

Bank OZK

Transcript of the Third Quarter 2025 Conference Call

October 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; 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 George, you and Brannon and your whole team, obviously know these real estate markets better than any of us. I'm wondering from the heightened fear peak of like 2023 to today, if you could give some commentary on how absorption is trending in some of these various classes, whether it's office, industrial, land, kind of how you view those in the landscape today, the attractiveness of each of those, how they're trending? And additionally, maybe on these two new loans that moved to substandard, how we can think about when the ACL would tend to get recognized? Because obviously, the Chicago loan doesn't appear to have an ACL and the Boston one appears to have a massively significant ACL already associated with it. So just kind of understanding some of the puts and takes as those loans migrate.

George Gleason

Yes. Let me take that last part of your question, and then I'll turn it over to Brannon for some more general commentary on what we're seeing. We did have 3 loans migrate -- one from substandard to substandard nonaccrual, that loan had a significant charge-off on it that recognized our exposure on that. We had a significant reserve for it last quarter, but that did manifest itself in a charge-off. And that's a good example, to answer your question, when does a reserve on a loan become a charge-off, and that is when it becomes evident that we're moving forward with a liquidation or other resolution of that, not as an ongoing loan.

The second project, you mentioned the Chicago project. When we moved that from special mention to substandard nonaccrual, we took the charge-off on that, reducing that to what we consider a liquidation value on that asset. The third asset you mentioned moved from special mention to substandard. And we put a sizable reserve on that, representing what we think is a wide range of potential outcomes on that. Those sponsors are continuing to actively work a really good lease prospect and maybe others, I'm not aware of, but I know they've got one really good lease prospect that they're far along with. And hopefully, there'll be the winning proponent on that. They're also evaluating how to recapitalize that project and go forward. I think by the end of this next quarter or into Q1, we'll have more clarity on that.

Now with that said, I've read some of the analyst reports that have already been written on our release last night, and it seems that the universal characterization is it was a mixed bag on asset quality. And I

would certainly agree that's an accurate picture. We did have those three migrations and a couple of charge-offs on that. None of those were surprises. They were all either substandard or special mention assets. But the flip side of that is we -- on the positive side, we had our largest foreclosed asset, which constituted more than half of our foreclosed assets -- that Lincoln Yards land in Chicago -- sell during the quarter at the book value we had it on the books for. So that was a big win.

And the second and third largest OREO assets that we had at June 30, which are now our first and second largest OREO assets are both under contract as of October 2, with expected closings this quarter, and those will have neutral to positive gains on sale, breakeven to gain on sale on those if they close, and assuming they do close -- we never know they're going to close until they do -- but if they do close, we'll have a positive outcome on that. So I think we're doing a really good job of resolving credits that do come into the foreclosed asset category in a very effective way and feel good about that. I think that's a positive.

The other thing that I think is a positive, if you look at our combined special mention substandard and foreclosed assets -- that aggregate number was actually down modestly during the quarter. So that reflected a pretty stable asset quality from that front.

The third or fourth point, I guess, I would make is on Page 29 of our Management Comments. We've talked for years now since the beginning of the COVID-19 pandemic about the importance of sponsor support. And we had an outstanding quarter in sponsor support. We had 41 loans that reached a maturity that were extended and modified. We had almost \$70 million of additional reserve deposits posted in connection with those modifications, extensions. We collected \$13.5 million of fees. We had over \$80 million of unscheduled paydowns on those loans and \$14 million of unfunded balances that were curtailed as a result of those. So some of those numbers are among the highest over the 13 quarters that we've been tracking and reporting that data.

So while you did have 3 loans migrate risk rating-wise, which you'd always prefer to not see, but they were identified credits, we had just a number of really strong sponsor support examples in our modifications and extensions.

And then the final point I'd make before I turn it over to Brannon in that regard is you've seen an infusion of liquidity into the CRE space as evidenced by the record level of RESG paydowns in the quarter just ended. And we've been communicating for some time that we expected a high level elevated RESG paydowns for a number of quarters. That reached a new height in the quarter just ended. That should not have been a surprise to anybody because we've been talking about it for a number of quarters now. But it does reflect the fact that there is a growing degree of liquidity for refinance options and that sponsors are reaching the point that they're willing to grab on to some of those refinance options.

So all that is kind of my view on the credit quality front. I'll let Brannon address what he's seeing in the -- at the ground level, project to project, kind of CRE trend.

