Bank of the Ozarks

Conference Call – April 12, 2018

Transcript – Prepared Remarks

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 Tim Hicks, Chief Administrative Officer and Executive Director of Investor Relations for Bank of the Ozarks. Thank you for joining our call this morning and participating in our question and answer session. As discussed last quarter, we made what we hope is a significant enhancement to our earnings release process by publishing management comments with our earnings press release earlier this morning. These comments are available on the Investor Relations section of our website. In today's Q & A discussion, 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; Greg McKinney, Chief Financial Officer and Chief Accounting Officer; and Tyler Vance, Chief Operating Officer and Chief Banking Officer.

We are very pleased to report our excellent first quarter results and will begin by opening up the lines for your questions. Let me ask our operator Saundra to remind our listeners how to cue in for questions.

<u>Transcript of Q&A</u>

Ken Zerbe – *Morgan Stanley*

Good morning. In terms of expenses, obviously I saw your expense guidance for the rest of the year, that it's going to be lower than what it was in the first quarter. Can you just talk about some of the dynamics behind that, like, how much of your first quarter expenses related to sort of unusual items--I'm thinking of the unusual expenses, not the core infrastructure buildout -- but then how much of that goes away and how do you think about what you need to spend over the course of the year?

Tim Hicks – Chief Administrative Officer & Executive Director of Investor Relations

Ken, I'll start by answering that question. Obviously, you saw our salaries and expense line increase $7 million on a linked-quarter basis from the fourth quarter. And you saw in our management comments that we discussed the deferral of some of those costs was lower this quarter in accordance with FAS 91 which dictates that we defer costs on loan originations. So as you saw in our management commentary, we did have lower originations during this quarter, so we had lower deferred costs. As you also noticed in our management commentary, we have net more deferred loan fees than deferred costs, so it's accretive to our margin going forward. But if you look at the salary line that increased $7 million, roughly half of that was due to lower deferred costs and the other half was due to just normal increases in salaries and benefits that we typically see during the first quarter.

Ken Zerbe

Because I guess I'm just thinking the guidance that it's going to be lower than where it was this quarter. I mean, obviously, it's a positive, but just if we look back over the last year or 2 years or 3 years, we've seen such strong growth in expenses. I'm just trying to get my head around, aside from a couple of million dollars of comp, what's driving sort of much more of that dramatic slowdown in expenses versus what we've historically seen?

George Gleason – Chairman & Chief Executive Officer

Ken, let me comment on that. We are, as we've talked about for a number of quarters now, nearing a point where the majority of this infrastructure build is complete. We will be continuing to add additional people to headcount in Q2 and, to a lesser extent, Q3 and Q4, but we believe that some of our consulting and other costs that have been involved in that buildout of infrastructure will be headed downward as the year progresses. So when you factor in, continuing to add additional people and you factor out the declining expectations for expenditures on consulting and other costs over the course of the year, and you assume a more normalized rate of deferral of costs related to a more normalized origination volume, we actually think that our noninterest expenses will be lower in future quarters than they were in Q1. And that's what our projections and budget reflect.

Ken Zerbe

I think that’s good, and that clarity helps certainly. The second question I had, can you just comment a little more broadly on the outlook for loan growth. Obviously, I want you to address the decline that you saw in unfunded balances this quarter, but what are you seeing from a broader environment, like, why should that not keep going down?

George Gleason

We had a lower-than-expected volume of originations of new loans at RESG. Our fundings and so forth were very much in line with our expectations. That lower origination volume, we believe, is really just a temporary phenomenon. We had a number of transactions that we had expected and hoped to close in Q1 that have rolled into the month of April. There were specific reasons for each of those -- none of them systemic or chronic issues. It's just a lot of sort of one-off issues that caused those transactions to roll over a few weeks. So we have expectations for a very good closing month in April and so forth. So our expectation, to answer your first question on loan growth, is unchanged. We expect that our 2018 loan growth in non-purchased loans will exceed our 2017 year growth in non-purchased loans. We believe, as we said in the management comments, that, that downtrend in the unfunded balance of loans already closed that we saw in Q1 is not a trend -- that number will move around from quarter-to-quarter. We expect that number will tend to move up over time and not down, so we certainly don't think that one quarter result is a trend.

