Bank OZK

Transcript of the Second Quarter 2025 Conference Call

July 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, Gigi, to remind our listeners how to queue in for questions.

Stephen Scouten – *Piper | Sandler*

So obviously, growth was pretty phenomenal here this quarter, and it looks like I think the number was 109 new FTEs in the quarter. I'm curious if there's any sort of composition of those new hires that you have that you could of key us in on that are related to production hires? And anything on the Natural Resource Group ("NRG") team as you guys build that out? Just kind of trying to think about the opportunity for CIB and NRG and these sort of verticals to continue to grow with the new hire activity.

George Gleason

The new hires were spread broadly across our company. As we mentioned in the Management Comments, we've opened, I think, 11 branches so far this year. We've got 14 more or less that we expect to open in the remainder of the year. A lot of those openings will occur in the current quarter, the third quarter.

We would expect continued hiring related to those branches as we go through the remainder of the year, and that will continue into next year as we plan to open about 25 branches, more or less, next year. So our branch count is probably the largest single number. We've also been growing our CIB group, which is, obviously, a well-telegraphed and articulated plan. We continue to add people there. We'll continue to add people there as their business grows, and that is a very well planned and choreographed additional staff that really occurs commensurate with their continued portfolio growth and opportunities. The Natural Resource Group, as you mentioned, is part of that.

We're growing out business banking teams -- we built out the initial team last year in Florida. Earlier this year, we built out a business banking team in Texas. We're now building out a business banking team in Georgia. We saw a fair amount of development of staff with those teams. And then just lenders and staff additions in our existing network of branches. Because a branch that was handling $70 million of deposits is now handling $100 million, needs another FTE, for example, to continue to deliver the quality of service with our customers. And of course, that growth across all those production lines of business, whether it's deposits or loans, also leads to growth in your customer care center, your call center, leads to additional growth in risk and model and data and technology and all across the board.

So it's a few people everywhere, but all of it is being driven by growth in our loans, growth in our deposits and growth in the production teams that are interacting with our customers. I could talk about trust and wealth, I could talk about private banking -- there's a lot of initiatives going very well. And we're thrilled at the quality of talent that we're able to hire in this environment.

Stephen Scouten

I wasn't aware of the business banking build-out to that degree. So that's helpful. In regards to the ability to bring in talent, obviously, we've seen a bit of a pickup in M&A activity in and around your markets. Do you think that that will add, in the near term, to your ability to continue to add more talent? Could that the new higher activity increase? And maybe along with that – the growth, growth and diversification strategy is playing out well -- could M&A now for you guys as an acquirer once again be part of the story given the way your stock has been performing lately? And obviously, you have a great record there on an M&A front.

George Gleason

Let me answer your first question, then I'm going to ask Tim to answer your question about M&A opportunities. Clearly, we are focused on hiring very high-quality, high-performing talent. And obviously, all of us in the industry know that, a lot of times, M&A transactions at other banks free up some high-quality talent that's not as enthused about the merger, the combination, or perhaps their new teammates or new reporting structures as they were before. So yes, to your question, M&A will create additional opportunities.

But our ability to acquire really talented people that have deep relationships with customers -- and deep relationships, I think, is more driven by our culture and the track record of performance and achievement and the reputation that our company has in the industry -- than it is by what our competitors are doing. We are adding a lot of team members that are leaving really highly regarded banks and big jobs at bigger institutions to come join Bank OZK because they realize that we have a long track record of high achievement, high performance and doing things with a level of excellence that's commensurate with the way they want to pursue their jobs.

So I think our reputation is more important in hiring the talent that we're hiring, the really high-performing, high-octane people, than what's going on in other banks. Tim, I'll ask you to address his M&A opportunity question.

Tim Hicks

On M&A, we've had such a great track record over the last several years of being able to grow organically, that sets a really high bar for us in evaluating M&A opportunities. We do see opportunities that we look at, but they are in the context of the organic growth that we're having and the success we're having growing organically and whether an M&A transaction will take away from that momentum as part of the consideration. So I can't tell you if it's going to be part of our story long term. We do have a very high bar for looking at that. We've been very, even when we're doing acquisitions 2010 through 2016, we were very conservative in how we looked and evaluated those acquisitions. And as you remember very well, all of those were very accretive to our bank. And those are the type of opportunities we're looking for. Does it add additional business lines and does it add some part of our business that can accelerate our strategy? So we continue to evaluate that, but we're really pleased with our organic growth story and the momentum we have there.

Stephen Scouten

I noticed there was one RESG loan that got added in the $375 million to $500 million bucket. Was any portion of that loan potentially above $500 million? Have you syndicated out any portion of any loans as of yet?