Brannon Hamblen

I think broadly, a lot of the things that George just described are evidence of continued improvement in real estate markets. Our largest concentration in real estate is on the residential side, multifamily and then throw condos in there as well. That particular part of the world has been performing very well across the portfolio. But then as you work down, you mentioned office and industrial, and we were pleased in both cases with the continued absorption leases that are being signed up in various projects across the country. There are markets that are hotter, they've filled up, they've used up all the really strong Class A office space. And that trend of flight to quality just continues. We see it everywhere we go. And as leases roll, it takes a little bit longer for an office contract to work its life than it does an apartment. And so it takes time to see the ultimate degree and magnitude of the migration from lower quality projects to higher quality projects, but we're encouraged at how we're seeing that take place in a number of markets across the country.

I mentioned industrial. We continue to see good lease-up there. And I know that we had -- we saw a question around industrial appraisals -- all our appraisals on these projects are reflecting the current state of markets, whether it's strong leasing or lesser leasing. And we're really pleased, as always, at our basis in these deals that may be not moving quite as quickly as the others that are really leasing up well. So good activity there.

And the office space strength has been strong enough that you're starting to get a bleed over in the life science sector. Those markets where there's just not enough really high-class office for tenants to move to our sponsors in the life science world where demand has been slower, are -- we're seeing them being open and courting tenants that are more of a traditional office use in those projects. And of course, as we've noted several times over the past, our basis in those projects makes an office lease a very executable proposition. So while life science has not attained the level of the magnitude velocity of leasing that office has, you are starting to see office be considered and impactful to projects that are otherwise labeled life science.

So you've got all the things George mentioned as evidence of the recovery in the commercial real estate markets. You've got perhaps a re-ignition of the easing cycle that will take some pressure, slow some headwinds with respect to both sponsors and real estate projects and with respect to tenants and operating businesses and all the impact that, that has. And obviously, the capital markets are giving a nod to those market dynamics in the origination of a lot of loans, many of which are coming to take our projects away. And as has been mentioned, our payoffs this quarter are a pretty significant indicator of that.

Stephen Scouten

Yes. Fantastic level of detail -- I really appreciate that. And maybe flipping the script a little bit, reading through the Management Comments and I went back and read, gosh, a bunch of them last night, all the way back to like 2017. It feels like you guys are about as bullish as I remember reading as it pertains to 2027 loan growth and kind of how you're positioned to be opportunistic there. And it seems like a lot of that is getting past the wall of these older vintage repayments in RESG. But just kind of if you could comment further on that, it sounds like mid-single-digit growth expected in '26, meaningfully more expected in '27. So I don't know if you can frame that up at all, but it feels like loan growth and fee income growth, you're both pretty bullish on as we get into '27. And just any additional commentary there would be great.

George Gleason

Yes. Yes, Stephen, I think you correctly understand how we view the future here. Obviously, 2022 was RESG's record origination year. We originated \$13.8 billion. We give that in that year. We give that

cadence chart in our management comments document and have for years that -- Tim, what page is that on?

Tim Hicks

Page 13, Figure 13.

George Gleason

Page 13, figure 13, in the management comments document that shows that cadence. And we have told people for years that most of these loans have a 3- to 4-year life cycle. So it's no surprise to anyone that's been following our stock that we would have an exceptionally high level of RESG payoffs in 2025, probably late 2025. You certainly saw that in the quarter just ended. And in 2026 as those loans kind of reach that 3-, 4-year time frame. So we've known since we were celebrating the extraordinary level of originations in 2022 that, gosh, we were going to be having to pedal hard to keep up in '25 and '26. And that realization was a strong impetus behind our effort to really ramp up our CIB group and diversify and build its origination capabilities so that we could achieve a handoff of the growth baton from RESG as it was absorbing that payoff wave to another business unit that could match the quality that we've traditionally had in RESG, that 12 or 13 basis point life of portfolio sort of net charge-off number, that high asset quality and also originate in significant volume.

So our timing there I think, was very good. If I were criticizing my leadership as CEO, I would have said, gosh, we should have started CIB a year sooner, and the timing would have been perfect. But we started it when we had the human resources lined up and felt like it was time to go on it. And we were pretty close to spot on there. So what I think happens is that RESG repayment wave just continues through '26 as we grind through the natural payoff cycle from all those '22 originations. And of course, there'll be a few older and a few newer originations that will pay off next year and some of the '22 will slide to '27. But next year is going to be the big payoff wave if the normal expected cadence holds true.

And CIB is growing. We've really ramped up the staff there. So I think those guys are going to carry the growth ball for us next year. And of course, we would expect our high-quality indirect marine and RV business to continue to grow kind of at a similar rate of growth to what it has grown this year. We would

expect our commercial banking business to grow. And with that big RESG payoff wave, we think that gets us to a mid-single-digit loan growth rate next year.

But once that payoff wave is behind us and RESG is beginning to contribute positively to future growth, and we're not absorbing all those payoffs, we think we've got all of those growth engines really contributing in a meaningful way, and that really is going to lead us to some nice, very diversified growth in the portfolio in '27 and years thereafter. And at that point, I think you're 40%, 30%, 30%, or 38%, 32%, whatever, it's a much more balanced almost 3 parts of the portfolio that are more or less equal with RESG, of course, being the legacy dominant part of that, CIB being almost equal, if not equal to RESG, and the commercial banking indirect piece really filling in the final kind of third part of that equation.