Michael Rose – *Raymond James & Associates, Inc.*

I have a question on capital. Earlier this week, the FDIC put out a proposal as it relates to CCAR, moving the time line where the amount of capital that you would need to fund through the stress scenarios moves to 4 quarters from 9 quarters. And if that's passed, it's our belief that, that could trickle down to the DFAST banks. And I know you guys have proactively raised some capital. So I wanted to get your thoughts on capital and if this would help. And then, given where your stock is at any point, would a buyback make sense?

George Gleason

Michael, let me take that and then Tim may -- since Tim works a lot on our capital issues, he will probably want to weigh in on that as well. Number one, I would tell you we appreciate the fact that the regulators are looking at capital with the leadership of the Federal Reserve. And in looking at that, we have not had time with other things we've had going on in the last couple of days to look at either their first or their second proposal in any detail, so it would be premature to comment on the impact of those proposals and how that might filter down to us. In regard to a stock buyback, we have a tremendous history of growing our balance sheet. We've raised capital with the expectation that we will need that capital for future growth. We continue to be very positive on our growth trajectory. You noticed, I think, in Tim's management comments that our trailing 4 quarters growth in non-purchased loans is, I think, 33.8%. Tim, is that right?

Tim Hicks

That's correct.

George Gleason

So we would expect that our forward growth in earning assets, particularly non-purchased loans, and to a lesser extent securities, would ultimately utilize all of the capital that we've got. And we're excited about that because we believe that's very good for shareholders.

Tim Hicks

Yes, Michael, what I would add to that is what I saw in that proposed rule was also a static environment where you took out growth. Obviously, when we talked about a raise in capital last year, it was because of our expectations for robust growth. So if the rules would allow us to have a static review of that, that obviously would be very beneficial. But I think it's too soon to tell at this point. Obviously, it's addressed to CCAR banks, and I would imagine that would trickle down to DFAST as well. Obviously, there are things in Senate Bill 2155 that would be positive as well. So we're watching that very closely, and all of that is very positive.

Michael Rose

Okay. Maybe a follow-up just back to Ken's question on expenses. I noticed that you guys are winding down the mortgage business. Can you give us a sense for what would come out related to that in terms of expenses?

George Gleason

Most of that is out in Q1. There's some small incremental amount and the same on the small ticket leasing business that we started winding down in Q4. Most of that is out. So there's a little bit more of efficiency gain, but it's not a meaningful number in whatever savings there are in that regard will be offset, or more than offset, with the addition of people in other lines of business where we're having significant growth.

Michael Rose

Okay, that's helpful. Maybe one more from me for Tyler. Any update on the spin-up campaigns and kind of where we stand -- and just any thoughts on general deposit environment would be helpful.

Tyler Vance – Chief Operating Officer & Chief Banking Officer

Sure, Michael, happy to take that. Q1 spin-up was a very nice contributor to our deposit growth. You noticed in our management comments that our deposit growth was $641 million. Figure 21 on

Page 23 gives some more metrics related to that. That included organic growth of $654 million and another quarter in a string of quarters where we paid down brokered deposits; those decreased about $13 million. The non-spin-up offices contributed very nicely, and you'll note also in our management comments that net checking account growth was about 7,500 in Q1, so that's an excellent start to the year. We're proud of that number.

Currently, related to spin-up, we have 33 offices in 22 different markets. You'll note that's down some from Q4 and the beginning of Q1. We needed a little less spin-up recently given our strong performance in the New York office. Now that was a little less in Q1. The New York office grew about $57 million, but that follows a year of growth last year of $1.4 billion. And our expectation for that deposit-gathering team is that they would have another significant contribution to our growth this year. They have some very nice deposits in their pipeline. So we're excited about that as well.