George Gleason

We are syndicating loans in our CIB group. We've not yet had a $500 million-plus opportunity in RESG that we've syndicated. But we're certainly open and looking forward to the day when that opportunity presents itself.

Michael Rose – *Raymond James*

I just wanted to start on deposits. Obviously, you added a bunch of time deposits. I think you opened 8 branches in the quarter. But it was nice to see the interest-bearing deposit costs come down a little bit. Can you just speak to kind of the expectation for near-term deposit growth and branch openings? I think

you have some more slated. And then if we can see some further reduction in deposit costs or are we kind of at or near bottom at this point?

Cindy Wolfe

Our deposit costs are roughly going to be where they are until the Fed moves. I can tell you that in June, deposit costs were 3.68% compared to the 3.70% for the quarter. So you can see they're going to be where they are, more or less. And we'll grow deposits to the extent necessary to grow our balance sheet. If we need another quarter of $1.6 billion, it will cost more than if we only need a few hundred million. But we have the capacity to grow within our current branch network. And yes, we're adding branches, as George mentioned earlier. And those will serve us well for our growth in 2027, 2028 and 2029.

Michael Rose

I wanted to better appreciate the loan growth outlook for the back half of the year does imply some deceleration. I know you've talked about paydowns. But if you can just walk us through kind of maybe by bucket, what the expectations could be CIB versus RESG? I assume that will be a headwind, and then Indirect marine and RV, things like that.

George Gleason

Obviously, CIB has been our largest contributor of growth year-to-date. We expect that to continue as we expect strong growth from them in Q3 and Q4 and on into next year. As you acknowledged, RESG is likely to be somewhat of a headwind to growth. I don't know if that's a negative number for RESG or just a flat number. We'll see how the prepays shape out. But we are expecting much higher prepayments in the current quarter. We mentioned in the press release that we had had, I think, $0.47 billion in RESG paydowns in the first 15 days. If we had pulled that through close of business yesterday, that number would have been $0.54 billion as we had another paydown yesterday. And those paydowns we're seeing, which we expect to see an accelerated volume of in the second half of this year, are broad-based.

So far, our biggest paydown was a New York multifamily. We've got a Dallas multi payoff, our largest, I think, land loan in – which was in Miami, paid off, a Washington State multifamily, a Chicago mixed-use,

and then yesterday, a Chicago multi. So very broad-based range of payoffs across product types and geographies, and we expect that will continue.

The bottom line of that is the guidance we gave that we had given guidance at the beginning of the year and reiterated that last call on April, that we expected mid-teens to high single-digit growth in loans this year. Obviously, we blew that away with 10.1% in the non-annualized in the first half of the year. So we exceeded our growth guidance for the year, which I may have missed it, high single digits -- I'm sorry, high single digits was our guidance. And we exceeded that already. So we do expect further growth, but we expect it's going to be significantly muted by paydowns. So we've increased that annual guidance to an 11% to 13% range for the full year.

Manan Gosalia – *Morgan Stanley*

George, I was wondering if you could just expand on your -- the comments you just made on the repayments in the RESG book. Can you expand on what drove those paydowns? Because, I guess, the long end of the curve is still higher. Is it just that capital markets are opened up? Are they finding more opportunities to refi away from you? Can you maybe expand a little bit more on that?

George Gleason

Yes. It's a combination of factors, Manan. You're seeing, particularly on the multifamily product that I mentioned that was included in the paydown, a lot of those are reaching a stabilization level, that they're able to get to a reasonably favorable, probably not as good as they would like, but a reasonably favorable permanent exit. You're seeing some projects that are refinancing with a different lender with more liberal terms and higher proceeds, that give them a longer runway to stabilize their project and get to an ultimate permanent, a bridge lender situation, if you will. A lot of those are driven by property sales or enhanced leasing activity.

So it's all the normal factors that drive folks to refinance out of our construction loan into a bridge loan, a permanent loan or sell a property. So we've given guidance for a number of quarters that, somewhere in this time frame, we expected to see a significant uptick in repayments. That was a little more muted probably than we had expected at the outset of the year in Q1 and Q2. There's been a lot of uncertainty and volatility in markets and the economy over the first 6 months of the year. So I think that led perhaps

to a little slower execution on some of those refinances than what we expected in December. The flip side of that, though, is that people seem to be getting a sort of sense of where the world is going in the midst of the uncertain environment today, and that's leading to execution on a lot of transactions.

Manan Gosalia

And then as always, you guys gave some great granular disclosure on the new appraisals. I was wondering if you could comment on the 2 or 3 loans where the LTVs moved up significantly this quarter. Any common threads there or anything specific you were seeing there?

