

Bank OZK

Transcript of the Fourth Quarter 2024 Conference Call

January 17, 2025, 10:00 am

Note: Administrative communications of the operator and other greetings and social exchanges of no substantial import have been omitted from this transcript.

Good morning, I am Jay Staley, Managing Director of Investor Relations & Corporate Development for Bank OZK. Thank you for joining our call this morning and participating in our question and answer session. In today's Q&A session, we may make forward-looking statements about our expectations, estimates, and outlook for the future. Please refer to our earnings release, Management Comments and other public filings for more information on the various factors and risks that may cause actual results or outcomes to vary from those projected in, or implied by, such forward-looking statements.

Joining me on the call to take your questions are:

- George Gleason, Chairman and CEO;
- Brannon Hamblen, President;
- Tim Hicks, Chief Financial Officer;
- Cindy Wolfe, Chief Operating Officer; and
- Jake Munn, President, Corporate and Institutional Banking.

We will now open up the lines for your questions. Let me now ask our operator, Marvin, to remind our listeners how to cue in for questions.

Stephen Scouten – Piper / Sandler

I wanted to talk a little bit about growth trends and kind of how you guys are thinking about the results of the handoff to the Corporate and Institutional Banking (“CIB”) and Indirect Marine & RV, and the growth, growth, diversification plan. It feels like you guys are a little bit ahead of schedule, at least as I was kind of thinking about it. As I look at Figures 3 and 4, it looks like the trends in CIB, in particular, are pretty good. So, I just wonder if you could talk more about that. I know your growth guidance for 2025 is the same as it was last quarter. But just again, just kind of how you're feeling and how you think those trends could play out through the next couple of years as you continue to build out those teams?

George Gleason

I would tell you that we're pretty much on plan and in line with where we had hoped we would be. With that intro, and that very executive summary, let me ask Jake Munn to comment on the CIB group that's probably going to be the largest contributor to our growth in 2025 and 2026. So, Jake talk about that.

Jake Munn

CIB really took off this last quarter. It wasn't necessarily a surprise to us by any means. We're happy with the results that came through. But 2024 for CIB was really laying the foundation, getting the policy & procedures, the underwriting templates, really, our portfolio management operations foundation, in place to start to really build and scale CIB as a whole across all those various originating business units. So, we were successful in doing so partnering with our credit and risk partners and getting everything up and running.

With that, we saw some great originations in the fourth quarter. We had a number of strong deals that actually slipped into the first quarter that we're excited about here on the horizon as well. But we view this as being relatively on target for what we were planning, and we're excited about the future, and we're optimistic about continued growth across those respective CIB business lines. We've got plans next year to really look out into the market and continue to grow. We're well positioned in our existing footprint from Arkansas, Texas, to Florida and Georgia and the Carolinas. We view the bank's true footprint to be home to a myriad of strong manufacturing and distribution and industrial banking opportunities, driven really by a growing workforce there and favorable economic and pro-business tailwinds. You tie that to our rifled approach of prospecting and our focus on finding the best and the brightest talent from across the region, and we feel very optimistic going into 2025 about continued growth across the CIB. George, Brannon, anything to add there?

Brannon Hamblen

No, I would just say I would agree with George and Jake that we are on target. And just tell you that Jake and the guys that he's brought over are really top-shelf individuals, a phenomenal fit with our culture and the way that they dovetailed in, I think it's part of the reason we've been so successful. But they're very well connected in the marketplace. The bank has been very focused on adding all of the top talent that we can. As we've guided, you'll see expense growth next year around a lot of different areas, whether it be Cindy in the world of raising deposits, or additional retail branches to fund what will be growth that Jake achieves with a good number of additional employees and additional business lines. We're extremely excited about the handoff that we have achieved and where it's going to go in the future.

Stephen Scouten

And then just as I'm thinking about the accounting of this handoff, isn't it kind of natural what we saw this quarter as the unfunded book becomes, I think it was like 12% CIB, and RESG, the unfunded book percentage of that goes down, that could have kind of a benefit on the loan loss reserves from an unfunded perspective? And we could continue to see that dynamic play out just kind of from an accounting perspective?

Tim Hicks

I mean certainly, that's one component of the ACL build that we've had our growth in both funded and unfunded over last, say, 10 quarters. Our view on the macro conditions is also a very, very big component of that as well. So multifactor, many factors go into the ACL the provision and ACL build, but that is one of them.