In terms of just competition for deposits, we did refresh some spin-up special offerings after the Fed rate move. And then really in response to some additional promotional rate offerings that we're seeing competitors put into the market. Our CD specials in those 33 offices that I mentioned range now from 11 to 15 months, and those APYs are anywhere from a 1.80% to a 2.11% APY. Those are competitive offerings. They're not always the best offering in those markets. We've seen competition, as I mentioned, in promotional offerings increasing recently, but we still think spin-up will be a nice contributor to our growth this year.

George Gleason

Michael, I might add on that. Our core spread increased, I think, 9 basis points in Q3 and 9 basis points in Q4 of last year, and increased 4 basis points in Q1. And Tyler and the deposit team had been very disciplined in trying to hold the line on deposit costs in Q3 and Q4, so there was a little bit of a snap-back effect to that, we think, in Q1 where we had to push a little bit more, but we still had a 4 basis point positive difference between our increasing yield on non-purchased loans and our cost of interest-bearing deposits, so we thought that was a very good outcome. And Tyler and his team did a really good job managing that cost of deposits given the growth we achieved over a multi-quarter period of time there.

Jennifer Demba – *SunTrust Robinson Humphrey, Inc.*

George, you said some of your loans on RESG slid into the second quarter. Just curious what you saw in pay-down activity this quarter versus maybe third and fourth quarter of last year.

George Gleason

I think our repayments were about $800 million, in round numbers, on RESG for the quarter. Obviously, we had $525 million plus in net fundings, so we had gross advances of about $1.325 billion, again, round numbers on that for RESG.

Jennifer Demba

Okay. And how did that compare to the last couple of quarters?

George Gleason

It's in the middle. We've had quarters where there were more and less in each of those metrics over the last, say, 6, 7, or 8 quarters.

Jennifer Demba

And George, you said earlier that you think you're kind of nearing the -- you're in the late innings of the infrastructure build. What do you think is kind of a normalized expense growth level for you guys given the level of loan and revenue growth you like to have?

George Gleason

Jennifer, I don't know if we're prepared to give you a comment on that. I think we would leave that with the comments in our prepared management comments, which suggest that, number one, we think non-interest expense in the remaining 3 quarters of this year will be less than non-interest expense in the first quarter, and I've talked about the reasoning for that. And the biggest factor there is the fact that we had a low level of deferred loan origination costs in Q1. And secondly, again, pointing to the management comments, we expect that our efficiency ratio will improve over the course of 2018. And that by the end of the year, for the full year, that efficiency ratio will be much closer to the 2017 efficiency ratio than what our first quarter results would indicate. So I think I'll leave it at that, and we may have some run rate guidance in a future conference call that would apply to future years.

Stephen Scouten – *Sandler O'Neill + Partners, L.P.*

I wanted to follow up on the kind of discussion around the unfunded commitments and kind of what maybe gives you confidence that, that number will start to creep back higher in the coming quarters. And maybe, George, if you could talk a little bit about you said you had maybe $525 million in net new fundings and $1.3 million of loans that advanced on the unfunded commitment book. So is that a similar dynamic? Or did that unfunded book decline because a greater number than average of those came over to the funded side, if that makes sense?

George Gleason

No. As I said in response to Jennifer's question, our net funding number, our gross advanced numbers and our repayment numbers for Q1 were very much sort of in the middle of the pack of where those numbers have been over the last 6, 7, 8 quarters. So there was nothing unusual about that. We just had a number of closings that slid from Q1 to Q2. And as I said, those were -- there was not any sort of systemic reason for that. It was a lot of different one-off issues that delayed things 15 to 45 days. So we think we'll be back on track, and I would expect to see a generally positive trend in the unfunded balance of closed loans for the remainder of this year. And in future years, we expect that balance will grow. Obviously, as we saw in the first quarter, there'll be anomalous factors that would cause it to not grow in particular quarters, but we continue to think the trend is up.