George Gleason

Well, we gave you 3 footnotes on those 3 highest loan-to-value reappraisals. And the footnotes are a pretty good disclosure. The first item out there is a very small office building loan, $10 million. The reappraisal on that is our highest loan-to-value at 129% loan-to-value. That would normally be a very disturbing sign, that kind of a loan-to-value, even though it's a very small loan. But the sponsor recently executed a 12-month extension, made $1.5 million paydown, curtailed the $10.1 million of unfunded proceeds in that loan, put up another $1.1 million in carry reserves, paid an extension fee and closing cost for that, all customary charges. And they're evaluating how to reposition that property looking at alternatives for how to extract value from that.

The second one is a multifamily project that was leasing well, but below pro forma rents. The sponsors have built that to condo standards. They've elected to proceed with the conversion to a condo project, and we had it reappraised as such. In connection with that conversion, they added another $6.5 million of cash equity to the project. So again, the sponsor continues to be engaged working on that project.

And then the third one was a land loan, and that was extended during the quarter. That's a substandard rated loan, substandard accrual, the borrower deposited another $4.1 million in carry reserves for a short-term extension of 3 months while they're working to align a recapitalization partner with them in that project. So that's pretty much the story on those.

I think even though these loans are challenged from a loan-to-value perspective, they are good examples of guarantor, sponsor support and engagement. We talk about that a lot in our Management

Comments and have talked about that a lot for, gosh, a couple of years now, about how important guarantor support is, particularly in this CRE market. And those are just good examples of projects that have had a really significant change in loan-to-value and yet the sponsors are staying engaged putting in additional money and continuing to work toward a successful resolution.

Matt Olney – *Stephens Inc.*

George, I appreciate the commentary on the loan growth outlook for the back half of the year from the earlier question. And I'm sure it's a little bit early for loan growth guidance for 2026, but I'd appreciate any kind of commentary you can provide around framework for loan growth for next year. If we just assume the pace of loan growth in the back half of this year continues into next year, is that a reasonable framework for us to assume? Or are there other considerations we should keep in mind for next year?

George Gleason

Matt, I would agree with you, it's a quarter early for us to give loan growth guidance for next year. But I certainly understand the question and I realized that 2026 model results are gaining in importance in the minds of our analysts and investors. So Jake and Brannon, if you would, Jake, I'm going to -- since CIB is the king of growth in our company at the moment, I'm going to ask Jake to take the lead on that. And RESG is still the champion in outstanding balances, I'll ask Brannon to follow up and talk about RESG, and without giving specific guidance, just talking generally about where we think we're going in 2026 with those 2 units that are very important. So Jake?

Jake Munn

I'll take CIB getting called the king of growth for as long as I possibly can. So I appreciate that compliment. Pipelines remain strong for CIB, at least going into the third quarter to say the least. We continue to attract good talent across the footprint for CIB, as we discussed previously on the call. I do want to reiterate to everyone that typical trends are what we're seeing with the C&I growth here at OZK, specifically with CIB, where our first quarter is going to typically be our weakest, our second and fourth quarter should mimic one another, and our third quarter is usually our strongest. The first quarter being the weakest because coming out of the holiday season and also CFOs and the like are focused on their audits and other reporting items.

We do have strong tailwinds coming out of the second quarter into third quarter, so I do want to mention that and highlight it. We had a number of good deals that were approved, pending close, that ended up closing and funding early in this month. We're excited that those are going to contribute into our third quarter growth.

And in addition to that, George mentioned, touched on it earlier, but we have some nice tailwinds from the launch of our Natural Resources Group that's going to be taking flight in the third quarter. And so we should see a nice pickup in growth in the third and fourth quarters from George and Moni and that team as they continue to grow and develop and add some substantial growth into 2026 as well. In addition to that, CIB is really focused on the CBSF business unit. As a reminder, that's our Corporate Banking and Sponsor Finance business unit. It's really focused on diversified C&I lending in that middle market to large corporate space, both traditional asset-backed lending as well as our enterprise value based lending. And so I do want to highlight CBSF growth. We continue to see that. We'll see that push into the third and fourth quarters as we start to expand and start markets, or start presences, in the greater Atlanta market, in the Nashville markets as well. We've identified some nice talent. We're going to start putting those offices together, which should contribute to additional loan growth across the broader platform.

Going into 2026 though, we're feeling like we're just now starting to hit a nice stride, and so I'm cautiously optimistic about overall CIB performance as those business lines continue to grow, as well as our legacy business lines - our Fund Finance Group led by Perul, Mike leading the helm at our ABLG shop and Jim running our EFCS as well as market income generating services through LSCS. And so we feel blessed with the quarter performance that we had here, and we feel very optimistic, or cautiously optimistic, I should say, about growth in third and fourth quarter and then into in 2026.

George Gleason

Jake, am I correct in summarizing that is that we expect CIB to accelerate, not slow down?

Jake Munn

That would be a correct statement.

