

**Bank OZK**

**Conference Call Intro for the First Quarter 2026 Conference Call**

**April 22, 2026, 7:30 am**

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, Financial Supplement 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, Tonya, to remind our listeners how to queue in for questions.

**Manan Gosalia – Morgan Stanley**

The first one is just around the CIB -- strong growth again this quarter. And I appreciate that you guys are growing in attractive markets. You're building teams. But at the same time, we continue to hear across the board that competition is growing. I guess the question is, how do you assess risk in that business? And I guess, what, if anything, would cause you to pull back there?

**Jake Munn**

We continue to grow at a steady clip, as you mentioned, within CIB. Across all of our major business lines this quarter, we had really some nice success in generating nearly 2 dozen new relationships, and upsizing nearly a dozen legacy relationships. And so we continue to see some nice growth across all of those.

You have a good point there. What we're really building here, and you need to remember is it's a diversified C&I book, and so it is not a CIB business that's focused in one niche. These verticals encompass over 42 different industry niches. And so it's allowing us, whether that's through ABLG, CBSF, EFG, Fund Finance, LFG, NRG our franchise capital solutions that we mentioned, we launched this last quarter, we're creating a really diversified book within CIB that allows us to take advantage of opportunities within those specific industries and push into them.

If we see a slowdown or increased competition, or increase or decrease pricing, let's say, in ABLG, it affords us the opportunity to push more into our CBSF or NRG business lines. And so that diversification that we're building within CIB is allowing us to continue to grow at a nice clip in a way where we're not taking on any undue credit risk.

**Manan Gosalia**

And are you seeing any spread compression in certain businesses that has caused you to pivot into others?

**Jake Munn**

We are, exactly, yes. In our ABLG are some of our large corporate opportunities there, we have seen some pricing compression. And so we've switched that and moved downstream a little bit more towards the middle market, single lender opportunities, in particular. If we look at our Fund Finance business line, we've had to pull back a little bit in our capital call subscription facilities just due to increased pressure there, specifically from nonbank lenders and then insurance companies who have really entered that market and pushed down a little bit on pricing. And then if we're looking at our Lender Finance group, we've seen some pricing and structure compression there, too.

So again, there's been some competition in those business lines. But as a result, it's allowed us to push in a little bit more within our CBSF, our EFG and our NRG business lines. And so again, the diversification and the nature of which we're building, CIB is affording us the opportunity to continue to grow without giving up yield and without sacrificing credit quality.

**Manan Gosalia**

And then just in terms of helping us model out NIM. We saw the material securities growth Q-on-Q. Any color you can provide there on what you're putting on? And I guess, how should we be modeling yields in that portfolio beyond the 4.60% to 4.70% that you've guided to for next quarter?

**Tim Hicks**

Yes, early in the quarter we took the opportunity to use some of our excess liquidity and buy a decent amount of investments during the quarter and enhance our yield. About 40% of those are in muni housing bonds and 60% are in mortgage-backed securities. Both have favorable yields. The muni housing bonds are tax equivalent yield of around 6% and the mortgage-backed securities are somewhere around the 4.60% range or better. So these are agency mortgage backed. So we saw good growth there.

We gave you some guidance on where we thought the range would be for yields for that portfolio. We had a nice pickup in Q1, and we'll see another nice pickup in Q2 and then from there, we'll see what the market brings to us on opportunities. But the team did a great job of finding good yielding, attractive high-quality investments, and that's going to certainly help us on NII during the quarter and will continue to help us throughout the year.

**Stephen Scouten – Piper | Sandler**

I guess the first question would be around commentary within the Management Comments document around 2027. You guys seem pretty upbeat about the potential for the bank in '27, both in terms of growth and maybe even resolution progress within RESG, and the resumption of growth within that book. So I'm wondering if you could give any additional color as to what is driving that confidence, whether anecdotal or more concrete, that would kind of give us a view into that progression?

**George Gleason**

Obviously, Jake's already spoken about CIB and diversification, the new areas we're pushing into there. CIB will be the predominant growth engine we would expect in 2027 as it has been last year and will be this year. So we expect that leadership to continue from the CIB group. We're continuing to add people. We're continuing to push into other verticals there. RESG may not be a great source of growth in 2027, but we're looking for a slowing of the headwinds from RESG repayments in 2027. It may be 2028 before we actually see significant growth there. We would expect our indirect lending group to continue to grow nicely. It stayed steady at 12% and sort of pushed up to about 13% of our portfolio. That portfolio is a very high-end, high prime, super prime consumer portfolio, and it has continued to just perform very well and very consistently. And we expect to get some more growth out of our commercial banking, community banking group next year.