So I think that diversification is good for asset quality. I think it's good for eliminating some of this concentration risk that's weighed on our valuation, and I think it's good for growth. So we're really excited. I think we've positioned ourselves well to be in a really good place at that point from a growth perspective. And I think we grind through with mid-single-digit growth next year, and a lot of banks out there would be happy with mid-single-digit loan growth. So we're feeling good about it.

Stephen Scouten

And maybe just one accounting question to follow up on what you just said. As you migrate towards that maybe 40%, 40% over time with CIB and RESG, if that reduces the unfunded book further, which I would think it would, that would just simply unlock more potential capital for share repurchases. Is that right on how that accounting would generally work at a high level?

George Gleason

Yes. And the CIB guys are very cognizant of that. And they're focused on opportunities that not only meet our high asset quality and returns, but also have high utilization rates because we're very sensitive from our history with RESG where we've got almost as many unfunded as funded that, that capital burden of all those unfunded loans really impairs our ability to be as efficient with capital allocations as we would like to.

And we've had those conversations. Of course, Jake and his team are a bunch of really smart guys. They didn't need to have that explained to them. So they are actually working to weed out some of our older legacy business in those books that has a very low utilization rate in preference to new business that's very high-quality new business, but it's going to have a higher utilization rate and less unfunded. So we're focused on that as part of the strategy.

Jake Munn

Yes. And George, to piggyback off of that, you can look in our Management Comments specifically in the CIB section. You'll notice quarter-over-quarter, we had a little bit of shrinkage in our Fund Finance Group, for instance. That is exactly what George is explaining. We're actively, as we grow, rebalancing these legacy books to ensure that we're optimizing utilization and the deployment of capital, but also ensuring that we're getting the best return possible for our shareholders. And so you saw a little bit of a dip there in Fund Finance. That was primarily by design as we've shed some legacy borrowers who, in some cases, weren't even utilizing their facilities. We weren't getting the fees that we wanted out of those opportunities. Opportunity came around to exit those relationships on good terms, and so we did that. And so you'll see that continued rebalancing to George's point, of the CIB book actively as we grow to ensure that we're improving our utilization quarter over quarter over quarter.

Manan Gosalia – Morgan Stanley

So I appreciate all the comments on the credit for the RESG side. Can you talk a little bit about the CIB side, maybe what you're hearing, what you're seeing in the portfolio, especially given the recent headlines in the asset-backed lending, Corporate Banking, Sponsor Finance, Fund Finance portfolios. Can you just talk a little bit about what you're seeing there?

Jake Munn

You know, quarter-over-quarter, we actually had record origination growth for CIB. We originated nearly 2 dozen new relationships, upsized nearly a half dozen relationships, which is very exciting to see. Now what you'll see within the Management Comments on a net basis due to both -- some of the strategic realignment that we mentioned earlier, as well as the capital markets being really active this quarter -- we had a record number of bond issuance and high-yield issuances, which are blessing and a

course that took a little bit of a nick out of our outstandings growth quarter-over-quarter. But the upside is now that we have our loan syndications and corporate services group, we're able to reap the benefit of additional fee income from our capital markets program, which is exciting.

But quarter-over-quarter, I do want to point out that it was very successful for CIB overall. Our ABLG group really led the way along with CBSF and then our new Natural Resources Group. To a lesser degree, we had great contributions from our Fund Finance and Lender Finance groups as well. And so we're excited about the continued diversification we're seeing there, the consistent growth we're seeing there and candidly, the additional fee income that we're producing in partnership with CIB's LSCS with that growth.

You had touched on something that's really made the headlines lately, the NDFI space, the Lender Finance Group. The beauty of what we're building here is we're building a wholesale banking infrastructure based on that diversification play. And so with the launch of these new business lines that we've brought into the fold, with the launch of some business lines that we're looking into on the horizon here for the next couple of quarters that we feel like will be very complementary. As a whole, our exposure to that Lender Finance space will continue to dilute as a percentage of the bank's overall portfolio.

And so I do want to point that out as we kind of get into the nitty-gritty here on the NDFI side and some of the headline risk that you all have heard of there. The bulk of our NDFIs here at Bank OZK are really found in that Lender Finance Group led by Jim Lyons, with a very experienced team. That is our former EFCS group, just to make it clear for everybody as we've renamed them and really honed in a focus on what they've been doing. But an experienced group that's locked in arms with our portfolio management and operations team to ensure deep underwriting, compliance, oversight and really a credit-focused and a credit-first mindset specifically in that space. We're a little bit different in that space than most and most that you've seen in the market that have stubbed their toes there lately.