George Gleason

Brannon, do you want to give a little color on RESG?

Brannon Hamblen

First of all, we're all very thankful that Jake's guidance is acceleration and not deceleration. So thank you, Jake. So when you think about RESG growth, I want to obviously make the distinction between originations and funded balance growth. I'll kind of start on the origination side because, certainly, as we look forward, that's an important piece. Although, as I've said before, our originations don't contribute meaningfully to balance growth for about 12 months after loan closing because we, as you know, have all our sponsors funding their equity in advance of our loan closing.

We're pleased with the job that our guys have done on the origination side, modestly increasing volume each quarter this year and had the highest level since the second quarter of 2024. And that's in an environment where, as we've noted for several quarters, our sponsors are remaining cautious with respect to moving forward on new projects, and the volume of new deals that can be bid on in the market has clearly been suppressed relative to history.

Conversely, the number of lenders, whether it's bank or alternative lenders, has been elevated during that time period. A lot of lenders have had suppressed originations that are out there, hovering around, as I said, fewer deals. So a result of that is a healthy challenge for our origination team. It won't be easy, but these guys, as you see in the quarterly numbers, keep pressing that forward as the market will allow, and they're originating every loan that they can that fits our stringent leverage structure and pricing criteria.

On the funded balance side, the plus side of the equation, we still have unfunded balances to advance off the last couple of years of origination. So we do have that. But as we've guided, we expect significantly higher repayments in coming quarters and into 2026. So as George noted, not sure if that's a negative or a positive impact but clearly, we've got headwinds to that funded balance growth in RESG and thankful to Jake's teams here and picking us up there.

George Gleason

I might add a few comments there. We've talked for a long time about our growth, growth and diversification strategy. And people have misunderstood that to mean that we were deemphasizing RESG or that we were trying to shrink or pull back from CRE. We are not deemphasizing RESG. We're not trying to pull back. We're not trying to shrink it. And growing RESG is one of those elements of the growth, growth and diversification strategy. So we were very pleased to see an uptick in origination volume in the quarter just ended in what was a very challenging origination environment. I was on the phone yesterday just taking a call to do a channel check with one of our long-time sponsors who said they're not looking at any new deals right now because they just can't make them pencil from the equity perspective in the current interest rate and economic environment. So it's a challenging environment to make new deals work from an equity perspective, which has slowed down the opportunities we're looking at. And yet we had, as Brannon pointed out, the best RESG origination quarter since the second quarter of last year. So best out of the last 4 quarters. So that, we take that as a win and certainly reflective of the fact we want to continue to grow RESG.

The other element of that growth is CIB, Indirect Lending and Commercial Banking and our Community Bank business, everything else basically. And we want those to grow even faster than RESG so we achieve diversification -- the third word in that growth, growth and diversification strategy. And you're seeing that. RESG in the quarter just ended hit the highest funded balances they've ever hit, and yet they have grown over the last couple of years, they've grown from 70% of the funded balance of our loans to 60%, of the funded balance. And going from 70% to 60%, you wouldn't think is growing, but they have grown from 70% to 60% because CIB and indirect and Commercial & Community Banking groups have grown and contributed more of our volume. And that's exactly what we were trying to articulate when we first coined the phrase growth, growth and diversification strategy. And of course, the strategy existed in our minds and in our strategic plan long before we gave it a name, but we decided we needed to give it a name. So this is all playing out exactly as we expected.

We've talked a lot about CIB, we've talked a lot about RESG. I'll just give you a little -- the other pieces of it. Indirect Lending has grown this year. It's still static, roughly 12% of our outstanding balances. Our articulated goal is 10% to 15% of our loans. It's been for the last several years right in that 12%, 13%

range. We expect it will continue to grow and stay in that sort of middle of our target range there of 10% to 15%.

And our Commercial Banking, Community Banking teams were doing more consumer loans through our branch network. We're excited about that. And I mentioned the business banking teams that we launched last year in Florida earlier this year in Texas and now building in Georgia. And those should be meaningful sources of loan and deposit growth for us as we deal with a smaller commercial customer than what we would deal with in our CIB group, or deal with our typical commercial lenders and our community banking organization.

So we're expecting to hit growth next year on all categories, whether or not prepayments just neutralize RESG's growth for a quarter or 2 or 3. That's certainly plausible -- we could have a very chunky quarter of prepayments. But long term, we expect RESG will continue to be an important contributor. But we also think that that growing from 70% to 60% will continue and that RESG is growing towards 50% of our balance sheet at some point in the future, and then less because CIB and other groups are going to grow faster.