George Gleason

I would add a comment that our CIB group, our Community Banking group, our Indirect RV & Marine group, all of our business lines have the same intense focus on credit quality that has been a hallmark of RESG. All of them operate under the philosophy, credit is the top priority – it's nonnegotiable. Profitability is the secondary consideration, and growth is a tertiary consideration. Jake and his team parrot that all the time back to us and in their pipeline calls and in their credit meetings and so forth. They completely embrace that concept. Credit quality is paramount, profitability is an important secondary, and if we get the growth, great, and if we don't, we don't. With that said, the goal of CIB over the next number of years is to build a unit comparable in the non-real estate space to what we've built in RESG, both in quality, profitability and size.

So, you commented why we had a really good quarter of growth in CIB, yes, we did. But these guys, they're just on the first steps of the journey of building that unit to be an equal partner with RESG in our company. And we expect RESG to continue to grow in future years. So that means these guys have got a long runway and they're just getting started.

Stephen Scouten

That kind of points me to my other question here is the focus on credit, I mean, you had some really good updates kind of quarter-over-quarter on special mention, and substandard. One of the things I like that you guys lay out is this Figure 11 where you're talking about the modifications and extensions and some of the enhancements that you've gotten. I mean I know, look, in a perfect world, you probably would love to not have to modify any loan, but that's just the reality of it. So, can you kind of talk about that mindset and why that's just a good business practice and kind of how that process works with your equity and capital partners there?

George Gleason

Well, you know modifications, we view as a positive. If you're modifying the loan, you're collecting fees, we are not modifying the loans in a negative sense in that we're not lowering spreads, we're not advancing additional credit, we're not expanding our commitment, we're not lowering our floors. We don't do any of those negative things that are concessions to customers. Our modifications are the customers replenish reserves. The customers make a paydown if we believe that's absolutely essential to the loan. The customers pay a fee for those modifications. We view modifications as a positive thing, not a negative thing. You can see in the little tables that accompany that, we had some significant unscheduled paydowns in Q4, \$52 million plus in connection with modifications. We reduced \$41.8 million in unfunded commitments, collected \$8.4 million in fees. Some of those fees were on short-term modifications that went straight to income. Some of those fees were on 1-year or longer modifications that are deferred over the life of the loan. We collected \$38.8 million of additional reserves, all that on 58 modifications. We view those as very positive. The numbers as far as additional reserves and so forth will look even better probably this quarter from this quarter's crop of modifications in Q1. We view that as positive.

There's been a lot of effort in guys that are taking a negative thesis on our story to go out and try to do a map of projects that have been completed and study the leasing on those projects. That is certainly a valid piece of information, but it's not the most controlling, most important piece of information. We've been

super clear on this since the first time the Fed started raising rates in this cycle. We have made the statement that we expect our RESG sponsors and our capital partners will continue to support their properties if needed through times of economic stress. That includes higher interest rates until business and economic conditions and property performance normalize. That's certainly been the case. The question is not, guys, did the building get built and do you have leases or not? That's relevant information, but that's not the important consideration. The important consideration is, will your sponsors continue to support that project, pay the interest, pay the carry cost, work the leasing, work the sales, whatever, and get that project to a successful conclusion. We just had hundreds of examples of that in the portfolio and a relative handful of examples where the customers have not done that. We're very happy with the performance of our portfolio.

We continue to expect in the vast majority of credits the sponsor is going to do what they need to do to get to a successful outcome. Our business model is designed to make that happen. The low leverage, and we've reappraised the vast majority of the portfolio now in the current interest rate or higher interest rate environment, and we've taken into account higher cap rates and so forth. Some folks make a big deal out of the fact that while our loan-to-values on a lot of those loans we appraise have gone up - yes. But a comment was made that our life science portfolio went up 10%, or something. Well, it went from 45% loan-to-value to 55% loan to value, big deal. That's why we do these low leverage loans - we allow for adverse scenarios to occur that could affect valuations and us still be super deep in the money, and super well covered by the value of the collateral. And that fact, that we're deep in the money, means that the sponsor and their capital partners are still well in the money, and they're going to continue to defend these assets. It's a very simple element, that, if you apply it with discipline, has a very beneficial effect for the portfolio. We'll continue to see the benefits of that strategy. Our strategy is certainly proven out in this cycle.