So we think the headwinds from RESG repayments ease quite a bit in '27. We expect these other business lines to actually accelerate a touch more in '27 contributing to that better incremental growth we're seeing that year.

The other thing that I think is important is we're building a number of other, and investing to build a number of other, fee-generating businesses. We're putting increased emphasis on trust and wealth. We've got a mortgage group that we've been building for a couple of years now that continues to gain scale. Although the mortgage business is not a hot business right now we think it will improve, and that unit will gain more scale. We're continuing to grow our fee income through treasury management and improving what we're doing there. A lot, and probably the biggest source of fee income opportunity, just as far as growth, is in our CIB group where there are a number of fee-based businesses and opportunities we're tapping into. And I think you'll begin to see that incrementally add some noninterest

income in subsequent quarters this year and really hit a good pace in 2027. So we're fairly optimistic about 2027.

### **Stephen Scouten**

I guess my other question would be maybe similar to Manan's question in a way -- but thinking about CIB -- I mean, with RESG, we've all known you guys to have a best-in-class platform for the last 20 years or so you've shown a differentiated model. How do you give investors confidence around -- the pace of growth within CIB and that there is a more differentiated model there as well -- that we should have the same level of confidence as you grow that this rapidly similar to the results you've delivered in RESG over the life of that business?

### **George Gleason**

I'm going to let Jake answer part of that question. But before he does, I'm going to tell you a couple of things. Number one is talent and leadership are critically important in our company. And Jake will talk a little bit about talent as he answers your question. And the other thing is we've really built CIB aligned with the way we have built and approached RESG, and that is you're going to look at a whole universe of opportunities all over the country. You're going to focus on a very narrow subset of that universe that meets your criteria for quality of credit, profitability and relationship building, and then you're going to close those transactions with very intentional bank protective documentation, you're going to service and manage those assets in a very engaged way so that you see early warning signs, you're able to influence behaviors and move those transactions in a way that is conducive with bank standards and objectives. So Jake, I'm going to let you talk about your team and why, given the growth you're experiencing and projecting to experience, you're comfortable with what we're doing.

### **Jake Munn**

It's really about building an infrastructure that's scalable to George's point. When we got over here and we started to develop CIB in a very similar form and fashion -- RESG started with building out a really strong portfolio management and operations team -- and so our portfolio management, our underwriting, our quarterly status reporting on every single credit we do within this book of business, our four operations teams that sit within P&L that ensure from beginning to end, it's a clean and crisp process for our clients as they're onboarded and serviced through the life of their relationship with us.

And then it's also building out something that's scalable from a cross-sell and a products and capability standpoint. George mentioned that answering your last question about fee income. But if you go back a couple of years ago, to where we are now. We've really developed some nice additional business lines that support the needs of our clients and our communities, but also will assist in generating some really nice noninterest income.

That's our syndications desk that's afforded us and blessed us with the opportunity to now lead more deals as admin agent. That's our interest rate hedging capabilities and our foreign exchange capabilities. That's our capital markets program that we have that allows companies to access the capital markets with our partnership that we have there. Or that's our great treasury management platform that Cindy and Chad continue to develop and build out. We really have the products and the capabilities now to grow with the company and scale with the company over the long-term horizon within the C&I space.

And then to top it all off, and really the most important part that George hit on, it's all about talent. At the end of the day, we're in the business of people. We're banking people, we're banking communities, we're banking businesses. And so attracting the right talent who has a like mind for credit, who has the fire in their bellies to get in here and roll up their sleeves and make a difference, that talent is really what's been differentiating us.

And so put it all together, we've developed all the products and capabilities that are needed to scale this business. We have a great foundation with our portfolio management and operations team. And then we've developed and bolted on complementary business lines. So whether it's our Asset Based Lending, our Corporate Banking and Sponsor Finance, our Equipment Finance, our Lender Finance, our Fund Finance, our Natural Resources Group and now our Franchise Capital Solutions, we're just getting started. There's a great market out there. We're being highly selective in what we're doing. To George's point, our pull-through rate on our more mature businesses is still around 14% to 15%. And so we are passing on 80% to 85% of the deals we see in the market -- whether it's a credit or a pricing-driven path - - but we are being highly selective in who we bring on and are being highly selective in the products and services that we're launching into the market to ensure that they're best in class. It's all really working

out well for us, and we're seeing nice continued growth and true franchise growth, really built one relationship at a time.