Catherine Mealor – *KBW*
George, can we come back to the appraisal chart, which I actually was really encouraged by a few things that I saw on that chart that showed. I noticed there were 3 life science projects that had LTVs up, but only by 10% to 12%, it's still at levels that feel good. So we're just kind of curious on the life science, there's just a lot of chatter on that space, I'm just curious if you could provide any insight into trends that you're seeing in that asset class right now.

George Gleason
Yes. I'm going to ask Brannon, since those are RESG loans, to comment on that. But before he does, we're pleased at where we are in the appraisal process. We've now, depending on whether you're looking at loan count or dollar volume, 98% of our loans by number and 99% in dollar volume have appraisals dated on or after December 15, 2022. And that was when the Fed reached peak interest rates -- or reached this interest rate where they are now. They went on and increased rates of 100 bps higher and then cut 100 bps. But all those appraisals from December 15, 2022 on have been done in the

current or a higher interest rate environment. We only have 6 loans that haven't been reappraised in this environment. Now our weighted average loan-to-value has gone up 2% as a result of that, from 43% to 45%. Now if you have been following the monthly or the quarterly scorecard we've been giving you on appraisals, you'll note that our loan-to-values as we've reappraised loans have gone up much more than 2%, but the portfolio as a whole has only gone up 2% because, after a lot of these loans have been appraised, we've gotten accrued paydowns or -- and, not or, but and, the new loans that we've originated over the last couple of years, and you can see this in the bubble chart, are at much lower loan-to-value numbers.

So we've kept averaging down the loan-to-value of the portfolio with the new originations such that, in the aggregate, the portfolio has only gone up 2% loan-to-value over that entire cycle. We think that's a significant accomplishment and reflects very well on the RESG team's job of portfolio management.

So Brannon, I'm going to turn it over to you with that intro and let you talk about what you guys are seeing on life science in particular -- you may want to talk about other product types as well.

Brannon Hamblen
Just to reiterate what George alluded to and note that, when we underwrite these loans, we stress them in a number of different categories, whether it's rental rates or vacancy rates, interest rates, but also cap rates. And obviously, when you go through a Fed rate tightening cycle like we've been in, you do get impact on the interest rate and cap rate side. But there's also been other macroeconomic factors that have influenced different property types, and life sciences is certainly not escaping that situation.

But I think as it relates to our portfolio, we are seeing in certain pockets increased leasing activity. We've signed our first lab deal out in San Diego. Very, very pleased with that. And there have been other announcements in terms of large leases taking place. The sector as a whole has certainly been muted over the last year or so, and we are thankful that our sponsors, as we pointed out, have appreciated the quality of the projects that they've built and the massive equity that they put in it and they continue to protect as these projects, as we've said, that are going to take longer to lease up. So we’re seeing some leasing there in life science.

I would say, to George's point about other sectors, it was an encouraging quarter, in the office portfolio. As we looked across, there's really a number of projects that we're seeing leasing. And not just big spaces, singular tenants, but singles and doubles that I think is interesting as it speaks to what's going on in the broader economy. And I would also make a plug that it speaks to the quality of the projects that we finance and their desirability. So those were encouraging signs.

Our apartment leasing has been strong. Industrial, actually seeing some industrial leases get signed and some that are very near signing across the portfolio. And of course, the strength of the multi and industrial projects are very evident when you look at sort of the composition of repayments across the portfolio, we've seen the predominant repayment strength has been in that multifamily and industrial portfolio. But to your point, in that particular topic, has been broad across segments. So yes, that's kind of our view of the tenant movement and capital market view of the various property types.

Catherine Mealor

Helpful. And maybe my one follow-up is just can you give us any insight into the step-up in special mention loans? We saw this quarter it was up about $176 million. I know this bounced around. But just curious if there's any one large property there to be aware of? Or is this just kind of a mix of lots of things?

George Gleason

Yes. As you noted, we disclosed that we're really kind of back to the level we were at December 31 of last year. So we had a small downtick in that number at March 31. We didn't really ascribe a lot of meaning to that downtick. We don't ascribe a lot of meaning to this uptick. It's just the normal ebb and flow of loans as we risk-rate them from quarter-to-quarter. And maturities and upcoming maturities and negotiations with sponsors have a lot to do that.

So in December, we had quite a few loans that we were in some fairly challenging negotiations -- or serious negotiations -- with sponsors that led us to special-mention some of those loans. Those negotiations went well, by and large, and resulted in those loans coming out of the special mention category at March 31. Very similarly, we've got some negotiations upcoming that are serious

negotiations. So we moved some loans to special mention reflective of that. We'll see how that plays out. Hopefully, it will play out as well as in the last cycle.

Brian Martin – *Janney Montgomery Scott*

Did I hear that right, just the acceleration for Jake's group in terms of when you were talking about the acceleration, was that in dollar terms? I know this quarter was a strong quarter, around $900 million in growth. But that level is going to accelerate from the $900 million level, is that what you guys said?