Stephen Scouten

Yes. That's great color, George. Congrats to you and the team on a great 2024.

Catherine Meador – Keefe, Bruyette, & Woods, Inc.

As we think about the current rate environment, I mean, clearly, George, less rate cuts is better for you in terms of the margin and potentially less paydowns. I think you just answered the question on what the incremental credit risk is. It still feels like you feel really comfortable with that even in a kind of a higher rate environment. But can you maybe comment a little bit on that on just what higher rates could mean for

credit risk? And then secondly is just on some new origination volumes. If we don't get any more rate cuts this year, how you think that might impact your origination volume at RESG and then some of your new initiatives at CIB?

George Gleason

Well, Jake, let's take those in reverse order. If we don't get any more rate cuts, what does that do to CIB's volume?

Jake Munn

Yes, the beauty of the position that we're in, Catherine, it's a good question, is that we are absorbing and cherry picking new clients in the current environment. We don't necessarily have a large amount of baggage or what have you from clients that haven't gone through the ups and downs of the current market environment. As we look out and we start to cherry pick and move forward across ABLG and CBSF and EFCS and our Fund Finance groups and other potential expansion groups that we're toying with, overall, from an impact on the interest rate, we believe we'll be in a good position there. The pricing we're getting across the board still remains pretty good from a spread standpoint. Our CBSF group, which is our fastest-growing group, continues to kind of carry the flag with the best spread across those business units, too. We feel like we're in a pretty good position. George, any thoughts there?

George Gleason

Brannon, do you want to talk about what no cuts or higher rates does for RESG's volume?

Brannon Hamblen

From where we stand today, and we noted that in the environment we are in, we are cautiously optimistic that we can achieve a higher, or more typical, level of originations in 2024. You've noted that our mindset has been around zero to two cuts during the year. But if they stick where they are, what we're seeing is even with the two that we've had in September and December, an increase in the deal flow. Our guys have done a great job staying in touch with the market and watching what deals are out there and staying in touch with the developers. What they're seeing is the incremental benefit that they're getting from the recent cuts. Really beyond that, I mean, these high rates have halted, or provided substantial headwinds to, deal flow.

That flows down into the other inputs of the process. Land being one of them. And we're starting to see those valuations push down. So, one of the inputs in the project is at a more attractive place. So, you get incremental impact or a benefit from declining land values. You get benefit from interest rates being off a little bit. And we've seen that start to induce more of the deals coming off the shelf and moving forward. We're seeing the market adjust to what could be, as we all know, a longer-term elevated rate environment. Cap rates are adjusting. We're seeing valuations bottom out and come back up. We obviously love the benefit to our bottom line to the revenue we generate on these loans that we have on book in a flat to up environment. But we think the market is adjusting too. I don't know if this is a new normal. But if it is, we think we could still see strong deal flow.

Now again, if it's massive moves up, that could change the needle. But we are seeing an adjustment that would tell us that even where we are, we're going to see more volume in the pipeline for RESG. We certainly in the quarter just ended saw improved volume. We saw improved conversion in terms of our guys getting executed term sheets. Going into the year here, we've got a good pipeline for the quarter. We still have to close them. But we come into the year with that thought that even if things sort of stick where they are, we ought to be able to improve over last year.

George Gleason

Catherine, let me provide one other comment, and Brannon correct me if I'm wrong, but I think our RESG originations in the fourth quarter were our lowest originations in 27 quarters. So, you could look at that and say, "Wow, gosh, that's a horrible origination quarter and says that there's not a lot of new deals percolating." You sort of have to factor in the lag effect, though, on projects. It takes a long time to conceive a project and get it to closing. So that really low fourth quarter origination volume probably reflects the mindset of sponsors two or three quarters before that. At the same time we had the lowest origination volume in 27 quarters, our RESG pipeline of signed term sheets at year-end was, Brannon describe that, I don't want to misstate it, so you describe it.

Brannon Hamblen

It was actually one of our best, and maybe I want to say in 4 to 6 quarters, of term sheets executed. So it was -- it definitely stood out on the map.