**Stephen Scouten**

That's extremely helpful color. And positioning it like RESG was built is something I wasn't fully aware of. So thanks for going into that detail.

**Brian Martin – Brean Capital**

Maybe just one on the margin. I know you gave a little commentary in the Management Comments, but just thinking about if we don't see a change -- any changes in rates here in the near term, just thinking about kind of the comments in the release about the pressure that you're -- maybe upward pressure you may be seeing on the deposit side? And then secondly, just trying to understand with the growth in CIB, how much of that is variable rate versus fixed rate? Just kind of how to think about the margin in the stable environment, given kind of the changes here on the loan mix and then just maybe what funding pressure you're seeing?

**George Gleason**

Cindy, you want to talk about deposit pricing, and then we'll jump to Jake on his CIB pricing.

**Cindy Wolfe**

Well, we did see competition increase last quarter. We've seen that before. I'm just really proud of Ottie Kerley, our Chief Banking Officer and his team for actually reducing rates by 18 basis points in spite of that and growing deposits. We have an incredibly talented machine that manages to synchronize our deposit growth right along with our loan growth, which you can see remains a good kind of challenge with CIB and their success. So we're poised to continue to do that. And we also have a veteran leader of government and institutional banking, Drew Harper. So we have a great mix of very large depositors and yet we remain average balances of our depositors of \$52,000, which really, when you do the math of just under \$2 billion in growth over the last year, it just represents an incredible amount of hard work every day by our retail bankers and our commercial bankers in our 255 offices. So we're going to continue to do that. And we're cheering RESG and CIB and our other bankers on in their growth, and we'll continue to perform really well.

**George Gleason**

Jake, do you want to talk about CIB pricing?

**Jake Munn**

On the CIB side, it's predominantly a variable floating rate book. Very rarely do we balance fix outside of our Equipment Finance Group. If a client has a desire to fix rate, we offer them through our interest rate hedging solutions desk, the opportunity to swap their loan and artificially fix the rate as a result, which would generate additional noninterest income for the bank. It continues to be a bit of hand-to-hand combat out there on these deals as it relates to pricing. I know Manan had a question earlier about pricing and any compression we're seeing in specific business lines. Again, the beauty of what we're building is the nature of the diversification though, so we can pull on the levers and push into the business lines where we can get a little bit better yield.

If we look at our legacy book versus the new deals generated this last quarter, there was actually about, call it, a 12 bps uptick on the average spread -- so we're actually leaning into the market and pushing on pricing. I know I'm actively challenging the teams. The business line heads are challenging the teams. For sure, George and Brannon are challenging the teams to go out there and try to really get the best yield possible for the bank. And then the final thing I'll say there, aside from the rough spread on these opportunities that we're looking at, if we go back to the comments earlier about our Loan Syndications and Corporate Services, and the various business lines and noninterest fee income that they can generate, and if we go back to our treasury management platform and all the hard work and time that Cindy and Chad are putting into that -- we talked about our trust and wealth -- it goes on and on, the products and services that we're building to be best-in-class out there that will allow us to continue to drive and really ramp up that noninterest income over the long term, which makes us even more competitive in the market.

And then lastly, I'll just say it's important to remember that this is true relationship lending that we're doing within CIB. If we look across the CIB book of business, over 97% of those relationships are either single lender direct deals where we get 100% of the wallet. So everything from deposit accounts to treasury management to interest rate hedging, et cetera, or if it's club deals, 2 bank club deals, where we're splitting that wallet or in the case of broad syndications, over 95% of all the syndications we're in,

we're either in the driver seat or the passenger seat meaning we're an admin agent or a JLA or like title. We really have no interest in going out there -- we're not buying books of business within CIB. We're not going in as participants. We really want to be a thought partner for these relationships. We want an opportunity to provide additional products and services beyond just a loan. So as a result, we're starting to see some really nice movement there with fee income, but also the opportunity to augment and impact the structure and the actual pricing of these loans long term.