We really focus on single lender opportunities and to a degree, 2 bank club deals within that niche more than the broader syndications. We think that's important in that space because that allows us to have

tighter control, allows us to have a deeper look at the underlying portfolio companies within those, the attachment points that the bank has at the loan level as well. And it also ensures that we can put in place a structure that we find to be palatable and conservative in nature, too.

And so we take a little bit of a different approach there. We do a bottoms-up risking, which is very different than other institutions. We take the time to look at each portfolio company investment. We actually rate that against the bank's risk rating methodology to ensure that it meets the standards of our institution. We also dive into their policy and their procedures to ensure that they're properly monitoring these loans. And then in addition to that, we also engage third parties for field examinations, appraisals, you name it, to ensure that what we're lending to is, a.) actually there; but b.) is valued at the valuation that plugs into our assumptions for our overall loans.

And so that's a space we've been in since 2019. That loan book has continued to grow, but grow at a much smaller pace than our other business lines. And while we remain focused and committed to that space, I do want to point out over time, it will be -- continue to be a bit diluted just with the introduction of some of these other more diversified C&I business lines. George, anything that you'd like to add?

George Gleason

Yes. You were talking about the NDFI loans, Jake, from your CIB group. But a chunk of our NDFI loans that show up on our call report are actually RESG loans. And this goes back to our long-standing relationships with a lot of the debt funds that do commercial real estate lending. And we compete with those guys, a lot of times, if they win a unitranche deal, they'll bifurcate it into a senior/mezz and we're the senior lender and they're the mezz. Sometimes they want to hold that whole loan on their books, but leverage it with a loan from us. And we do a loan to lenders or an NDFI loan to those guys. And we underwrite our loan to them exactly and service it and manage it exactly as if we were the senior lender on that and if we were making the senior loan. So in our view, there is no difference in the way we rate or evaluate those loans or the risk profile of those loans versus us being senior and them being mezz in the transaction. So that's a big chunk of our NDFI loans. We feel really good about that. It's business we've been doing for many years with an exemplary track record.

And in CIB, we are looking at the portfolios of the lenders that we're leveraging. As Jake said, our attachment points are very low in those. It gives us a lot of comfort, insulates us from a lot of risk. I was appalled when I was listening to one of the news programs the other day and one of the executives from one of the lenders that has been caught in one of these situations was on there and he said, "Frankly, we just need to do better underwriting." And I thought, my gosh, you're making loans to complex entities out there and you just now figured out you need to do better underwriting. I mean we are thoroughly vetting and doing very diligent underwriting on these things.

And Jake really emphasized that talking about a lot of our deals we're single lender or small group lenders so that we're able to really influence that and dig in there and look at the underlying portfolios in great detail. And of course, we got lock boxes and third-party servicers and other protections there that ensure that we're doing those things the right way.

Jake Munn

Yes. And George, just to piggyback off that again, I think it's important to point out that the NDFI opportunities and when we're looking at our Lender Finance book, for instance, it's going to be -- think of BDCs, Business Development Corps, for instance. We look at how they're looking at their investments, right, concentration risk, ensuring that the bulk of their loans are senior secured loans are properly perfected. And then we also look at what industries are they focused in. We've mentioned on prior earnings calls that CIB recognizes there are certain industries out there that are currently a little bit higher risk or very competitive, but we're seeing people stretch on structures, and it makes us candidly uncomfortable. And we see that in the consumer space, the auto space, we see that in the degree in health care, venture capital and tech. And so there's a lot of BDCs and other what we classify as NDFIs that are focused in those niches and good on them, if that's their prerogative. But just like a direct loan that we would do here at Bank OZK, when we're lending to an NDFI, we look at the industries they're investing in to ensure that it is aligning with our overall credit philosophy as well.

George Gleason

Yes. And that conservatism and thorough underwriting is evident in our pull-through rates. Jake, what are we running now kind of pull-through rate.

Jake Munn

Great point, George. We're still sub-15%, yes. So when we look at that quarter-over-quarter, we're still being very selective on the opportunities that we're pursuing -- 85% of the deals that come across our desk we're passing on primarily from a credit structuring standpoint, from a yield standpoint, the market has gotten very competitive, and we've said that quarter-over-quarter. And we're choosing to pick the spaces, pick the markets that make sense to us, and we're sticking to our guns on credit quality. We'd rather have high credit quality names here and let our products and services speak for themselves versus chasing just yield and as a result, doing a bunch of highly levered deals or deals in kind of adverse industries and asset classes.

George Gleason

Yes. We're -- as we've said earlier, we're looking for CIB to become 30% to 40% of our loan book over the next several years. And obviously, even if we're 3% or 4%, we would be paying close attention to. But realizing that it's going to become an element of our loan book, we expect to rival our RESG book as far as volume. We're certainly intent on doing this right.