George Gleason

I think in general, we've got an accelerating trend of business in CIB, Brian. So I'm not going to tell you that $900 million is going to accelerate in Q3. I don't know that. It may slow in Q3, it may accelerate in Q3, it might be the same. I don't know that. But over the next, say, 6 quarters, we would expect a larger and larger contribution from CIB to our growth and it being a larger part of our total portfolio over that time.

As I mentioned last quarter when I was talking about CIB, I think I mentioned that they're really just getting started with achieving their potential. And they've got a number of verticals built there, but they're expanding geographies to capitalize on more verticals. And as evidenced by our Natural Resources Group, they're expanding into new verticals. And within some of the verticals, they'll be adding some niche products as well. So that's a very important part of our growth, and we feel really good about the prospects there.

Jake Munn

I'd just piggyback real quick, George, off of that, Brian, just for your benefit. I mean we're still seeing great opportunities in the market. We're being highly selective. We're taking a credit first approach to what we're doing and what we're pursuing across CIB. I'll give you a perfect example. CIB looked at over $7 billion worth of opportunities in the second quarter. Our pull-through rate was effectively 12%, a little more than that. And so that's a telltale sign right there that we're being selective on opportunities, on structure, on pricing to ensure that we're really sourcing and cherry-picking the best opportunities for Bank OZK and our shareholders. And so I wanted to reiterate that for you.

So we're cautiously optimistic. I think the third quarter is going to be great. And we're hopeful that the momentum we have we can continue to build upon, as George mentioned, with these new business lines and the expansion of existing.

Nicholas Holowko – *UBS*

So clearly, a lot of success on the CIB build-out. And alongside that, you noted all the branch openings that you have planned, that's some great momentum as well. I'm curious though if the CIB build-out has begun to contribute on the deposit side of the house as you're starting to collect those relationships and establish those for the franchise.

George Gleason

I will say yes, both on the deposit and begin to contribute on the fee income side, Jake, I'm going to let you give a little color on how we're approaching deposits and the relationships and also where we are in beginning to harvest ancillary fee opportunities from that business. It's early being some good progress.

Jake Munn

We're starting to see some great full relationship opportunities across CIB. A number that I know Brannon and I are very proud of, at the end of the second quarter, 96.4% of all the relationships on a commitment basis within CIB, we were either single lender club, or if we were in a broader SNC, we were the admin JLA or another titled agent. So why that's important is it demonstrates the fact that we are relationship-focused. We're not out there just getting into deals as participants or focused in on buying paper. We want true relationship banking. And so it provides us with the opportunity to not only opine on structuring and optimize our yield and economics with these deals, but it also allows us to cross-sell and have access to management.

So as a result, we're seeing some nice upticks. Our deposits for CIB, Brannon and I joke, grew nearly 20% quarter-over-quarter. The problem is -- or not the problem, but the blessing is our loan growth grew so much that it basically neutralized it to a degree. So we're going to continue to see some nice deposit growth from CIB. We're excited about it. Our treasury management partners and our product offerings at OZK are really best-in-class. And so it really makes for a nice easy sell to our customers when we're approaching them for single lender opportunities, but also for admin opportunities too.

So we're focused on relationship banking. We're not focused on just buying paper or anything of that nature. And as a result, you're going to see continued improvements on those metrics that you mentioned. Our loan syndications and corporate services business line within CIB is also starting to hit a nice stride, as George alluded to. Our interest rate hedging services is run by Ryan Frette. Ryan's having nice success. I think we saw a cap and a swap get done just last week, which was exciting to get through loan committee. Our capital markets programs are starting to see some success. We're starting to see some nice bond tips and other economics roll in.

Then, of course, our loan syndications group, as well, led by Rachel. She's doing a phenomenal job, her and Stephanie. And we're starting to see the opportunity to lead more and more deals as admin agent. And as such that economics are further enhanced for us. So again, we're cautiously optimistic as we continue forward, but we're putting together a great team. And I think you all are starting to see the fruits of that labor.

George Gleason

Yes. And I would just echo all that and just acknowledge that we're just early in this. It's -- the broadening of our CIB function to include all these fee-related opportunities is new. We're having some nice early wins. But we expect this to become a much more important part of the CIB story in coming quarters and particularly in coming years. To really hit full stride in this and really fully capitalized on the opportunities is probably a '27, '28 deal. But we expect steady progression of progress here on a quarter-to-quarter basis.

Nicholas Holowko

You mentioned how early days it is for the business and you're going to be on this growth path for a long time coming ahead. But maybe just in terms of early indications and any relationships that have been around longer, how satisfied are you with the credit performance from the CIB businesses that you've experienced so far?

