really stimulated capital investment in A.I. that's starting to push in to life science as you've got markets that have a dearth of traditional office space. And as we've said, life science provides a great alternative for those users. So you've got some winners, you've got some losers, but you've got absorption slowly moving forward. It's going to take some time.

As George said, we've seen this coming for a while. We've appropriately managed our ACL in anticipation of that. And we, as we've said, entered these deals at low leverage and with strong sponsorship. And we're pleased to see a number of those sponsors continue to support those. You've seen some, obviously, that are no longer willing or able to support them. And we've been clear reporting on those. But it's going to take some time, the bottom line, with life science. And we're, again, pleased to see the support in the interim.

Office has really been a positive story for us. We're really pleased with the trends that we're seeing in some office markets in our portfolio, in particular, especially some projects that had more limited activity over the last 12 to 18 months are starting to see benefit. Office leases are 5- to 7- to 10-year leases frequently, and it takes a while for the portfolio of leases in any market to roll. And then again, there's continued sort of incremental positive impact from return to office.

And as these tenants begin to look around, making leasing decisions about where their new home is going to be, that flight to quality that we've talked so much about historically remains very apparent. We saw good lease connectivity on a number of our projects in various markets during the fourth quarter. And we're tracking a number of other leases that are nearing lease execution in the near term.

So on the whole, really good quarter for office leasing in many of our projects in many markets and more to come based on what we're seeing. And beyond that, office is showing a great deal of liquidity. As I reviewed the last 12 months, I realized that in terms of projects paying off, office was second behind multifamily. And I think that's true of the last six months as well. So we've continued to see good liquidity in the market, in particular on the credit side that is supporting refinance activity. So not just from a leasing perspective, but from a capital investment perspective, we've seen good results on the office side.

George Gleason

And to put an emphasis on Brannon's point about the liquidity returning to the office space, I think we had four office projects refinance in the last quarter. One of our mixed-use projects that refinanced out had a significant office component within it. Some of the office projects we've seen refinance in the last year, a lot of them, in fact, have had no leasing. The liquidity is there, and people recognize the value in these high-quality buildings.

The fact is that the supply-demand metrics are normalizing and these things that have been slow to lease are getting to the point that leases are very likely to be in the near term. That's providing some support for the space and a lot of liquidity and new investment in refinancing product that is out there. And similarly, in some markets around the country, you're beginning to not have the office available in the market that's built that meets the needs of some of the sponsors. And that really is providing an opportunity for life science projects to fill with space that's office-use space or another alternative-use space.

And Brannon mentioned, particularly in the San Francisco Silicon Valley area, A.I. is driving a lot of demand for that space and creating guys that are kicking the tires and walking and looking at some of the projects we've got in the life science space there for A.I. usage. So the environment is getting more constructive in a noticeable way.

Manan Gosalia

So your conversations with the sponsors there on the life sciences side kind of indicate that they're in for the long haul. They're willing to support the properties for more time. And any thoughts on, I guess, the protections that are built into some of the larger life sciences loans that you have out there?

George Gleason

Well, we are dependent upon sponsor support to your point. I think the mood and the attitude is generally -- every sponsor is different. Every project is different. The mood and the attitude is somewhat improved. Our guys had a meeting with our largest life science loan, our largest loan, the leadership team, the management team on that. That group came to Dallas to just give us an update and a report on where they were. I was not part of that meeting, but my understanding that was a very constructive, very positive meeting with plans and commitments in place to really push that project on to a higher level of leasing and activity. So we're cautiously optimistic.

Will every life science project get to the finish line and have a successful outcome with its current sponsorship and capital partners? Maybe not. There may be a casualty or two along the way. But I think generally it reflects what we've seen from our sponsors. And let me explain what I mean in that. In this cycle, we've had 4 RESG assets that went into foreclosure or we acquired title to. We really didn't, I think, foreclose on any of them, but acquired title to them in satisfaction of the debt. Three of those were liquidated in the last year, one in the third quarter, the largest at Chicago land. Two were liquidated in the fourth quarter. And the one project we had that didn't sell was under contract for a couple of years. And the sponsor paid us \$12 million in contract extension fees and forfeited earnest money on that, the Los Angeles land. So a relatively small number of projects.