Stephen Scouten

Okay. But it's not necessarily going to jump right back to growing $600 to $700 million a quarter. Is that maybe a fair way to characterize it?

George Gleason

Well, I think that's just going to be dependent upon how many loans we get closed in particular quarters and what the paydowns and curtailments and other things are. And let me explain what I mean by curtailments. A lot of times as we're getting to the end of a loan, it becomes clear that the sponsors are not going to spend all of the money budgeted in that loan for various reasons, and a lot of our loan documents allow us to curtail those commitments when we mutually agree that they're not going to be needed so that we don't have to hold capital for balances that are never funded.

Stephen Scouten

Okay. And maybe talk a little bit about the marine and RV portfolio. It looks like it grew maybe $225 million this quarter. Is there a point where that portfolio starts to get too big or you kind of fill your appetite for those loans or do you still feel pretty good about continuing to grow that at a similar pace as well?

George Gleason

We feel very good about what those guys are doing. We're monitoring the quality of it very closely. We're having very low levels of past due and repossessions in that portfolio, but we're doing a pretty good forensic dive on things that do become past due and do result in a repo to make sure that we're properly accounting for all factors that we ought to be accounting for in our underwriting of those credits. We've been able to get the yield up on those credits as rates have moved upward. So we're feeling very good about that portfolio and the job that our team is doing there.

Stephen Scouten

Maybe one last one for me -- you mentioned a positive move in the core spread, which is great to see yet again. Do you -- you also said in quarters maybe where we don't get a rate hike that, that could be under more pressure. Can you maybe give us an idea of -- when there's no rate hike, is that maybe a flat core spread or do we actually see that decline? And maybe also of that $640 million in deposit growth, how much of that came from the higher costs like promotional spin-up stuff and how much of that is maybe more, I don't know, true core, if you want to call it that?

George Gleason

I don't know that we can give you that, but I'll tell you what I would point you to -- Tim, where is that?

Tim Hicks

Core Spread Graph? Page 12.

George Gleason

If you look at Page 12 of the management comments, I think this graph -- this data tells you a lot. You can see over the last seven quarters, which is really from the 2nd through the most recent 6th Fed rate increase, that core spread has improved 42 basis points over that period of time. Clearly, we're benefiting from a rising rate environment. If you go back and look at a similar time period from Q1 of '14 through, say, Q4 of '15, that spread declined 28 basis points when we were in an environment where the Fed was essentially on hold and we were near zero on the Fed funds target rate. So I think if we enter into an extended period where the Fed is on hold and the Fed fund's target rate is stable, that would be an environment that is reflected in that part of the data in that graph. I think that would tend to put some pressure on our net interest margin. Obviously, as long as the Fed is moving upward, we think that tends to help us improve our core spread, which tends to support our net interest margin.

I would also take you to Page 10 of management comments, Stephen. And if you look at the net interest margin on the page there, our net interest margin in Q4 was 4.72%. Our net interest margin in Q1 was 4.69%. That -- almost that entire difference is a result of the lower tax equivalent yield on tax exempt securities resulting from the lower tax rates. If we had had in the first quarter the tax rates applicable in the fourth quarter of last year, our net interest margin would have rounded to 4.72%, so we would've had an essentially flat NIM, a fraction of one basis point downtrend there, I believe. We would have had essentially a flat NIM if we had the same tax rate.

So that suggests to us that the work we're doing on the core spread, and the good job that Tyler is doing managing the increases in our deposit costs as we grow deposits, and dealing with a rising rate environment are beginning to have a nice impact on the attrition in that spread. I would also point out to you the data on Page 8, which is the graph that shows our yield on non-purchased loans and our yield on purchased loans, and we've made a lot over the years about the fact that as our higher-yielding purchased loan portfolio runs off, that tends to put a downward impact on our margin. And as you can see from that graph, our non-purchased loan yields are not quite yet at the same level as our purchased loan yields, but they're a lot closer than they were a year or two years ago, and the convergence in those yields, which we think will likely continue. Now, there will be erratic movements from quarter-to-quarter, but we think that convergence will likely continue, and that has positive implications for our net interest margin going forward.