Matt Olney – *Stephens Inc.*

I wanted to switch gears a little bit, and I appreciate the commentary around the margin and the guidance for the NII in the fourth quarter. Very helpful, and that all makes sense. Just want to understand your expectations of when that margin could stabilize. If we go back a year ago, the Fed cut aggressively in the fourth quarter and the margin was down in the fourth quarter and then down a little bit more in 1Q and then stabilized in 2Q of this year. So call it one quarter or two lag after the Fed paused, we saw the NIM stabilize. So just looking for any color on when you expect the margin to stabilize as it relates to Fed cuts?

George Gleason

Yes. Happy to address that. If Cindy were here today and she's off and not with us today, but if she were here, she would tell you that our predominant interest-bearing deposit product is a 7-month CD special. We have other maturities, but probably 80% or more of our CD issuance is in that 7-month time frame right now. So our variable rate loans typically tend to reprice around the time of a Fed cut. Those CDs are going to reprice 7 months later, more or less. So that's a good example, Matt, of why there's a 2-

quarter lag more or less. You see spread getting compressed a little bit for a couple of quarters after a Fed cut until that deposit pricing catches up.

And certainly, we'll see that this quarter, I would expect with the September Fed cut and likely 1 or 2 more this quarter. So we're going to be chasing those loan yields for a couple of quarters with our deposit cost until the Fed stops and a couple of quarters after that, we should catch up. Now the other side of that equation, though, is important, and we've included in our Management Comments on Page 19, Figure 20 that is the floor rates in our variable rate loans. So at September 30, 22% of those loans were at -- of our variable rate loans were at their floor.

If the Fed cuts a quarter more, 36% will be at their floor and 50 basis points, 41%. So as we get to that 36% and then into the 40% numbers, those floor rates significantly slow down the repricing or stop the repricing of some portion of our variable rate loans. And that gives us the ability to catch up that margin differential much more quickly.

So I would tell you, given where the floors are now, it's probably a couple of quarters of compressed margin following Fed cuts to catch up. But as we go through more Fed cuts, if we end up with 3 or 4 or 5 Fed cuts, we're going to begin to derive some meaningful benefit and shorten that catch-up period because we'll have a lot of those loans that will no longer adjust downward.

Matt Olney

Okay. That all makes sense. Appreciate the color there. And just to also go back and clarify a comment from a few minutes ago around 2026 and 2027. I think we all appreciate the RESG paydowns are going to be elevated in '26 and continued expense build-out next year as well. It sounds like we should assume that the net income growth and the EPS growth year-over-year in '26 may not be significant. But as the loan growth accelerates in '27, it sounds like this is the year where we could see a lot more operating leverage and the EPS growth and the income growth could be more material. Is that a fair interpretation of your commentary?

George Gleason

Yes, I think that's an accurate interpretation. We think that we can achieve record net interest income and record EPS next year. It's going to require a lot of work to do that and probably the year-over-year gains will be relatively small as they've been this year, while we've been building out a lot of this infrastructure for the future and absorbing -- beginning to absorb a lot of these payoffs. But we're putting up positive numbers year-over-year, we would expect to do that next year and then to really see the benefits of all that investment kick in significantly in '27 and future years.

Catherine Mealor – KBW

One follow-up to the margin question was just on the -- I totally appreciate the floor impact, right, and how that will limit kind of the betas as we get further cuts. And then how do we then layer on just the mix change with pricing at CIB being lower yields than the RESG book and how that can impact loan yields over the next couple of years?

George Gleason

That's a good question. And obviously, on our CIB book, we typically have a little lower spread than we do on our RESG book. We do get some fees and more treasury management opportunities, other miscellaneous fees on that book. And then Jake mentioned that as our customers go to capital markets, whether it's for bond issuance or equity issuance, we have now got through our CIB team, a unit that shares in those fees and lets us participate in that. So net-net, I think CIB's revenue-generating capability is not far off RESG's on a pound per pound basis. And where we really, I think, will equalize or actually benefit from CIB is, as CIB becomes a bigger part of our book and particularly if they can achieve the higher utilization rates on their credit lines that we are going to strive to achieve there. We will not have as much unfunded loan commitments on that portfolio and the diversification and elimination of our CRE concentration will let us be a little more judicious in our allocations of capital. So I think on an ROE basis, CIB will help us be actually improve our return on equity, even if on an ROA basis, there's a slight deterioration in ROA because I think it will allow us to be much more judicious in the use of our capital.