**George Gleason**

Brian, I would close with this thought. Our long history is to be very profitable and that profitability is driven by margin. And while it's a very competitive deposit environment now, a very competitive loan environment, if you look around our peers in the industry, that 4.20% net interest margin we have is really strong. And that focus as Jake described, and as Cindy described on both sides of the balance sheet on really, really trying to get every basis point of yield or reduce every basis point of cost is just inherent in our culture and that drives our profitability metrics well above the industry.

**Brian Martin**

No, that's helpful. So yes, I think I've got your message there. So thank you for the insight there. And then maybe just my follow-up just would be in terms of credit quality, just looking at the reserve maybe coming down a touch this quarter, but just your NPAs and criticized were up a touch in the quarter. But I guess, more importantly, the commentary seems to suggest that you're a bit more optimistic on just the environment. So just kind of trying to think about how you're thinking about credit here as you go over the next couple of quarters if we see a bit more resolutions and just given it seems the tender is a bit more positive.

**George Gleason**

Brian, what I would tell you is that the economy in which we're operating has been surprisingly resilient in my view, given all the noise. I mean there's a lot going on in the world today. And yet the U.S. economy continues to chug along at a pretty decent rate. And I've already mentioned our indirect lending business, which is 13% of our business, but that's a consumer business. Now granted, it's at the higher end of the consumer space. But I mean we're seeing very, very stable and favorable credit results from that business. Jake in his business is -- and of course, he's very carefully selecting what we

do, but we're seeing very favorable results on credit and looking through to the customers in that, the trends of those customers, by and large, very favorable trends on their net income, EBITDA, cash flow coverages and so forth.

Our RESG book, if you look at multifamily, if you look at industrial, you look at condos, wherever you are in the country and those categories of business, they are very solid, and we're experiencing some really good results on that. Where you run into some issues and where we've had some issues is in the land, the office and the life science parts of the portfolio. And that is very transaction-specific and region specific. If you go to the parts of the country that are pro-business and low tax and having significant in-migration -- and we're in a lot of those markets, a lot of our franchise rests in those markets -- those assets, office, whatever, land are doing very well in those markets. It's the markets where you've had increasing tax burden and developing less friendly business, pro-business environment and out-migration of population, or churn in population, that's kind of kept the population neutral and eliminated the prospects for growth. That's where those transactions are struggling.

So the economy, generally, in our view, is pretty solid. And the challenges are basically limited to a couple of property types in more adversely affected regions of the country. And I think we're doing a good job working through those. We've got five RESG loans that we talked about in detail that the sponsors are working on two of them -- recapitalization opportunities -- one of those is reached a point, they've got a signed letter of intent to recap the deal. We've got two of those five that are actively engaged in a sale process. And the fifth one of those five is a transaction that has a lot of activity from multiple partial or full buyers of the land that secures that credit.

So those five assets account for the vast majority of our past due loans and the vast majority of our nonaccrual loans. And do all five of those deals that are working get closed? Probably not. Do zero of them get closed? Probably not. But some combination of those transactions probably get closed this quarter or next quarter. And if the transaction doesn't close, they're -- you're on to the next opportunity to get those closed. So at the basis we're in those assets, there seems to be a pretty good interest and ability for us to put together exits from those.

So yes, I would tell you, we know there are going to be a few more of those bumps in the road on asset quality in that office and life science space, and we'll work through those. But we're feeling like we're late in this stage of the cycle. We're working through what is going to have to be worked through, and we're doing it in a very constructive way. Brannon, do you want to add anything on that or you might want to talk about what we're seeing on leasing and so forth?

**Brannon Hamblen**

Yes. I would just throw in there the great summary of how we view the world, what we're seeing. We are in the property types, George mentioned condo, multifamily, industrial -- we've got a lot of industrial and a lot of industrial leasing is coming through our projects. Really happy to see that. But I would even say on the office side, we're -- and again, a great summary there of how market-specific this activity is -- but we're really encouraged on the office leasing side as well. So we're starting to see some green shoots there. Life science, as you noted, has had its challenges, but even on a market-specific basis, and we've mentioned this before in the Bay Area, the AI boom is generating opportunities for our life science product, which as we've noted, is flexible to go life science or go more traditional office. We've got 2 projects that are in serious contention for more of your tech AI-type users just as examples of how that's playing out, not just generally, but in our portfolio.

But yes, great summary, George. There's a lot of noise, a lot of headwinds in various shapes and forms, but we're seeing some good resilience in our portfolio. And I would say, office in particular, I'm just glad to see it starting to pick up and move. We're getting some progress there. That's the detail I would add, George.