George Gleason

And I think what you're seeing there is the fact that 100 basis points lower rates have sponsors excited about dusting off some projects, signing a term sheet and getting ready to move forward. And frankly, I think the election has stimulated enthusiasm and excitement about the U.S. economy with the expectation that we're headed into a more pro-business constructive environment that's going to be good for economic growth. So we're getting those vibes from our customers and seeing that. So we're feeling cautiously optimistic about loan growth in 2025, even though we're going to still be dealing with a big bunch of headwinds from RESG payoffs because 2025 is the third year following the record 2022 origination year in RESG. So CIB's momentum, the fact that we're getting some new term sheets and our higher volume term sheets coming through RESG, makes us pretty optimistic about our ability to grow next year. Now your question on margin -- yes, go ahead.

Catherine Mealor

Yes. Let me just add one thing on the pay downs. On the pay down, do you think even if rates are higher, we still -- I mean, to your point, you're in the third year, so that's when you naturally see it. But do you still think you see as many extensions as we've been seeing in the past? Or because we're kind of in a more normalized rate environment, and maybe there's not the belief that we'll get so many cuts, do you see a lot of these loans just go ahead and go into permanent financing? I guess the question is, do we -- it's probably fair to believe that no matter what was the rates, paydowns should still be pretty high this year?

George Gleason

Yes. The last 3 quarters we've seen elevated levels of prepayments -- or repayments, not prepayments -- but elevated levels of repayments on our RESG loans. And I think that reflects the fact that sponsors are dialing in on the fact that we're probably in the right environment, we're going to be more or less going forward. And the waiting for rates to go back to zero is, is no longer a reality in people's minds, and they're going ahead and dealing with the reality of where we are today or where they think we're going to be next quarter and making plans and actions to move these projects to more permanent or bridge financing away from our construction loan because they think we're getting where we are. So I think that's been one factor in the elevated level of repayments for the last 3 quarters. I think that continues in the coming year.

Now, will that result in a lower level of modifications? I don't know that it will. We may still see a high level of modifications. For example, we've got a sponsor on a project who's got a term sheet lined up from

a bridge lender to take them out of our project to give them more time. That was approved in committee, but they needed a 90-day extension on that to get that closed. Our guess is that it will take them -- it's the complexity of the project -- it will take them more than 90 days. So we've preapproved a second 90-day extension if they need it. So we could see that loan pay off, go to a bridge lender in the second quarter, maybe the first quarter of this year and see one or two extensions booked on that as a result. So I think you're going to see a high level of extensions this year, but I also think you're going to continue to see a high level of repayments as we've seen over the last 4 quarters.

Manan Gosalia – *Morgan Stanley*

I wanted to ask about -- on the appraisal front, it looks like the number of loans you're getting appraisals for has gone up quite meaningfully over the past couple of quarters. I wanted to ask what's driving that? Is it more normal course? Or is that thought of a more concerted effort to go through the book and see where you need sponsors to bring in more equity?

George Gleason

It really, I think, is a reflection of the fact that there's been a lot of questions, gosh, as you reappraised the portfolio, what are those appraisals going to look like. We have pretty good ideas on that ourselves. So we're not as concerned about that as perhaps some of the folks sitting in your chair or your investors' chairs are. So we just made a decision to kind of go at the max pace that our appraisal services function can engage, review and validate the third-party appraisals, we guess. So we're going as fast as we can. I think Brannon and you were telling me recently, we have -- I can't remember the number of RESG loans that are pre December 2022 appraisals.

Brannon Hamblen

Yes. We've got, I think, 68 of those left that were predated December 15, 2022. And of that 68, we're probably going to have between 40 and 45 of those reappraise this quarter, and then we'll have others beyond that. So our count -- our total count this quarter will be probably in and around where it was last quarter. But -- and then we'll have some loans in that vintage we're talking about that will pay off as well. So we're -- we've made a lot of progress there, but we're getting close to the end of those older appraisals, getting them updated.

George Gleason

Yes. By the end of Q1 and -- we should have just a handful of loans in RESG that have not been reappraised in the current interest rate environment or a higher interest rate environment starting from December 2022 forward. We're not terribly concerned about these reappraisals. I mean we know that a property is probably going to appraise, and in many cases, for a little higher loan-to-value, a little lower valuation than it did 3 years ago. We all know where cap rates have gone and time periods to stabilize. So that has an impact on appraised values, and we're seeing that. But we wanted to get essentially the full portfolio reappraised as quickly as we could so that everyone that's interested in our numbers would understand where those numbers are.