Now, I will comment. Someone wrote that we had taken a charge-off on that LA land. That is not correct. We moved it to OREO at our book value, and the reduction in the value of that -- on our carrying value on that over the last couple of years -- is a result of forfeited earnest money, not any charge-off. So we've never taken a charge on that asset and feel like we're appropriately valued on it now. But we've got four loans in non-accrual, so a relatively small number of RESG assets where the sponsors have been unable or unwilling to continue to support the asset. The flip side of that is detailed, and we've been giving you this information for most of the last 14 quarters on Figure 28 of our Management

Comments. Just to give you a data point, last quarter we had 49 loans that had an extension of their term. We collected \$56.7 million in reserve deposits, \$7.6 million in modification fees and \$45.1 million in unscheduled principal paydowns in connection with those loans.

If you look over the last 14 quarters since the Fed started raising rates, that is \$1.3 billion in additional equity contributions, \$866 million of reserve deposits and \$429 million in unscheduled principal paydowns. I don't know the fee number, but tens of millions of dollars in fee income to us on those loans. What that tells you is that 95% plus or minus of our RESG loans are experiencing and continue to experience good sponsor support.

Will there be a few more fall out before we get to the end of the cycle? Probably so. But we built our ACL from \$300 million to \$632 million in anticipation that there would be a few bumps in the road. So we feel like we've prudently prepared for this. We feel like we're doing a really good job of working through and liquidating these assets when we've had cases where the sponsors have given up. And we're well-positioned to get through the rest of this cycle in good form.

Brian Martin – *Janney Montgomery Scott*

Thanks for all the commentary thus far. Maybe just in terms of it doesn't sound like much in the way of additional sponsors likely to maybe not be supporting these based on kind of your commentary. But just in terms of the resolution of the current level of non-performings, can you talk about maybe the timeline in terms of any big chunks you expect to see get resolved, just kind of how you expect to work some of that down as you go forward?

George Gleason

Well, on the Boston property, for example, the sponsor on that project would have done an extension renewal and put up their part of the required capital to do that. Their two equity partners in that transaction really decided that they were not going to put up more capital until they got a lease, and our rule is "you pay, you stay. You don't pay, you don't stay." So when they asked us to give them nine months or so, six months, whatever, to work through the lease without making any payments on the loan, we just said that's not the way we operate. If you want time, you have to pay for the time. If you

don't pay for the time, then we're going to move to resolve the asset, so the resolution of that asset can occur several ways.

Number one is the sponsor in that transaction is out trying to put together new equity partners to continue with the successful outcome of that project. We're hopeful they'll be successful, but we're also dual-tracking our acquiring title to that property so that if they're not successful, we're ready to take that asset over and continue to move that asset forward in a constructive way. So obviously, if they raise new capital, that could get resolved, and our view on that could change dramatically and quickly. On the flip side, if we have to take that over, then we'll look for opportunities to sell it. If we can get a favorable price on a sale, we would sell it. If not, we'll lease it up and then sell it when we get it into better shape.

I would comment also on that property. There was some commentary out there that the lease situation has blown up and gone. That is not our understanding of the situation. The sponsor continues to be actively engaged with the prospective tenant. The prospective tenant, our understanding is they just delayed their process for about six months and instead of making a decision early in the year, expect to make a decision mid-year, third quarter, or so forth. And I think our building is still in kind of the inside lane on the opportunity there to work out a lease with that sponsor. It's still early, but that activity is still ongoing, and we're working with the sponsor. And whether we acquire title or the sponsor recaps, we'll work very collaboratively with the sponsor. We have a good relationship with the sponsor. We'll work very collaboratively to make sure that those ongoing leasing efforts are maximized the opportunity.

The office building that's on non-accrual in Santa Monica, we're pursuing opportunities that would result in a sale of that asset fairly quickly.

The Chicago life science deal, the sponsor is working on a short sale opportunity on that. We've written it down based on our understanding of the financial metrics of that short sale. If they accomplish that, then we could be paid off quickly over the next couple of quarters, however long it takes to close that. If they don't accomplish that sale at a price that's satisfactory to us, then we'll take that property and sell it.

The Baltimore land, we've talked about that at length in previous conversations. We're working on a potential sale of that property right now. We're also working, continuing to work with the current sponsor, on our taking title and continuing to integrate our development and liquidation of that property with the other developments that the sponsor successfully achieved in that area. So it's hard to know when these things actually come to fruition. There are multiple paths that each of them could take, but we're working those things diligently, and sometimes you resolve things fairly quickly. The three pieces of OREO we sold last year that were RESG assets, all those were resolved in a pretty short time frame for sale of a piece of foreclosed real estate.