**Michael Rose – *Raymond James & Associates***

Maybe just a bigger picture question just on a lot of the efforts that you guys have ongoing, specifically in CIB. You noticed in the Management Comments that the head count is up from 18 to 97, new vertical this quarter, you're building out some of the fee income verticals. Certainly, I understand the expense guide. But George, I just wanted you to frame this kind of longer term. At some point, the significant buildout will probably begin to slow. It seems like that could be in 2028, which could be at the same time that RESG balances begin to inflect higher after heavy paydowns. So I guess my question is, when do you expect to see the higher levels of expense build decelerate? And then it seems like 2028 could be

a pretty significant year for operating leverage from just thinking about it conceptually. So would just love some longer-reaching thoughts on all the efforts that you guys have done to date and as we look forward?

**George Gleason**

I appreciate the question, Michael. I'm reluctant to give a lot of guidance on 2028. That seems like a long time into the future. But I think your premise is correct that we will reach a point with CIB where the percentage increase in their head count and the percentage increase in their expense base will decline. Now, as Jake mentioned, we've got right now access into 42 different business and industry groups with CIB. If you look at the broad breadth of CIB that number of business and industry groups could be 100 or 200. I mean there are a lot of places we're not in. And I think the expectation is that, that business is going to continue to grow, continue to grow and continue to grow. But if we add three verticals in a year, or two verticals in a year, and three years from now, we had the same two or three verticals every year, the percentage increase from that subsequent addition is going to be less.

There are also a lot of geographies that we're not in that we would like to be in with the CIB platform -- in the markets that we already serve on our commercial community banking business. So there's a lot of room to build out. And CIB is designed so that the speed of that build-out is geared to their volume of business and the profit margins generated by that business. In the early conversations that Brannon and I had with Jake, Jake understood that we didn't want to go out and spend \$20 million of expense and have a dead start on that, that we needed to take the teams that we had, incorporate them into CIB and get them really lined up with the CIB vision. And we needed to add people incrementally as the business was growing, and we were paying for those and creating more profits in CIB. And that will continue to be the approach going forward.

So if CIB's overhead grows 20% per annum, that's going to mean that their revenue is growing more than 20% per annum. So there's going to be a positive operating leverage from the continued growth and expansion of CIB. I would hope, and our goal is that, is we're building out more infrastructure and treasury management, more infrastructure and trust and wealth, more infrastructure and mortgage -- that you're going to see the same things. Now we're earlier in the real build-out and expansion of those. But I would expect you would see those gain positive operating leverage as we go forward. And to the

earlier question of where does our efficiency ratio go -- I hate to apologize for a 39% efficiency ratio, that's a pretty good number. But we would like to see that in future years begin to work back down to our more customary ratio over the last decade. But it will stay in that high 30s range this year and maybe into next year, while we're building out some of these businesses. But they are designed, long term, to achieve positive operating leverage.

Now there's no way we're going to run a much expanded trust and wealth business that doesn't have a 50-something percent efficiency ratio or a mortgage business that doesn't have a 60% or 70% efficiency ratio. But the operating leverage that we will get in other businesses, I think we'll even those things out and let us get to a longer-term slightly improving efficiency ratio.

**Jake Munn**

And George, real quick, just to run off of your thought there on CIB, I think it's important to note, too, as we continue to grow and expand CIB, again, the beauty of what we've built. We've got a credit analyst training program as an example in there. So over the long term, you'll see us hiring less portfolio managers as we have analysts and associates coming out of our in-house training. And so when you put all that together, we ran this analysis at the end of last year, the folks on average we're hiring in this year have a lower average base salary and expense carry than the year before, and we can make the assumption that next year, that will continue to reduce in theory, right, as we're building CIB will need less chiefs and more Indians for lack of a better term. And so we'll continue to staff in that way in a very thoughtful and strategic fashion where we hope to continue to improve the efficiency ratio within CIB itself.

**Michael Rose**

No, that's helpful color. I wasn't looking for specific guidance, just trying to frame the narrative. But it seems like based on the answer that you gave have many years to come of kind of continuing to build out the business. So maybe the best way to characterize it, I don't want to put words in your mouth, but are we -- would you characterize the build-out is still kind of in the earlier to mid-innings versus the later innings? It seems like based on the commentary that's where we'd be.