What we're really proud about, and expected to occur, is even though we reappraised 80 or 90-something percent of the portfolio, our loan to value in the last year on the portfolio only went from 43% to 44%. Now a lot's made, "Oh, gosh, you had a few loans that went up 20% or 30% loan to value or more and you had a bunch that went up 10% loan to value or more." But at the portfolio level, and I'm managing a portfolio, our weighted average loan to value is 44%. And that reflects the fact that even though as we're reappraising, a majority of the appraisals are showing a higher loan to value, the new product that we are originating is below average loan to value.

So new originations are working that down. And we continue to get a lot of paydowns on previous loans, both at modifications and subsequent to modifications. We're getting some very accretive partial releases on projects where one part of it is sold and the other parts retained, and we get an accretive pay down on that. And on our condo projects, we have a pretty big project condos, as those things sell out, those loan to values go down because every unit sale is highly accretive to our loan to value. So the result of all those moving parts is that we've continued to keep the portfolio at a very, very conservative 44% weighted average loan to value.

Manan Gosalia

And maybe pivoting over to the NIM and the loan floors, what behavior have you seen from clients who have hit their floors now that we are 100 basis points lower than where we started? Have they been looking to replace their loans? Or have there been any trends that you've noticed on those loans?

George Gleason

Brannon, I'm not aware. Do you want to comment on that?

Brannon Hamblen

No. The only trend I can positively identify is they pay their debt service. But in all seriousness, there really hasn't been. I mean, look, the other trend is in these modifications, we've noted that we haven't lowered those floors. We've increased quite a number of those floors. It's a negotiated -- heavily negotiated item, both on the front end of deals we're closing and the mods that we're negotiating. But our guys do a great job there, and the evidence of that is very clear in our report. But no, we don't typically see an exit based on the floor. Again, that's part of the picture, but the bigger picture is in terms of the project and the takeout market is a much bigger piece of that.

Manan Gosalia

As we think about loan yields from here, I think there's been about a 60% beta on loan yield so far. And I think part of that is also just coming from the loan mix changing. So now as more loans hit their floors, is it fair to expect that the loan yield betas on the downside will be slower from here? Or just how should we think about that from here?

George Gleason

That's a good question. I would point you to Figure 27 in our Management Comments -- 14% of our loans were at their floor rate -- 14% of our variable rate loans were at their floor rate at December 31, 2024. And I emphasize that 14% because one of our commentators got that wrong and said our we had 7% of our loans at the floor rate. That was only half, right. And you see, if you go down 50 basis points, you're at 42% of loans at their floor rate. So the guidance that we've given, and the assumptions that we've used, while I think they're the most likely case, are for no rate cuts to two rate cuts this year. Obviously, one rate cut, we're going to be at 26% or more percent of our loans. So the floor rate, two rate cuts, would 42%. So if we had three or four or five rate cuts, once you get into that 40s, your loan beta really slows down. Our deposit beta is going to, of course, continue to speed up if we reprice loans. So both our provision expense would benefit from three or four or five cuts, and our NIM would have a significant expansion opportunity from three or four or five or six cuts because we would benefit from those floor rates kicking in.

And as Brannon said, we're just not -- we don't get paid off usually because of floor rates. That's a rare issue because negotiated customers know it. They hit the floor and they live with it because that was part of the deal. The flip side of that is, if we went higher, our variable rate loan portfolio would generate significantly more net interest income. We would give back part of that with higher provision expense because of the elevated stress that a rising rate environment would put on our customers.

So the guidance we've given and the assumptions we've made are actually the worst-case scenario. Zero rate cuts to 50 basis points in rate cuts this year is the worst case scenario for us. And yet, we're coming out with some pretty darn good results even in that worst case scenario. So more rate cuts is better. Rate increases, net-net, are better, even though our higher margins would be partially given back by higher provision expense. But the worst-case scenario is where we are, which is zero to 50 basis points. So we've given you guidance based on that.