The flip side of that is the one we've still got there. While we've made a lot of money on extension fees over the last couple of years with that and got a nice paydown on our carrying value of that OREO through the forfeited earnest money. We worked on that thing two to three years with that prospective buyer. And it didn't come to fruition. And now we're back in the market with it. So some of them will work out fairly quickly. Some of them, for one reason or another, will take a bit longer to work out. We try to be very constructive about the way we approach these things.

And I'll give you a good example. Our oldest substandard accrual asset in the RESG portfolio is that development near Lake Tahoe, California. And that thing has been substandard accrual since 2019 and was special mention for some number of quarters, I believe, before that -- I don't remember when it went on special mention. But you hear the adage a lot of times about problem assets. And the old adage that everybody seems to quote is, "Your first loss is your least loss." Well, a lot of times, maybe a majority of the times, first loss is your least loss. But as we looked at that asset, we said, "The sponsor's not going to put new capital in this, but the sponsor remains engaged." We can work out an opportunity here where we don't have to put new money in it, but we can work with the sponsor and help them chart a path to a successful resolution of that. So instead of blowing that asset up in 2019 when it went on substandard and probably taking a \$10 or \$20 or million dollar loss on it, we worked with the sponsor, developed a plan to address that, and we've earned \$43 million in interest and fees on that loan. And our total commitment today is \$43 million. And our outstanding balance is about \$34 million on that. So we've earned more in interest and fees than our outstanding balance on that loan. And there's a very high probability that we get through that all the way to payoff with a successful resolution of that asset, earning money all the way and never taking a loss on that.

So you've got to be thoughtful and constructive in the way you approach these and understand what the assets are and understand how to maximize the value from them.

Brian Martin

Let me ask one follow-up and I'll hop off. The margin came in better than expected, I guess, in the quarter. Just wondering if you could give a little bit of thought about that given the rate cuts that have already occurred and just kind of how you see the margin in a relatively stable environment here. And then just on the buyback, any commentary from Tim on kind of the outlook of the buyback here prospectively.

George Gleason

Tim, you want to take the buyback first, and you're welcome to take the margin if you want to as well.

Tim Hicks

Our buyback, obviously, we started a new authorization July 1. We said all along that we would be opportunistic in using that. And certainly, during the fourth quarter, as we were trading below tangible book value, that was just too good of a value to pass up. So we bought 2.25 million shares for an average price of \$44.45. That was well below, or a couple of dollars below, our current tangible book value. So it was very accretive to not only EPS, but certainly accretive to tangible book value as well. We still have just under \$100 million left in that authorization. And we'll be opportunistic if we're trading in similar ranges. I think we'll be pretty active in this quarter and could use it all this quarter -- it expires at the end of June -- and so either this quarter or next, depending on how we're trading.

So at the same time, you may have noticed we increased our dividend for, I believe, the 62nd quarter in a row and also had our capital ratios increase. I think, Brian, you pointed out in your note, our tangible common equity increased 35 basis points during the quarter at the same time of buying back \$100 million of common stock. And our preferred and common dividend combined is roughly \$55 million. So we are very pleased about being able to grow capital ratios, grow capital in dollars, and still return a lot of capital to our shareholders during the quarter.

On the margin, yes, you may remember, Brian, our margin held fairly well during the quarter. Our rates on most of our RESG loans reset on the 10th of the month. So on December 10th is when they reset. That did not reflect the full impact of the move in SOFR. And there were still eight or nine basis points left that SOFR has moved down already from the 10th of December to January 10th when they reset again. So we benefited from that during the quarter. And Ottie Kerley and the deposit team did a really good job on really managing our deposit costs. I think those came in very favorably as well. So we were pleased with how our margin performed during the quarter.

We did mention a few things. You may remember, in the first quarter we have two fewer days. So that certainly is a headwind to net interest income for Q1. We gave you a range there of where we thought we would land for Q1 net interest income. And we'll do -- our deposit team will continue to work really hard on getting the best execution on our deposit costs as well. So I think we were really pleased with how our margin was for Q4, but we'll continue to work hard on managing that moving forward.

Janet Lee – TD Cowen

Starting off with credit. So you've mentioned that your 2026 trends on credit would be similar to what you experienced in 2025. You probably have a better line of sight into your credit and the situations with sponsors. So just to level set, are we expecting a similar range of net charge-offs that you experienced in 2025 into 2026? So call it 50 basis points. And if I were to extrapolate the NCO expectations for 2026 into what you would be willing to do on your provision and allowance for loan losses, it's more than doubled over the past three years. So, is a plan that you would draw down on your reserves in anticipation of any potential credit losses in 2026, given that you've built reserves for so long, for a few years, or similar to what you did for full year 2025, you would be taking a similar amount of provision for whatever expected credit losses are for 2026?