Matt Olney – *Stephens Inc.*

I wanted to go back to the core spread discussion, and I'm just curious kind of what your thoughts are from here. You mentioned there was a four basis point expansion in the first quarter compared to the nine basis point expansion in late 2017. And if we assume that the Fed continues to march up interest rates, is this a good way to think about the range of this expansion in the next few quarters somewhere in that four to nine basis point range? Or are you biased more towards the lower end of that given the recent trend?

George Gleason

If you look again at Page 12, that little green box at the bottom of that chart, as the Fed has raised rates, we've had a couple of quarters where we were nine basis points of improving core spread. We've had one quarter where we were zero basis points and improving core spread. If you look at that, the cumulative of that is 42 basis points of improving spread over, Tim, seven quarters?

George Gleason

So the average is about six basis points. And it's hard to know how all of the dynamics and moving parts play out, but we would hope that we would be plus or minus, a little bit around that average, as we go forward as long as the Fed is continuing to increase the Fed funds target rate -- which based on recent comments and transcripts of their conversations and so forth on that subject seem to suggest they're inclined to continue to do so.

Matt Olney

And then on the leasing division, I think we talked last quarter about you restructuring that division. I think you're keeping parts of the business aviation group. Any update you can provide on that group? And when would you expect that group to contribute more meaningfully to the positive overall loan growth?

George Gleason

Well, the business aviation group has been moved over from our leasing division to the Community Banking group. We feel very positively inclined toward that group and think they will be a source of positive growth. It will not be a huge line item for us, but it's one of many contributors to growth in our Community Banking division. I think the more important part of that story in the short run for this year and next is the small ticket part of that portfolio that was about $97 million, I believe, when we started working our way out of that, and was about $80 million at the end of the last quarter. And that portfolio has contributed a disproportionately large percentage of our losses the last few years. We've had so little losses -- nobody's asked about the composition of them, but I think our net charge-off ratio in the first quarter was four basis points annualized, which is almost nothing, but most of that almost nothing number came from that portfolio. So that portfolio is winding off really quickly, and we think that's a positive factor.

Catherine Mealor – *Keefe, Bruyette & Woods, Inc.*

One follow-up on the margin discussion. And clearly, we've talked about how the LIBOR impact had a positive impact on your asset beta this quarter. I guess question one on that is just remind us how much of your variable portfolio is tied directly to LIBOR versus prime. And then secondly, can you talk a little bit about the competitive dynamics that you've seen year-to-date on pricing. I mean, clearly, you're benefiting from the increase in Fed funds and LIBOR, but have you seen any kind of tightening on credit spreads and pricing kind of outside of just rates moving higher?

George Gleason

Of course, competition is always a huge factor for us, Catherine. As you know and as you and I have discussed a number of times, we did see a very competitive environment in Q1, which is not surprising and that’s not surprising because the Fed's been moving quite a bit. The tax rates moved. And also, a lot of our competitors get annual allocations of budget for them to loan out. So you typically, in the first quarter, see a lot of exuberance and aggressiveness from your competitors in getting started on their new year's allocation for loans. And as they fill up that bucket, a lot of times you see that aggressiveness diminish over the course of the year. And I think that's one of the reasons that we've traditionally had exceptional loan growth in Q4 of each year as a lot of our competitors have filled their budget, earned their bonus and gone to the sidelines by Q4, and it lets us be even more rational and prudent in what we do. So it's hard to know how all that competition that we saw in Q1 really translates out over the course of the year. I think that does tend to normalize and rationalize as we go through the year. But clearly, it's a very competitive environment.