George Gleason

I would say we're very satisfied. We've got a couple of the legacy assets there that are substandard assets. I think we've got 2 small substandard assets, but those are legacy assets that predate Jake's

ascension to leadership of the team. And they're small normal things you're going to have in the course of lending money. You make loans. They're not all going to work as part of the original plan. So nothing is adversely surprising there to us at all and we are thrilled with the new production that we're getting. I'll give you a data point -- and Jake may want to comment on this -- but our CIB growth, had we closed what we had approved in loan committee on club and syndicated transactions, would have been much higher than what we actually achieved in the quarter just ended. Because the quality of transactions, Jake mentioned our pull-through rate of about 12%, but the quality of transactions that we're working on is leading to these things being significantly oversubscribed. So we and all the other members of the loan syndicates here are getting scaled down on investments on most transactions. So we're approving a larger hold position than we're actually getting allocated at the end as everybody allocates down to deal with the over-subscription. If these were not high-quality assets, you wouldn't have a lot of banks fighting for pieces of them.

Jake Munn

Yes. That's right, George. And a good data point to say the least. If we hadn't had final allocation cutbacks, we'd be in a much larger position, which is always fun to think about. But just reiterating, it's a credit-first approach, yield second, growth third, with that 12% pull-through rate, we're looking closely at opportunities talking to sponsors. We're not necessarily, as a result, going to be a bank for all. We like plenty of equity into these deals. We like iron-clad balance sheets. We're staying away from highly levered transactions.

And we're also taking our plays, as we've mentioned on prior calls. We're not actively pursuing opportunities in the consumer discretionary retail space within CIB. We're staying a bit away from venture capital and tech, restaurant finance, smaller franchise finance, et cetera, strategically, just given some of the headwinds in those industries. And so we're being cautious about the industries we're pushing into. We're being cautious to ensure that we have a favorable LTV and LTEV metrics as well. And we continue to see nice success, even growing in a prudent fashion.

Brannon Hamblen

If I can just add a little bit to that, as an objective observer, Jake and his team have just been phenomenal around the quality side. And we talk a lot about the extra FTEs on the origination side, we

talk about it on the deposit gathering side, but you've got in there a number of folks on the risk vertical side as well. And Jake is hiring, not just the origination side, but the portfolio management side to ensure that quality really is job #1.

And the way his team has integrated with our existing and growing second and third lines in this institution has been absolutely phenomenal such that we're getting quality with speed and certainty of execution in the standup of the new business lines that he's putting in place. So it's getting there quickly, but it's getting there with phenomenal coordination, collaboration with the second and third line to make sure our governance makes sure our risk rating score cards and all those sorts of things that you have to do to ensure that quality are set up. So Jake and CIB really do exemplify all the characteristics that RESG built its platform and portfolio around. So just the tip of the cap Jake and that team in the way they've conducted themselves there.

Jake Munn

Yes. Brannon, I appreciate that. I'd be remiss, to your point, if I didn't mention our portfolio management and operations team within CIB. As we continue to hire here, as George and Brannon can attest, they're making -- taking up more than 50% of our new hires. Because it's vitally important to us that we have ample staffing, but also knowledgeable and experienced staffing as it relates to portfolio management, compliance and oversight. That way, we can be the best stewards of capital possible for both our shareholders or regulators and the communities we serve.

Timur Braziler – ***Wells Fargo Securities***

I'd like to start on the condo loan that had previously been multifamily that was issued the extension with the borrower contributing some more funds there. I'm just wondering kind of the internal mechanics that keep this a pass-rated credit given the extension and kind of the change in asset class. Is it the borrower contribution with new equity that helped to maintain that status? And just if there's any reserves that have been set aside against that project.

George Gleason

Well, there are reserves on every loan in our portfolio, Timur. And yes, the borrowers' contribution, their commitment to the project and the soundness of their business plan or all factors in the continued carrying of that credit as a pass-rated credit.

Timur Braziler

Okay. That's helpful. And maybe just a bigger picture on allowance methodology. With CIB comprising a bigger portion of the future growth rate, I guess, how should we think about the allowance level for CIB versus RESG? That's part one. And then, I guess, part two, just thinking about the allowance build that we've seen over the last couple of years relative to still a very light charge-off, how do you see that ultimately playing out? Is this something that you're expecting to release those reserves should the environment improve over time? Is there an expectation for some higher losses on the come, and that's why the reserving was done in advance? I would just love to think about -- to hear about how you guys are thinking about the allowance relative to charge-offs and how that gets resolved.