George Gleason

Great question. And Janet, I would start off by telling you we're going to do the right thing, whatever that is. And that will depend on where the global economy goes, where the U.S. economy goes, where the quality metrics and risk ratings of our portfolio go. So if we need to build a reserve further, which is probably not my base case, but if we need to do that, we'll do that. We're going to do the right thing, whatever the economy and the models and the risk ratings tell us is the appropriate thing. We talk

about this at length in the Management Comments -- we've prudently built the reserve. So when we incurred the charge-offs that we incurred in the quarter just ended, a large part of that was already provided for. So we were able to absorb that and still run with all the models and put up all the reserves we needed to put up. And we carefully looked at that and rolled all those numbers forward and really validated that our decisions in that regard were correct.

So I would anticipate that if the economy plays out as we think it does and as this CRE cycle sort of winds down in 2026 and early 2027, as we think it will, that ACL percentage may continue to do what it did in the fourth quarter. And that is come down modestly as we absorb losses that we've provided for, the likelihood and potential of. And we'll see where that goes based on where the economy goes and how the portfolio performs.

But I think we were very prudent. The risk events build over time. Clearly, just the prolonged series of challenges that our CRE sponsors have faced going all the way back really to the COVID pandemic, for our purposes today, mostly from the last 14 quarters when the Fed started raising rates and sponsors were dealing with the aftereffects of COVID and inflation and work from home and all of that and then got into a higher rate scenario, it was a challenging time. As I said in the Management Comments, we think we are really in the late stages of working through that. If that bears out, then that reserve ACL percentage could continue to ease lower over the next year.

Janet Lee

Got it. That's helpful, color. And I know it's hard to exactly comment on this, but I'll still try. So when you say 2026 will be similar to 2025, working through some of the credits in the latter cycle of CRE, is your expectation that you're going to see more of the migration into substandard non-accrual from special mention and maybe substandard accrual into the non-accrual category within that classified and criticized asset that you have, which have been pretty stable overall over the past year? Or are you anticipating more of the new credits that could be migrating over to the classified and criticized category over time? So basically, do you have a line of sight into some of the potential credits that could be migrating into special mention or substandard overall, or more of a potential credit migration within that classified category into non-accrual based on what you're seeing now?

George Gleason

Well, a lot to unpack there. So let me start with this. The special mention category tends to be a fluid category. A lot of times, if we're having a very challenging extension modification negotiation with a customer, a loan may get into special mention while we're involved in that negotiation because our challenges to the customer may be, "You've got to put up X dollars in reserves. We want a pay down on this. You've got to make these other enhancements and changes to protect our position." The customer may resist that because they've got other things they're dealing with too. And those negotiations may become very challenging and intense. And usually, we get those resolved in a favorable manner. So a loan that is in the midst of intense negotiation, and we're unsure how that's going to play out, may find itself in special mention.

And then a lot of those get resolved. We get a nice paydown. We get reserves reposted. We earn a nice fee on the extension. It's kind of put back into a very healthy state, and it migrates back out into some level of pass rating. Then you have loans that migrate in that you're not successful in negotiating that, or maybe there was an issue with it that caused it to be in special mention, and that doesn't work out well. That will migrate into substandard or substandard accrual, and we'll give you more disclosure on that. So the special mention is not just a stepping stone to substandard. Loans come in and go back out the other way, back into a pass status as well. And that happens very frequently. So there's a fair amount of churn in the special mention category.

I would repeat what we said in the Management Comments. We've had a handful of sponsors who have been unable or unwilling to continue to support their project over the last 14 quarters, particularly the last couple of years. We expect that our experience in 2026 is going to be similar to our experience in 2024 and 2025. So sort of giving you a couple of years to look at as a comparison for our expectations for 2026. So I think we very likely will have a handful of additional sponsors who give up on projects. We have an ACL built for that expectation. And it's a case-by-case basis. And in dealing with sponsors, you're not just dealing with the sponsor, but you're also dealing with the sponsor's capital partners in a lot of these cases.

So there are multiple variables at play, and we're really good at working through those. We have a great team that works through these negotiations and arrangements. I feel very good about that. But I think we've given you as good a guidance as we can give you at this point in time.