What we have to do and have always done in a very competitive environment is keep our focus on our priorities. And priority number one is asset quality. So giving on credit terms or getting competitive on credit terms is really a nonnegotiable thing for us. We protect credit quality as our paramount mission. Secondly is to maintain profitability. And we will make adjustments to our pricing as we think are appropriate based on return on equity and so forth and you have a little room to move. But you don't have a ton of room to move and still meet our profitability standards. And then growth is the tertiary consideration. So if we're faced with a situation where we have to give on credit quality to achieve growth, we're not going to do it. If we're faced on a situation where we're going to have to give on pricing to achieve growth, we're only going to do it if we can still achieve our target minimum return on equity numbers. So you just got to be disciplined and continue to execute well.

I think the one thing that really helps us, is that our ability to execute for our customers and the confidence that our customers have in us being able to deliver what we say we're delivering, to execute with excellence in the transactions gets us paid more than our competition in many, many transactions. So we're relying on the reputation of relationship, our execution and expertise, our discipline to continue to maintain our credit quality and our profit margins in whatever sort of competitive environment we're in. Tim can answer the question on LIBOR. I've taken enough time to answer your second question that he has the data now on your first question.

Tim Hicks

You were asking about variable rate loans and how many were in LIBOR -- so 79% of our non-purchased loans are variable, and 83% of those are either based off of 1-, 3- or 6-month LIBOR. The vast majority of those are based off of 1-month LIBOR. Don't forget that we do have 42% of our purchased loans that are variable. Those are roughly half and half between LIBOR and something else. So if you look at our total variable rate loan portfolio, it's actually 79% of our total variable rate loan portfolio is based off of either 1-, 3- or 6-month LIBOR.

Catherine Mealor

And then one follow-up on the expenses. I know you mentioned that about half of the $7 million increase in salaries came from the FAS 91 deferral of loan positive -- is there a way to quantify what that typically is on a quarterly basis?

Tim Hicks

It's going to vary from quarter-to-quarter just based on what George indicated in our originations in any particular quarter. I don't have the numbers in front of me that would suggest what it was over the last several quarters. But if you just linked it to fourth quarter, roughly half of that change was from that.

Catherine Mealor

Is it typically a percentage of originations? Or kind of what's the way of modeling it?

Tim Hicks

Yes, I mean, our accounting guys look at it every quarter, and they do have a percentage that they come up with every quarter, and it varies on a lot of different factors.

Greg McKinney – Chief Financial Officer & Chief Accounting Officer

Actually, there's a fixed element of it and there's a variable piece of it that's consistent with the requirements under FAS 91. So every loan has a fixed component dependent on the loan type as well as variable component, and the variable component is based on size. And to Tim's point, that does move around. We look at that -- we do a detailed review of that annually. And then quarterly, we do updates. Some of those quarterly updates are more extensive than others, dependent on what we're seeing in changes in projections, thoughts, pipelines and trends. But that is, to Tim's point, about half of that increase in the salary line was directly attributable to the lower closings and the fact that we had fewer cost deferrals in the first quarter relative to what that has been running over the last three, four, five, six quarters.

Blair Brantley – *Brean Capital, LLC*

I just had a quick question on the purchased loan yields. Were there any prepayment benefits this quarter?

George Gleason

There are always prepayment benefits and minimum interest benefits in any quarter.

Tim Hicks

Blair, the number you may be looking for that we often get asked is how much accretion income we had. This year -- this quarter, it was $12.7 million in Q1. I think that was roughly $14 million in Q4. But as George said, we always have some prepayment activity in the quarter, but that number should give you a sense of the accretion income impact.

Blair Brantley

In terms of convergence with the purchased and non-purchased yield, is that something you think that could happen this year? Is that what you see out there?

Tim Hicks

I think it depends on how many Fed moves we have, but yes, you're right, it's hard to know and the purchased loans vary a little bit. But if we get several more Fed moves, I would not be surprised if they converge towards the end of the year.