Jake Munn

And Catherine, just to help there. As a reminder, as George mentioned, through LSCS and the introduction and build-out of that business line last year, and it's really ramping up now, we have

capabilities to collect bond tips and other capital markets fees. We have the capabilities to collect and serve our clients from an interest rate hedging standpoint, and FX standpoint. We have the opportunity to produce income from a permanent placement standpoint, too. And so we're starting to see a real nice uptick and build there of additional fee income from LSCS, which is serving the broader bank as a whole.

And then as a reminder, too, in how we do these deals, over 96.9% of our deals this last quarter or for our book, I should say, as a whole, we're either single lender, they're 2-bank club or if they're syndications, we're the admin agent, we're leading deals now or we're the JLA, and so because of that, not only can we positively impact the overall structuring of those deals, but it's allowing us to unlock substantially more fee income as we serve in more impactful roles for our clients and both a cross-sell standpoint and then also just an upfront fee and arranger fee, et cetera, standpoint. And so to George's point there, we're really starting to see a nice uptick in fees driven by that business unit, and we feel very optimistic about the future.

George Gleason

Yes. And the one item that Jake and I both neglected to mention that's really super important is our deposit opportunities for non-interest deposits, noninterest-bearing deposits or low interest-bearing deposits, low-cost deposits through CIB is really an important part of the return on equity equation on that book of business. And obviously, we strive to get deposits with our RESG loans, but commercial real estate loans just don't have anywhere near the same level of deposit opportunities for low-cost deposits that you get with a CIB type of book. So that's a big part of the equation as well.

Catherine Meador

And then my follow-up is it was -- there's a lot of movement in credit, and I agree with your conversation that it was kind of a mixed quarter on credit. But it was good to see the overall level of credits basically unchanged, right? Some came in, some came out, but the overall level was unchanged. So I guess the big question is, what's kind of left to maybe come into special mention in your book? And maybe is there a way to give us some color around maybe some kind of migrations within the rest of your past credits? Like are you seeing kind of stabilization there? Or is there anything there that you're keeping an eye on? And then secondly, how do we think about how lower rates could potentially

impact the health of your RESG book and perhaps limit the new inflows into special mention just because lower rates kind of help the credit of some of those projects?

George Gleason

Yes. That's a great question. Obviously, all that RESG book is variable rate loans. There are a lot of floors in there, but we're not at the floors, unfortunately, on a lot of those loans. So our sponsors will, in large number, benefit from additional Fed rate cuts. A lower rate environment also creates additional opportunities for them to go to a permanent loan or go to a bridge lender that may be loaning them higher leverage money or cheaper money that will be attractive.

So Fed cuts will tend to magnify to a small extent, the rate of RESG loan repayment. So it's a good thing on the quality side and good for our customers. It's a bad thing on the repayment side. But all these loans are going to pay off sooner or later one way or the other. So we're happy for our customers to get a good exit if market conditions allow that.

Your other question about what else is out there and what are we watching? I would tell you, we got guys that watch every loan in our portfolio every day. So we're looking at everything all the time, and that's part of the secret of the success we've had over our history as a company and certainly our 28 years since we went public where we beat the industry's charge-off ratio every year, we're paying attention and servicing our loans in a very effective manner.

As for how do you know when something is going to become -- going to migrate to those problems? Well, deteriorations in value, deteriorations in market conditions, failure to lease, all really are kind of summarized on Page 29 of our Management Comments where we talk about sponsor support. And that really is the key. Are our sponsors going to continue to support their projects until they get them leased or get them sold, and our track record on that -- and we've said this -- we said when the COVID pandemic started that we expected most of our sponsors would continue to support their projects until conditions normalized. We've reemphasized every quarter since the Fed started raising interest rates 13 quarters ago that we expected most of our sponsors would continue to support their projects until conditions normalize.

Now there are obviously a handful of exceptions and sponsor fatigue and energy and resources to support projects gets exhausted over a prolonged period of time. So we've seen some examples of that, but they've been limited number of examples. And when we've seen those examples, that's when loans become special mention. That's when loans become substandard, that's when loans move into the OREO book and then get liquidated out.

So I would say the same thing I said at month one of the COVID-19 pandemic and after the first Fed increase -- we expect the majority of our sponsors -- the vast majority of our sponsors will continue to support their projects until they get a successful conclusion. They'll do it because they're high-quality sponsors. They have high-quality assets, and they have a ton of money invested in them. And that keeps them engaged in the projects. We will have some along the way where they're just become exhausted in their ability and energy and resources to support a project, and we'll deal with those when we do. And I think we're very well reserved for what we think is a plausible set of scenarios in that regard.

Catherine Mealor

And any changes you're seeing to the trends in life science loans? I think that's the one asset class we're all watching and worried about.

George Gleason

Brannon, do you want to talk about life science?