**George Gleason**

Well, Jake made the comment in his earlier remarks that we were just beginning. I've written enough checks to hire expensive people that I don't feel like we're at the beginning. But yes, we're in the early stages of achieving CIB's potential. And we've commented, I think we commented in the Management Comments, Tim, that we expected in 2027 that CIB would pull up even with RESG as far as portfolio size. And given the momentum it has it's expected here that it's going to pull ahead of RESG, at least until RESG gets that next wave and wind of origination opportunities that come from a more stable commercial real estate, more balanced commercial real estate market.

**Jake Munn**

And a reminder to that headcount in CIB includes services that are enterprise-wide. So the syndications desk, interest rate hedging, et cetera, we're adding people that don't just benefit the growth of CIB but are going to benefit the growth of the institution as a whole in our noninterest income in future periods.

**Matt Olney – *Stephens Inc.***

I want to go back to the discussion around credit trends at RESG. And I think investors are looking for this inflow of newly identified substandard loans at RESG to slow. I counted 3 new loans identified in the first quarter from your Management Comments -- I think two in Seattle University District and one in Boston Life Science. As you look at the RESG portfolio and recent upcoming appraisals and considering the conversations with sponsors, what are your expectations for the incremental inflow of new RESG loans into that substandard bucket?

**George Gleason**

That's a great question. What I would tell you, Matt, and I want Brannon to weigh in on this is, as we've said multiple times, we will probably have a few more sponsors who just reach a point they cannot or will not continue to support their transaction. So I would expect there will be some further inflow. We've done a real good job of liquidating -- last year, we had four properties in foreclosed assets at some point during the year from RESG and we sold 3 of those last year. So we've done a good job of liquidating. We've had several substandard loans that we liquidated out with the collaboration of our sponsors. So I think you'll see assets come in and assets go out of that.

The other thing I would tell you is, and you mentioned appraisals, we are at a low leverage point on these loans. And for us to take a loss on the loans, all of the common equity, all of the pref equity, all of the mezz debt that you got to burn through all of that to get to a point that we take a loss on these loans. So a lot of the assets that we've had resolution on, we've had no loss and the losses have been fairly well contained given the size of credits on the ones that we have had losses on. So I think you'll see assets come in and assets go out of that group. We'll do a lot of very collaborative work with our sponsors to help them work through this environment. I think our guidance we've given on net charge-offs and so forth is good guidance, given the loss content in those loans that are likely to pop in and out of classified status.

Brannon, you might want to add color on that.

#### **Brannon Hamblen**

Again, great summary, George. I mean I would also point out that we've been very diligent in our reappraisal process within the portfolio. We pointed that out in our Management Comments. We've kept those appraisals current. You may note that there were fewer appraisals that resulted in LTV increases over 10% and most within that plus or minus 10%. So the market -- as we said in our Management Comments, we feel like we're in the later stages of the cycle. There's always an interesting new element to consider as we go from quarter-to-quarter, with our conflict in the Middle East being the most recent add to that and uncertainty. But as George noted, the underlying economy seems to be really resilient. We're seeing good leasing, as I noted before.

We will have projects where ultimately the sponsor does gets to the point that they're not able or willing to continue to support the deal. But our team does a great job of being on top of where these projects are and making sure we're on top of the valuations and making sure we're on top of ratings. So George's comments are spot on with respect to how we see the future.

#### **George Gleason**

Brannon, I'm glad you pointed out the appraisals. And for those on the call that didn't focus on a Figure 28 and the narrative around Figure 28 in our Management Comments, 50% of the total RESG commitments have been appraised within the last 4 quarters and 92% have been appraised in the last 8

quarters. The only pre-2023 appraisal is a loan that has a \$1,500 nominal balance on a project that is sort of stalled and we'll never fund beyond \$1,500. So that's the only pre-2023 appraisal on the book. We're very current on the appraisals and continue to recycle those and renew those, keep them up. We feel pretty good about that.

**Matt Olney**

I appreciate the commentary on that. And just as a follow-up, kind of a similar question, but more on the OREO -- the foreclosed asset bucket. I think that balance is \$150 million, mostly the 3 RESG properties. I get these properties are all unique, but it feels like there could be additional foreclosures this year. So trying to anticipate if we should see that balance move up throughout the year? Or do you expect those existing 3 properties to move off the balance sheet?