Matthew Keating – *Barclays Bank PLC*

My question is on fee income. I just wanted to confirm, you did call out the BOLI death benefits this quarter, the $2.7 million. It seemed like that's nonrecurring. Is that the correct way to think about that? And maybe just more in general on fee income. Do you think this is sort of a low level? A lot of items were down a little bit, understanding mortgage is down because it's down permanently, but how do you view sort of the fee income trajectory as we move throughout 2018?

George Gleason

Good question. And we tend to think of BOLI income death benefits as being one-time items. Although with many hundreds of people insured as we have, we've got an active BOLI program in Bank of the Ozarks, we've made a number of acquisitions and acquired substantial BOLI portfolios in those acquisitions. So given the volume of people covered by our program, it's not unusual to have quarters where we have BOLI death benefits. But you can't really project them or -- they're random events, so we take them out of our run rate. So in our view, instead of an $0.88 EPS quarter, it was an $0.86 EPS quarter, was the way we look at it. It is correct to assume that mortgage is going away. As we said, we'll have nominal mortgage income this quarter and essentially none thereafter. Service charges are down from a year ago because of the Durbin Amendment, but actually, we thought the $9.525 million in service charge income in Q1 was a good number. Q1 is seasonally our lowest quarter of the year in service charge income, so we would expect that number to go up. We had a good quarter -- I think it was a record quarter in trust income, wasn't it Tim?

Tim Hicks

I believe it was.

George Gleason

And that continues to be a focus for us. Our other income from purchased loans, because of the continued declines in that purchased loan portfolio, the volume of that purchased loan portfolio is going down; that number probably trends down over time. Likewise, gains-on-sale is driven primarily by liquidation of OREO assets, and that portfolio continues to wind down; so that line item will have a downward trend longer term. On the other hand, loan service maintenance and other fees have had a very nice trajectory over the last several quarters. That includes unused fees and asset management fees from our RESG portfolio and other underwriting and certain fees that we charge. I think that number has an upward trend to it over time that should be very beneficial to us. So there are a lot of moving parts there. Some going up, some going down, but we think the first quarter number apart from the BOLI income was probably a pretty conservative number.

Matthew Keating

That's very helpful color. My second question would be on the name change. Just curious for the back story sort of how long have you guys been contemplating this transition. And maybe how did you end up on Bank OZK given that you do expect to be entering the national markets and how you elected to go with that? I know there's obviously a lot of options, but I'd love to hear some additional color around that.

George Gleason

We've been contemplating this name change for several years. And the decision to go with Bank OZK was a decision that I recommended to our senior management. And after a lot of discussion, they agreed with it. And the idea was to protect and maintain the significant brand equity that we've built in the name Bank of the Ozarks over many years. Our customers that do business with us as Bank of the Ozarks know us well. They obviously like us, largely, because we're adding thousands of net new core checking customers and other customers every month. So we obviously have a good reputation, a good relationship with our customer base, a reputation in the investment community for high performance, having been named now 12 times in the last eight years as the top-performing bank in our size group in the country. So we wanted to protect that brand equity and that value that we've created through hard work and excellent performance. And we felt like the name Bank OZK would be close enough to Bank of the Ozarks that our existing customers and the communities in which we have deep relationships would immediately recognize the name as a natural evolution of Bank of the Ozarks.

On the other hand, it is an edgy name putting the word bank to the front of it seems to have sort of a European or international flair to it. The OZK we felt like just being three letters would be a very modern name and would convey a sense of technology surrounding it, and technology is a huge focus for us and a significant part of our recipe for the future. So we just felt like we had a name here that gave us the best of both worlds. It protected the brand equity, the reputation, the relationships we had, and yet was very forward-thinking and would really travel well with us across the country. Of course, we're already doing business in almost every state now and have customers in almost every state now. So it would travel well with us. And even thinking many years down the road to when we might be traveling outside the U.S., we thought it was a name that traveled well internationally.