Matt Olney – *Stephens Inc.*

I want to ask more of a bigger picture question, and it's more around the longer-term aspirations of the company with respect to both loan growth and the investment spend. And for 2025, you've been clear about the loan growth expectations, mid- to high-single digits with that handoff from RESG to the other growth segments. And you've also talked about the expense growth of around 10% because of these various growth initiatives and all these new hires. I guess if we look beyond 2025, just trying to appreciate the longer-term loan growth aspirations of the company? And what type of investments you think will be required to maintain those aspirations?

George Gleason

Well, I would -- let me take that, Matt, and then I'll give Jake and Brannon a chance to comment on that. We have traditionally been a very growth-oriented company and have had a lot of success. In a couple of months, I'll celebrate my 46th year here and the balance sheet is about 1,400x the size balance sheet that we were when we started. And I expect to be here into the future and expect to continue to see solid growth. As far as the expenses to achieve that growth, there'll be incremental expenses as we add more lenders, add more loans, add more customers. But I think we have incurred a huge amount of the expense this year and last year to achieve some really important growth elements for us. And obviously, CIB is getting a lot of attention because it's become the dominant engine for loan growth. But Jake mentioned, they came in and started building CIB and built the credit and the servicing and the risk management and the compliance and all the governance things around that really rock solid to have a foundation to

originate their first loans. And they took the ABLG and Equipment Finance and Fund Finance businesses that we had and wrapped them into a much more rigorous servicing, asset management, governance structure that has already been created and is clearly in the run rate of our numbers. So CIB's growth going forward, which I think it will rival RESG in future years, whether that's three or five or seven years, who knows, but I think it will be in five to 10 years as big a part of our company as is RESG. And the structure for that is in place, and it's paid for. It's in our run rate of expenses. Now incremental growth, you'll have incremental expenses, but that unit is going to get more and more efficient as they go forward because the foundational expenses are laid. Same thing with our mortgage division. We've been losing money in mortgage all year long in 2024 as we built that and ramped it up, but it's been built, right, that infrastructure is there. Those monthly and quarterly negative numbers are getting smaller and smaller. And I think that unit becomes a positive contributor next year.

The same thing is in our consumer elements of our book that we've ramped up in tandem, the partnership between Cindy's Retail Banking units and Alan Jessup's Community Banking units, originating consumer and small business loans and so forth, we put a lot of the infrastructure in place over the last two years, and those guys are just beginning to hit some meaningful strides in growth. Our Trust and Wealth unit, we've really built up a much more significant infrastructure there. That infrastructure is in place. We're getting some real positive growth there, and I think you'll really see that next year. So I think we will have expenses ramp. But I would expect to maintain an industry-leading efficiency ratio as we have seen because we expect revenue is going to ramp faster than expenses. So I would expect us to continue to be in that sort of mid-30s, low 30s sort of efficiency ratio going forward.

Jake Munn

And I'll just piggyback quickly off of George's guidance there. Specific to the CIB, efficiency is a key factor. And so if you look at 2024, to his point, it was really the foundational build of our portfolio management and operations team to ensure that we maintain a very healthy and clean book of business, and we're best-in-class across our peers in that aspect. And so when you look out as it relates to the future build, it's really going to be a little bit more focused on the origination side. And again, we take a little bit different view here between George and Brannon and me. A lot of our competitors might go out and start a market or get in and launch a CBSF team in Nashville or Atlanta or wherever it might be and hire 10 or 15 people out of the gate and then just hope the business comes out whereas we challenge our business leads within CIB. So whether that's Mark over CBSF or Parul over our Fund Finance or Jim over EFCS, Tim over our loan syndication and Corporate Services or Mr. Sheff over our ABLG group, we really ask

them to prepay for the next person before we bring the next person on. And so to George's point, before we're hiring this high-quality talent, we're actively challenging that team to generate additional new business so that when that person comes on, even if they were not to contribute in the worst-case scenario, the business is already there and the revenue is already there to have prepay for that person so that we can keep our efficiency ratios really best-in-class.

Matt Olney

Thanks for the commentary, very comprehensive. I guess I want to switch gears. I also ask about any potential regulatory changes. We've got the new administration coming to White House. The market has some anticipation. There could be more favorable changes for the industry. Would love to hear your perspective about any potential regulatory changes for the industry and how this could impact the bank?