Jordan Ghent – *Stephens Inc.*

I just had a question on the capital. It looks like you guys have \$350 million in sub-debt that moves from fixed to floating this coming October. I think you guys have previously said you could redeem in whole or part beginning in October. If that's still the case, and then with that, how does that affect your buyback up until that point?

Tim Hicks

Jordan, you're right. We do have sub-debt that goes from fixed to floating October 1. We've not made any decision regarding what we'll do on that right now. I mean, we'll make that decision as soon as we need to, but too early to comment on that. Our buybacks, we have a lot of capital. And you saw our CET1 ratio increase and our earnings -- we haven't talked about earnings a lot on this call -- but we earn a lot of money. We earned almost \$700 million, almost a record again this year, almost equal to what we earned, which was a record last year. So that earnings power does allow us to have a lot of capital that we can use opportunistically.

In some years, we're going to have a lot of, a strong amount of, growth. Some years, we're going to have mid-single digits, when we have mid-single digits and we have levels of earnings that we're expecting in the coming years, we're going to increase our capital levels, and we'll look for opportunities to deploy that, just like we did in the last quarter.

It's too early to comment on sub-debt. We've had sub-debt outstanding really since for the last 10 years. Some level of Tier 2 capital is a part of our capital structure. That's over the long term. I would expect us to have a decent amount of Tier 2 capital. That's really kind of our long-term strategy there.

Jordan Ghent

And then maybe just one more. Last quarter, you guys guided for loan balances to move lower in the fourth quarter in 2025. We didn't see this in Management Comments. Could you provide any commentary on what's going to happen maybe in the near term or kind of the trends you're seeing?

Tim Hicks

Sure. Yes, we gave you loan guidance for the year. In Q1, I think we're expecting to be positive and not have a quarter like Q4, obviously, the payoff velocity sometimes moves around a little bit on us. I think our growth will come mid- to late year. The first quarter, I think, is still a positive quarter of growth but you could have a payoff or two that comes in or pushes out that can move that around a little bit. But I think we'll have growth that comes in throughout the year, but probably second quarter, third quarter, fourth quarter will be stronger than first quarter.

George Gleason

Yes, I would agree with that. Our mid-single-digit loan growth guidance that we've given for the year is probably going to be loaded into the -- more in the final 3 quarters than the first quarter of the year. We've got -- we had a lot of payoffs that we are expecting in Q1.

Catherine Mealor – KBW

One follow-up on the credit conversation. As we look at the special mention category, and I know, George, you talked about how this is a fluid category where loans come in and out. But it was interesting to see that a number of the loans that are in special mention were highlighted on the appraisal chart, Figure 29. And it feels like a couple of them have LTVs that are nearing 100. And so just curious if you could provide any commentary on some of those larger office special mention loans. And are there maturity dates coming up near term, or are there things that we should be aware of in the next couple of quarters that could perhaps drive some of those to move into substandard?

George Gleason

Well, in respect for our sponsors, we really try to not talk about loans that we don't need to talk about, and special mention loans fall in that category, so I don't know that we have a lot to really add on that, Catherine. There's a balancing act between being totally transparent and providing full and accurate

disclosure to our investors, and then going beyond that and providing disclosure we don't need to provide that's challenging, detrimental to our sponsors, so I don't have a lot of comment on that. Those loans we feel like are appropriately risk-rated special mention. That risk rating is reflective of the appraised values on them.

We've talked a lot about how fluid and in and out our special mention is, so if those loans merited a substandard rating, we would have them substandard rated. If they merit a substandard rating in the future, we'll rate them there at the appropriate time. And we think special mention is correct. We gave you those notations there because we didn't want to convey the impression that, gosh, we had loans that were higher loan- to-value loans that we had gotten an appraisal that said the loan-to-value on it is a lot higher than where it previously was. And we weren't taking that into account in the risk ratings on them. So I think we're doing the appropriate and proper thing, prudent thing on those loans.

Catherine Mealor

Got it. No, that's clear. I appreciate that. And then maybe another question. It might be the same answer, but I'll try it. But any update on the larger life science line out in San Diego, the RaDD property, just any leasing update or anything that you can? It's been a few quarters since we've had an update on that. Just curious if there's anything you can provide on that larger credit.

George Gleason

Yes. I'll let Brannon comment on that. But you -- when I mentioned meeting with the management team on our largest loan in Dallas that was that loan. So Brannon, I know you don't want to get into too many details, but you might sort of give you a flavor and take on that.