So as we decided at the management level that was the name we wanted to go with, we realized that we're not brand experts per se, so we engaged a branding firm to do a series of focus groups and a study to, not suggest alternate names, but to just tell us how that name would be received. And that focus group focused on, I think, about 500 people. That included existing customers and non-customers in our existing markets and non-customers in markets where we are largely unknown. And the name scored extremely well among all those different groups and accomplished our objectives of being very modern, being very international, but having a warm feel that customers would embrace and, in the case of our existing markets and existing customers, being immediately recognizable as a natural evolution of Bank of the Ozarks. So we feel really good about it. And based on the study we've done, we think we've picked a really good evolution of our name.

Brian Martin – *FIG Partners, LLC*

Just a couple of things for me. Just the geography of the loan growth, George. Any particular markets, I guess, driving more of that growth if you look at maybe the top two markets as far as the growth this quarter that you can comment on?

Tim Hicks

Yes. The top two markets are really unchanged. It's been New York and Miami. This particular quarter, Miami actually had more than New York, but I think that's just based on timing and other things. But Dallas, Chicago, Atlanta, Washington, D.C., Philadelphia, those are some of our top markets in the quarter where we saw originations. So again, really good diversification by geography and some really great markets.

Brian Martin

And just big picture on the loan growth. I mean, I think the loan growth, at least on the non-purchased side this quarter, was greater than three of the quarters last year, I guess, is there any way to, I guess, in the past it doesn't seem like there's been, or more recently in the past, there's not seem to been a seasonality issue with these -- with the growth we're seeing by quarter. I guess in general, I guess, do you guys have any feel for seasonality this year? Or should it be more -- the originations be more – or closings to be more stable going forward? Or I guess, is there any way to think about that?

George Gleason

Brian, I would tell you our current expectation is that we will have at least one quarter this year that will be less than Q1's growth and at least one quarter this year that will be more than Q1's growth. Now that could all -- that deck could get totally shuffled by prepayments or changes in the velocity or timing of loan originations, but we think this was really a good quarter, but a quarter that is not the best or the worst that we'll have this year. We think it's in the middle somewhere.

Brian Martin

And just on the expenses and the impact this quarter from the lower originations. I mean, could the bounce back next quarter be greater? It sounds like some of those originations got pushed in the Q2. So I mean, could that swing next quarter be greater than it is in Q3 and Q4, just given some of the bounce back or some of the stuff that got pushed from Q1 to Q2, is that fair to think about at least that element?

George Gleason

Brian, that is really hard to project. What I would tell you is, I think it will tend to be more level in Q2, Q3 and Q4. And the reason for that is yes, we had almost $1 billion, I think it was $960 million that we thought we would get closed in March that slid to April, so that's a big volume. A lot of the transactions that we worked on in Q1, and particularly transactions of size, will probably not close until Q3 because they're large transactions that we've got signed up and are working through the approval process, but the size complexity and the moving parts of those transactions will take a while. So I think what got pushed from Q1 to Q2 sort of levelizes Q2 with what we would expect to see in Q3 and Q4. Again, these things tend to move around a lot. And if you look at a projection of closings one week versus a week or two or three later, there's always a lot of movement in those things moving a month or two or three one way or the other, so it's impossible to predict. But right now, our thinking is, is that we end up with the rest of the year being more or less level. And I should clarify that level among Q2, Q3 and Q4 originations are looking very similar in volume, much higher than Q1.

George Gleason

A few days ago we were named the Top Performing Bank in the country in our size group. This is the eighth consecutive year we have been named as the top performing bank by one or more leading industry publications. This is a tremendous honor achieved through the hard work and the teamwork of all our employees. We are very pleased with our past accomplishments, and we are very excited about the future. Our first quarter results provide a strong start for 2018. There being no further questions, this concludes our call. Thank you for joining us.