Brannon Hamblen

Yes, Catherine, good to talk to you. I alluded to it in my comments earlier, that's been an industry that's had a lot of product delivered and less demand for its space. And I would say there's still headwinds. There's still time to have some of those projects get where they want to go. But what we are seeing is a shift in the intention -- the intended use of that space. It's -- and we've said this quarter after quarter after quarter, it absolutely has the flexibility to serve a more typical office user. And because of demand improvement that we're seeing in the office space, there's starting to be a lot more indication and real lease interest around life science space by the typical office user. So I think that's one of the green shoots that we're seeing in that space. You don't always execute exactly the way you want to. But at the

end of the day, getting a user in the space to pay a rent is what it's all about. And again, as I said earlier, our basis in these life science deals is such that executing on a different use on an office use in particular, is absolutely an executable transaction.

So -- and as you guys are aware, as we've said so many times about the significant good news funding that we have in these loans and the cost of building out an office tenant space is typically a good deal lower than it is for a life science tenant. So the dynamics that exist there, again, you'd love for them to all be full with life science tenants, but we're encouraged at the office markets that are pushing prospective tenants to really high-quality assets that we've financed the construction of.

Janet Lee – TD Cowen

I appreciate that we'll get more clarity in the fourth quarter and January, but on that Boston office loan that moved to a substandard accrual, is that baseline expectation that they will win that 1/3 of the building for that potential tenant? And is that how your reserve tied to this loan is baked in? Just given the size, I would appreciate if you could give a little more color on what the likely path of this loan is in your current seat.

George Gleason

Yes. We certainly don't want to get ahead of our sponsor here in their negotiations. They are working hard on leasing. They're also evaluating how to recapitalize that project for a longer runway. Our reserve on it, as I said in my preliminary comments to the initial question, reflects a wide range of scenarios here. So I think we're very well reserved on this, and we're going to let our sponsor continue to work this and endeavor to execute on it, and we'll see how that plays out over the next couple of quarters.

Janet Lee

And just switching gears to loan origination. So if I look at the third quarter, it was one of the lowest levels. And in your management commentary, you talked about the expectations for higher origination volumes for 4Q, and I would believe beyond 4Q. Can you explain to us how the third quarter is sort of an outlier quarter and then it will likely look better in that fourth quarter and beyond, just given that you also commented on RESG commitments are likely to decline, but I guess that's more of the -- more driven by the payoffs activities. I would appreciate any color.

George Gleason

Yes. You are correct in surmising that our expectation for continued decline in RESG commitments is really driven by the payoffs. I think it is very likely that our very low volume of originations in the quarter just ended was an anomaly. You can never say that for sure. We'll be glad to put up another quarter of results and prove that. Hopefully, we will.

What I can tell you is we've already originated in the first 2 weeks or so of the current quarter, about half the origination volume or a little more that we originated in the whole quarter last quarter. So those transactions, I think there are 3 of them that we've already closed this quarter would have been transactions we actually expected to close last quarter. But for one reason or another, they got pushed into this quarter. So we hope we'll return to a much more typical and normal level of originations in Q4 and future quarters.

As I mentioned and as we mentioned in the management comments document, there are not as many new CRE projects being originated just reflective of all the various market conditions out there. There are a lot of lenders chasing those projects. So you've got a situation where you've got too many lenders chasing too few projects. That's leading to some structures and pricing and leverage points that we would not go to, that is having an impact on our origination volume. But even with that, I do think we will return more likely than not to a better, more typical origination volume in Q4 and future quarters.

Brian Martin – *Janney Montgomery Scott*

Most of mine have been answered here. But George, just I've been kind of bouncing back and forth between calls. But just your – the further build-out of the CIB group, George, can you just talk about if there's a lot more stuff -- a lot more teams or people or verticals that maybe you're contemplating adding. And just kind of spell out kind of where you're thinking given the growth outlook in that unit and just give a little bit of color on that. And then just -- I know you've talked about in the past the fee income opportunity given it's such a small piece of revenue today. Just kind of over time, where you think that fee income to revenue kind of percentage can get to as you go forward?

George Gleason

Yes. Let me tell you that we have a wonderful leadership team in our CIB group. And it's not just Jake, but it's the leadership team under him. And they are doing a great job of recruiting just top-tier veteran talent to the team, and they're being very careful about it, but they're also being very active out there in the market. So Jake, I'm going to come to you and let you unmute and talk about that and give a little additional color.

Jake Munn

You asked my favorite question of the morning talking about the fun stuff here. So I appreciate the question. It's a good one at that. I want to emphasize here in third quarter, when looking at the Management Comments, you can see quarter-over-quarter, we're up \$575 million in outstandings. If we were to look on a commitment basis, so that would be your outstandings plus your unfunded, we're up \$1.19 billion. That's our net number. And I wanted to point that out again, from an origination standpoint, these teams are really starting to hit their stride across the board.