**George Gleason**

We're working on all of those and there are discussions going on regarding all of those -- particularly a lot of discussions around the oldest one of those and several discussions going around the Chicago property. So I would hope that we'll, over the course of this year, move some or all of those assets off the books. I repeat what I said earlier last year, we had 4 in that category. We moved 3 of them off during the year, 1 we didn't move off is that Los Angeles land. We've got a lot of activity on that right now. I would point out that we did make \$12 million in contract extension fees and forfeited earnest money off the last contract we had on that, that never closed. So we'll work those things actively. It's premature to try to project what the outcome will be on that. But I would be surprised if over the course of the year, we didn't move some of those assets.

**Catherine Meador – KBW**

We've spent a lot of time talking about the life science book and the office book. I wanted to see if we could get specific picture update on your multifamily book, maybe in two pieces. First, on just level of repayments you're expecting in that book. It feels like that was the sector that was leading a lot of your repayments over the past few quarters. And so your view on that moving forward, especially given the new rate environment. And then also in just credit and appraisal activities. To your point, the appraisals feel like they're coming in better than we've seen in some past quarters. So just kind of an update on the health of the multifamily book?

**George Gleason**

I'm going to let Brannon take the multifamily. And yes, the degree -- the rate of change in the appraisals is less significant than some of the earlier appraisals were in the last couple of years. And that just reflects the fact that the market has moved over a number of years. A lot of these assets are getting reappraised on an annual basis. And as a result, the LTVs on those assets are moving less significantly with the newer appraisals than they might have moved as the market was adjusting two years ago or three years ago.

So Brannon, do you want to take the multifamily story and talk about that?

**Brannon Hamblen**

Absolutely, Catherine, good to hear from you. You are correct. A lot of the payoff story that we're seeing in our portfolio is a direct answer to your question, both on the health of the multifamily product in terms of its lease-up to the point of being attractive, obviously, for refi or sale or other takeout. And so what we see there is that -- and part of it that -- that's our largest property type by concentration. So by definition, they're going to have a outsized ratio of the repayments.

But that's absolutely been the case. And some of the headwinds that we've talked about and our RESG repayments are driven in large part by the multifamily projects. And you'll continue to see that as we go forward. That was the case in the quarter just ended. It's been the case, and you can look back 6 or 12 months, that's going to be the case. They're the heaviest part of our payoff. It's a healthy portfolio. And as to the valuations, these cap rates, that product type probably started out lower and moved as much as anything.

But again, going back to our tried-and-true rules of having a lot of equity in these deals and being at a low basis even with those cap rate moves that, again, talking about appraisals, they've sort of -- the changes have slowed and everything seems to be sort of landing where it's going to be. It's a healthy portfolio, but it will, as you noted, result in a number of payoffs as we move forward.

**Catherine Mealor**

And then -- others just asked this question last quarter, but just to get an update on the IQHQ San Diego life science credit. And then last quarter, you talked about new leadership that came in that you were excited about. I know there was a lawsuit that's gotten a lot of press recently. So just any update on that project that you can provide for us would be helpful?

**Brannon Hamblen**

I appreciate the question. And litigation, Catherine, that's something we really can't provide any meaningful commentary there on that. I mean that's for IQHQ to address. But to your point, we were excited. We are excited. We continue to be engaged with the new leadership there, very very excited about the energy that they're bringing and the traffic they're driving, the strategy that they're taking with respect to the different sort of segments of tenants that they're pursuing. It's not just the life science end market life science and office use, but clinical research, big pharma, tech, AI, even defense. So there -- the demand that they're tracking for the projects is -- it was good. In December, it's better as we sit here today in terms of the tours they're giving, the RFPs, LOIs and lease negotiations that they're having.

I would tell you the office demand, office user, the non-life science user is the bigger part of that traffic and demand that they're tracking, but they're seeing material demand there. And then they continue to work on the retail with some large block retail opportunities that they started to really get the project activated at the street level. And they're working some exciting opportunities that will continue to add to that energy and activation around the project.

So yes, we're -- we continue to be pleased with their focus and the demand they're generating. And we've noted in the past the material financial commitments they've made and that was in '24, early '25. Some of this new leadership came in after that, and we really take their engagement with this project at that point in time as a clear sign of their belief in the opportunity there. So yes, we're continuing to track the project and excited they're in the driver's seat and working hard on it.