George Gleason

Yes. We're very hopeful that the change in administration is going to lead to a more constructive regulatory environment. I mean, certainly, the banking industry and because of FDIC insurance, there's a level of safety and soundness regulation and other regulation that is appropriate. But the regulatory environment has just gotten increasingly more and more and more challenging for the industry. I'm not telling anybody here anything that's not widely known. And you're seeing that push lots of business that the banking industry, economy and consumers and business customers, into the private credit and nonbank financial firms. And there's a lot of risk to the economy and to consumers and business customers with that private credit and nonbank financial firms. So I think what we would hope to see, what we do hope to see, is a rightsizing of regulatory restraint on the industry which lets more and more of the credit needs of the country being met by the banking industry as opposed to a nonregulated, noncontrolled sources of credit that I think pose a lot more risk to the economy and customers.

So we are hopeful and we're advocating fiercely for that. And to the people, we're advocating that, too. That seems to be being met with a very favorable response. The President-elect, soon to be President next week, has declared that he wants to extend the previous -- the existing tax regime and maybe even cut that tax regime and get the federal deficit down. To achieve that combination of lower taxes and a reduced deficit, the U.S. economy has got to grow. And I don't think the President and the administration incoming are going to be able to achieve the needed growth in the U.S. economy without removing the unnecessary regulatory burdens on the U.S. banking industry. The industry has the capital and has the scale and the ability to contribute to this next golden age of American economic growth as it's been

called, but the industry has got to be unfettered from the excesses of regulation. And we're making that point repeatedly to people in Washington. And again, I think that's been well received.

So it's a big job. And there's going to be a lot of resistance from entrenched bureaucracy to giving up some of those unnecessary regulations and restraints on the industry. But if we're going to have the economy the President envisions, it's got to be done.

Nick Holowko – UBS

Thanks for all the update this morning. Thinking about your commentary around potential for greater originations as we're progressing from here, are there any specific types of properties or geographies that you would highlight as somewhere you'd highlight for a potential pickup in activity? And maybe on the other side of that, obviously, everything happens on a case-by-case basis, but are there any either property types or regions of the country that you're specifically looking to avoid adding exposure at this point?

Brannon Hamblen

Yes, absolutely. I would tell you that most recently, our origination volume, which is obviously an indicator of where we see opportunity has been fairly heavily weighted towards multifamily and industrial, but also condominium developments are a significant part of our current pipeline. A lot of that has some regional emphasis as well. Our highest geographic concentration continues to be in Miami. And the team there -- I mean, obviously, the economic activity in that realm of the world has been phenomenal, the in-migration is driving demand. We have a long history of successful lending there, and that continues to be the case. So we still are very bullish on that particular property type and that particular geography. We're fortunate to have a lot of experience and a lot of great originating firepower in some of the healthier markets across the South, Southeast, Southwest, but also New York continues to be active, perhaps not as active as it has been earlier in RESG's history, but that economy continues to move up and to the right, if you will, post-COVID and the ensuing sort of challenges that came out of that.

So we like some good opportunities there as well. Geographically, we continue to diversify. Our guys focus on the more household name markets, but some of the others that don't get mentioned as much. And it's -- if you refer to our geographic diversity Figure 14, you'll notice some new adds to that list. For example, we've increased our presence in Utah -- Mason Ross is out of our San Francisco office. There's been a lot of not so great press about San Francisco and Seattle. Those are markets that Mason covers. So

he's been working very diligently to uncover opportunities in other markets within his regions and successfully so. So we have always said that quality is job number one. And so our guys are working to those quality opportunities with new sponsorship adding to the fold in terms of customers that we have not yet done business with, and we're seeing success there in some of these markets that you wouldn't have seen previously. There's been a lot of, and will continue to be a lot of, industrial development along our border with Mexico. And Victor Reynoso here in our Dallas office has done a great job of originating some industrial along the border in different markets there.

So those are just some examples where we're seeing some good economic activity, some good sponsorship that, in some cases, we've done business with in other markets, or we've not yet done business with before, and have great track record. But again, it continues to be a good bit of multifamily -- we're picking our spots there because there has been a fair amount of construction. But you have to remember, when we originate a multifamily loan today, that's going to open in three years. And there's -- the supply buildup that we saw, especially sort of coming into 2022 has dropped off significantly. Absorption continues to sort of mop up that excess supply. And when you look three years out, when we'll actually deliver some of that multifamily product, there looks to be a real opportunity for our sponsors to capitalize on favorable market conditions. So yes, that's sort of the what and the where around RESG's originations currently.