Our Natural Resources Group, led by George McKean, and Moni and Arth, that team has really taken off and putting together some nice opportunities for us. CBSF continues to grow. We have identified our leader out in Atlanta, John, and he's joined us, and he's building up our presence in that part of the country for us and our footprint. We've identified our leader and brought on a lender within CBSF out in Nashville. He's got great experience and comes from a very large institution. We're excited to have him here, and we'll continue to build the team there as well. And so the CBSF and the diversification and the great yield that comes from that book is really, again, still at its infancy, and we're going to see that continue to grow and build and really be impactful leaders here for the institution.

In addition to that, Mike Sheff's ABLG group has continued to expand. We just hired a gentleman up in New York, and we'll continue to focus on when we find the right people in the right spot that fit the OZK credit culture and overall culture. We're going to find those people. We're going to source them. We're going to bring them in and give them all the support they need to be successful, and we're seeing that in our ABLG group.

Our Lender Finance Group, as previously mentioned, led by Jim Lyons, is doing a fantastic job. We're seeing some nice opportunities come that way. We're being highly selective in that space, as I previously mentioned, because we are seeing a lot of pressure on the pricing and structure that we refused to give on. Our Fund Finance Group, Parul and team is really doing a nice job and is going through that legacy book of business, as mentioned, and optimizing it. So we're proud of her and what she's doing and our portfolio management and operations group, which is really the backbone and more than 50% of our CIB staff continues to do a really good job in the underwriting, the compliance, the oversight space and partnering with our second line, our loan review, credit risk management partners, our enterprise analytic partners as well as our third line to ensure that all the lending that we're doing is safe and sound and is what's best for both our institution and our shareholders and the communities we serve.

If we look at the overall gross of what we did in the third quarter, we actually originated about \$1.6 billion in net new opportunities and material upsizes, which would have equated to about \$850 million in outstandings. And so again, some of that delta between the net and the gross there is optimization of the book, which we mentioned. But also, as mentioned previously, capital markets were very ripe, and I'm sure you all saw it as well, but we had a lot of clients, our public clients access the markets, bond issuances, high-yield issuances. And as a result, we're reaping the benefits of the fee income now that we have a great capital markets partnership and program, but that resulted in a little bit of a chip off of our overall growth for third quarter.

As we look into fourth quarter, we're cautiously optimistic. We feel nice about what we're doing. We have teams in place and executing at a high level. We had over a dozen names that were originated in third quarter that will be booked here really in October and then going into November, too. So we anticipate fourth quarter being strong as well. And we continue to look at opportunities for additional business lines, as you asked. That makes sense for what we do that are natural complementary kind of bolt-ons that have nice returns for us, but also have positive kind of credit profiles that really fit the bill of OZK.

So we're just getting started on the CIB side. I think you're going to see continued growth and momentum there, and we're very excited about it.

George Gleason

Yes. And let me add, Jake, and Jake is operating this addition and expansion of his staff under a gating metric that Brannon and I are monitoring. And that metric is really volume and revenue generation. And as his volume grows and revenue from his business line grows, he can add the next guy or the next 3 guys. And there's a gating metric on that. We're adding -- these are very high-level team members. They're very well paid. They're veteran people. So you're paying for the experience and the knowledge and the relationships that they've built over decades in most cases. And it's not inexpensive to build this team. It's, in fact, expensive to build this team. But we're being very disciplined about the way we do it, and we're getting revenue in place to generate positive leverage before we add the next person or the next group of people. We get positive leverage on that group. We get the next group.

So Jake is growing it in a very responsible manner. And we're building it with high-class people in a very professional manner. And that's why I think we talked about '27 being, these guys are really hitting full stride in '27. We will have added a lot of additional people to their world between now and '27 that will generate a lot of additional growth opportunities across a very diverse book of business. CIB, we're talking a lot about our desire to diversify our portfolio more. CIB is inherently internally diverse in what they're building, and that's another big plus out of that.

Jake Munn

Yes. And George, to that point, if we look at CIB as a whole, it represents over 40, 45 unique industries. And so there's a lot of diversification within that book, within the structures and the business lines they're under. And again, I just want to emphasize for everybody -- to George's point there that as we hire, we take a very different approach than what our competitor banks do. You see a lot of other banks will enter in a market and they'll hire 10, 20 people, and they'll give them years and years to build up a book and repay the institution for that initial hiring slug. But here, we're really doing it in a methodical way to George's point, before we hire the next person, the existing team pays for them. And so as a result, we ensure that as we grow, we're keeping a very close watch on expenses and a close watch on that efficiency ratio to ensure that we don't get over our skis.

George Gleason

Thank you guys all for being on the call today. We greatly appreciate it. We look forward to talking with you in about 3 months. Thank you. Have a great day. That concludes our call.