**Catherine Mealor**

I know that credit matures in August of this year. Is there anything that you think you need to see in terms of leasing or equity payments or anything that would present this loan from negatively migrating at maturity if you don't see a meaningful improvement in the leasing trends?

**George Gleason**

Let me comment on that, and then Brannon, you can add some additional color. Sponsor support for a transaction is a key element in the migration or not migration of these assets. So based on our dialogue with the sponsor, I think, at this point in time, we expect sponsor support to continue for that asset. We'll see. August is in some respects, not too far away. But in the world we live in today, August is a long time from now. So we will see if that realization and expectation of sponsors continued support and contribution of reserves as needed for this project is there, and that's our current expectation that, that's going to be the case.

I will -- I agree with Brannon, we're not going to comment on their litigation with one of their investors. But it's well known and been widely publicized in the media that IQHQ's had multiple tranches of capitalization and recapitalization come into that project. And in regard to the litigation, I'll just note that a lot of times when you have 1, 2, 3 or 4 different capital raises in a transaction, and there are different rights and preferences between the investors that come in at different points in the transaction, there's room for disagreement and hurt feelings between earlier investors who may get diluted out in subsequent capital raises.

So that's a matter for IQHQ and their investors to deal with. I don't think that has any significant bearing on our project with IQHQ or any other project with IQHQ. That's an interfamily squabble between the different tiers of investors in this transaction. Brannon, do you want to add anything to that?

**Brannon Hamblen**

No. You covered it well, George.

**Janet Lee – TD Cowen**

I would expect that the prospect of no rate cuts is incrementally benefiting for your net interest margin, generally speaking, given your variable rate loan rate component. But if the rates were to be relatively stable from here, is there any reason why your net interest margin would decrease further from here, whether that's because of the asset mix shift or the deposit competition? Or could we do stable NIM or potentially increasing from here?

**George Gleason**

Yes. Janet, our view on that at this point is we're relatively agnostic as to whether rates go up 25 or 50 basis points, or rates go down 25 or 50 basis points or stay the same. Obviously, if rates go up, given our highly variable rate loan portfolio, we will get a couple of quarters probably of improved margin, but increasing rates would adversely affect a few of our customers on the bubble. And that increased margin would probably be more or less offset with incremental provision expense and credit costs. Conversely, if rates go down 25 or 50 basis points, we -- that's going to be a bit of relief to a handful of customers that are on the margin there and probably lower some credit cost, but cut into our margin for a couple of quarters as our loan book reprices faster than deposits.

So we've sort of reached the point with our balance sheet that we're agnostic about which way rates go, which is probably a good place to be today since nobody can really develop a firm thesis about which way they are going to go. Our margin will move around a little bit. We've talked about the competition on the loan side. We talked about the competition on the deposit side. We've talked about a little bit of lift we're going to get from the securities book. So we'll just see where that plays out on the net interest margin in coming quarters.

**Janet Lee**

And I really appreciate the new guidance around your net charge-off expectations for the full year, which looks like it's pointing to around 50 basis point-ish. You already gave us a lot of color on credit. And given your commentary around inflows on the classified and criticized assets earlier, is it fair to say that does NCO expectation assumes bakes in an assumption that classified and criticized assets will increase further from here? Or is there any other color you could provide on what kind of underlying

assumptions are being used in this NCO expectations whether that you're assuming more losses than others and certain five RESG credits that you called out in the Management Commentary, et cetera?

**George Gleason**

Janet, I think we've probably touched on all that. To put a little more definition around it, again, as we've said it a couple of times on this call and in the Management Comments and in prior quarters, we expect that there will be a small number of our customers that in this economy with these interest rates will just become unable or unwilling to continue with their project. So I think there will be some inflows of assets, small numbers into that special asset, substandard asset, foreclosed asset category over the course of the year. We've had a good history of resolution. We've got some pretty meaningful activity toward resolving five of those assets as we've discussed. Not all five probably make, but some portion of those do. Whether that number goes up or down I think our guidance is good guidance. It's the best we can give you right now. And I think we'll have things come in and things go out of classification categories as the year goes on, and we'll just have to see how that unfolds.

**Operator**

And I would now like to turn the conference back to George Gleason for closing remarks.

**George Gleason**

All right. Guys, I think we're out of questions. So thank you so much for your time and attention today. We appreciate that we've used all of our time. So have a great day. We look forward to talking with you in about 90 days. Thanks so much.