Brannon Hamblen

Sure, Catherine. Thanks for the question. And yes, I would just reiterate what George said around sponsorship and management. They have pulled in some new leadership that is extremely experienced in the segment. And you may recall that over the last couple of years, the sponsor has injected a significant amount of capital in that project specifically. But the company and its capital partners, I think they had a -- I want to say it was a \$900 million capital raise. So with respect to the wherewithal, the sort of can do, they've got it with respect to capital, and they've got it with respect to expertise. We did

have a great meeting. There has not been a lot of executed leasing activity. There are a number of proposals out, predominantly on the office side. That's probably all the detail I'll get into there as it relates to the leasing part of it.

But this new management team is very impressive. The plan that they've laid out starts at the ground level. They are very much at the ground level and on a daily basis. And the exciting thing now is activation. You have tenants with their leasing improvements or tenant improvements wrapping up and starting to open here in the near term. So you'll start to get some good activation. And so we feel very good about where they are in their commitment to the project, obviously of outstanding assets. And we think these guys are going to have success in putting tenants in that asset.

Timur Braziler – *Well Fargo*

My first question's on the Boston property. It looks like in the third quarter, the reappraisal was done on an as-stabilized basis and implied a level that was much higher in 4Q, where it looks the appraisal was done now on an as-is basis. Can we just maybe talk through kind of what transpired between 3Q and 4Q that drove the more punitive appraisal?

George Gleason

Well, it was the same appraisal, and it was using the as-stabilized versus the as-is value. And our approach on this is we use as-stabilized value when the sponsor is engaged in the project, supporting the project, and the expectation is that the project's going to achieve stability. If the sponsor is, in this case, then indicates that they're not going to continue to support the project and contribute capital and keep it current and keep it performing, then, as I said earlier, you pay, you stay. You don't pay, you go. And we're going to take property. Then we shift to a liquidation value or an as-is value of the property. So we detail that in the footnote at the bottom of Figure 26, all of those substandard assets, because sponsor support seems unlikely or is clearly not going to happen, all those substandard non-accrual assets are reflected at as-is values. The assets that continue to have sponsor support are reflected as as-stabilized value.

So to specifically nail down the point, you asked what was the change. The change was we expected the sponsor when we were talking in October would continue to support the project to some degree. And

they seemed to be close to a resolution, and a favorable resolution, on the pending lease project. Because the prospective tenant extended their timeline to make a decision on their lease by six months plus or minus, the sponsor indicated they were not going to continue to support the project without a lease, or the capital partners did. The sponsor was still willing to support, but not the two capital partners. That lack of support and the elongated timeline on the lease decision led to the change in our appraisal selection for that asset.

Timur Braziler

And then maybe just one more on the allowance. George, you had made the comment in one of the earlier questions on kind of working through the environment. I'm just wondering, in terms of allowance and the ability to maybe drive that lower, is that just working through the existing known problems? And I'm just wondering to the extent that we do get additional risk migration into categories beyond special mention, is that going to warrant additional allowance actions, or do you feel like the existing reserve that's in place today is going to be sufficient to work through whatever issues might surface over the course of the next 12 to 18 months?

George Gleason

The ACL reflects our expectations for all of the current portfolio for the life of those loans. That's what CECL is all about. You calculate your expected loss for the life of those loans, so we have an expected level of migration that is embedded within that ACL. Even before, early in the interest rate raising cycle, we were building the ACL because of expectations. If this trend continues and goes on long enough, there will be some losses that will result. And obviously, the longer the cycle went on and the higher interest rates went, and then all of the other various macroeconomic challenges and uncertainties and impacts that occurred, that resulted in that full ACL build to a \$680 million level where it stood at September 30.

The environment is getting slightly more constructive, and we're resolving some of those specific losses by taking charge-offs on them and resolving them in the last quarter. So that's why the ACL came down. So based on our current expectation, there will be some migration in the portfolio. We don't know what specific loans are going to migrate, but we've got probability analysis basically on every loan, a probability of default or loss-given default. Some that we have loss reserves for will never become an

issue, which will free up those reserves. Some that we have a loss reserve on will possibly migrate adversely and will need more reserve. But on average, I think we're in a really good position. And that's what your ACL does. It reflects your expectations for the whole portfolio. And you do it on a loan-level basis and sum all that up.

But some of, the vast majority of, those reserves are not going to be needed for the specific loans they're on, but other things will get migrated to a more adverse status, and you'll need some of that reserve that's freed up from others to meet that. So it's an average process.

All right, guys. Thank you so much. We appreciate all your time today, your interest in OZK. We look forward to talking with you in about 90 days. Have a great rest of the day. Thank you.