George Gleason

Obviously, every CIB loan, just like every RESG loan has an ACL model that it is associated with that calculates the loss and the expected loss and the loss given default, the probability of default, the loss given default resulting in an expected loss. Those cumulative numbers for every loan in our portfolio, whether it's RESG, CIB or something else, is factored into our ACL calculation. As Tim has mentioned in our Management Comments document, Tim and Jay, we have maintained our weighting very much to the downside scenario. So we mentioned in our Management Comments, in regard to our discussion about ACL, that our Moody's S4, which is a downside economic recession scenario, if you would, and our Moody's S6, which is a stagflation scenario, are currently weighted more highly in our calculation of losses than the Moody's baseline scenario.

So we've maintained, throughout this Fed tightening cycle, and I think we were fairly preemptive in the way we approached it, but we've maintained a fairly cautious outlook regarding the uncertainty around the economy. And we continue with that. We hope we get to a period of more certainty and that that certainty is economic stability and not a recession or not a stagflationary scenario. And if we get to a point where it becomes clear that we're not going into a recession and we're not going into a stagflation

scenario, those risk ratings will become tail risk weightings and those elements of our ACL allocations will come down and the baseline would become the larger case.

But we're continuing to take what I think is a very prudent and appropriate approach and acknowledging that there's a lot of uncertainty still out there around a host of issues in the economy. So that has resulted in a $366 million build in our ACL over the last 12 quarters. And in almost all of those quarters, not every one of them, but almost all of them, we still, even with that big ACL build, had record net income and record earnings per share, which I think speaks to just the strength of our business model and the strength of our franchise to do that. Now that's resulted in us putting about $4 in the reserve for every dollar of losses, more or less, over that period of time. So we've had a huge reserve build -- $366 million, as I mentioned. And if we get to the other side of this period of economic uncertainty and we don't incur losses, then, obviously, the reserve levels will come down. If we experience adversity, we feel like we're well reserved for that reflective of our allocation of risk models there. So we feel like we're well prepared.

I can't predict exactly how this economy is going to turn out. I don't think anybody can. Everybody has a thesis about it. But we're just being appropriately prudent and cautious as we continue to work through this period of uncertainty. Our portfolio is performing very well as we would expect it to. And you see this once again in our net charge-off ratio being 1/3 or 1/4 of the industry's net charge-off ratio, which it's been every year since we went public in 1997. We've averaged about 1/3 of the industry's charge-off ratio. And we're continuing to run close to that metric. So we feel very, very good about the way the portfolio is performing.

The principal reason our portfolio is performing as well as it is as our sponsors continue to support and be engaged with their projects. And we made the comment in the Management Comments that we expect most of our sponsors will continue to support their projects until normal property performance and economic conditions return, whenever that is. Now we've obviously had, I would say 5 exceptions to sponsor support, 4 of them were in foreclosed assets right now and 1 of them was that Arts District, Los Angeles office loan that we've talked a lot about last year. The sponsor quit supporting it in regard to making payments, but stayed engaged and successfully sold that project, so that we had a full recovery of principal and most or some of our post default interest actually. We lost just a bit of our post default

interest on that. So I guess you could say the sponsor gave up and that they quit making payments, but they stayed engaged and helped achieve a very successful exit for that property given the fact that it was a distressed property. So we, again, think that just speaks to the quality of most of our sponsors.

Will we have additional bumps in the road? Probably. It's a very uncertain economy. Will those be things that will be disruptive to our earnings or cause us to have to increase reserves even further in some extraordinary way, we certainly don't expect that. We feel like we're adequately reserved and the portfolio is performing very, very well.

Timur, I might mention that list of loans you've been attaching to your research report, I think 5 have been paid off in the last quarter.

Timur Braziler

Okay. That's good color there. Maybe just, if I could just one more follow-up on your comments about the sponsor support and the optionality. Just maybe within life science specifically, can you just talk to some of the trends in occupancy that you're seeing there and the appetite to maybe convert those to traditional office if those conversations have started to pick up and just generally what your thoughts are on that asset class here?

George Gleason

Well, as Brannon mentioned, we've seen some life science leasing in the first half of the year and in the last quarter. It is slower than we would like. It's slower than our sponsors would like. But there is some positive momentum, it seems, around that. We are aware that our sponsors on a number of projects have active RFPs that they're in negotiation with on potential tenants. We'll have to see how that plays out.

Obviously, there are challenges surrounding that asset class. We acknowledge it. It's part of the reason for the reserve build. It's certainly an area that merits us continuing to give close attention. But to date, our sponsors have continued to support those assets. We expect the majority of our sponsors will continue to support those assets. And we're in a good basis in those assets, we feel like. So we'll continue to monitor that and give you ongoing reports.

Operator

Thank you. At this time, I'm showing no further questions.

George Gleason

All right. Well, thank you, guys, for joining the call today. We're really pleased to report a great quarter to you. We thank you for sharing that, and we look forward to talking with you in about 90 days about the next quarter. Have a great day. Thank you. That concludes our call.