Nick Holowko

Perfect. And then just thinking a little bit more about the handoff strategy for this year, you're starting to win new business there?

Jake Munn

Some of it is just timing, right. And as we've reshaped the CIB and brought Fund Finance in, and we're blessed to have Parul join us and Marc assist there, we've really been able to kind of turn up the heat in that book. The beauty of OZK, as a whole, is the connectivity to some really good sponsors around the country, a lot of which were rather untapped previously. And so under this kind of reworked CIB organization, it's allowing us to kind of hone in and really kickstart that Fund Finance group once again and improve originations as a whole.

From an actual deal count, CBSF, our Corporate Banking & Sponsor Finance, which you can view as more of our general C&I team, which also achieved the average highest yield for the book fourth quarter.

From the actual loan count, they surpassed the other business units. It's just typically smaller loan sizes. So great question. We expect CBSF, Fund Finance, EFCS, ABLG, all to continue to grow in the coming quarters. So we're excited about that and we're excited to look at other opportunities that might be in the market for additional kind of bolt-on business lines that could also benefit our growth in the future. And then we're equally as happy with Tim Neuhaus and Rachel and Derek and everyone else on our -- and Ryan and our loan syndications and corporate services team ("LSCS") -- as they've really picked things up and started our desks, which allowed us to lead deals and generate additional fee income. Our interest rate hedging solutions, we've been blessed where we have that up and running, and we've actually executed on some caps and swaps to generate some additional fee income as well as our real estate capital markets and other like business services under LSCS. So we're on a roll, and we're looking forward to the next year, and we're optimistic.

Michael Rose – *Raymond James*

Just first one, I don't think it's been asked about the buyback. I guess, the way the Management Comments reads looks like -- the way I read it is it looks like you're going to see an increase in repurchases. Just wanted to get a sense for what the updated parameters could look like that would cause yourself to buy back some more stock?

Tim Hicks

Yes, Michael, as we said in the Management Comments, we are planning on increasing the parameters in which -- or tranches as we have them -- for which we buy back. Now how many we buy back is dependent on our stock price. So that may or may not result in more share repurchases as well. But we were really close to buying some in Q4. We just didn't quite hit our tranche. And even early January, same thing. But we do plan to increase the parameters, which may or may not result in more repurchases.

Michael Rose

All right. And maybe just one follow-up. A lot of questions today about the handoff between RESG and CIB. George, as you think about the kind of intermediate to long-term interplay, can the company be as profitable as it's been? I mean, because CIB loans are going to inherently have lower yields than RESG loans, but also will come with deposits, which should be an offset. So just trying to get a sense for, is like a 2% ROA or above where you've historically operated, is that still in the cards? Or should we kind of level set expectations as the mix of business shifts?

George Gleason

Yes. That's a good question. And there are elements within our CIB group that generate comparable coupon rates to RESG loans. And Jake mentioned possibly bolting on an additional business line or two to that unit. We're -- and he mentioned we were toying with it -- toying is probably a little weak word -- we're pretty deep in looking at that. And some of these additions could also generate comparable or even better yields with the low-risk profile we're looking for. So I would tell you, across the board in the CIB, yes, the premise is correct. Even though some units will have higher yields, the premise is correct that the average coupon is probably going to be less than the average coupon we get on loans in RESG. But we do get treasury management fees and collateral inspection fees and unused fees and various other fee elements, both loan and treasury function-related fees, that will come from the CIB portfolio, and we will get a higher volume of deposits as a percent of loans coming from that. So I think when you factor all that in, the overall return on assets, return on equity is pretty comparable. And we hold extra capital today because of our CRE concentration. As CIB grows and RESG grows but becomes less of a concentrated part of our balance sheet than it is today, over time, we can begin to work those capital ratios to a little more typical for the industry sort of capital ratio level, and that should actually allow us to maintain or even enhance our return on equity as a result of CIB diluting the concentration of RESG.

So I think that ROA is not too much of a difference. I think in the short run, not too much difference in ROE. But as we get two, three, five years out and can be more efficient with our capital allocations because of the diversity of our balance sheet, I think it will actually improve our ROE. That's the working premise in any event.

Michael Rose

As it relates to kind of what a typical CIB credit looks like in terms of size, because when you started out in RESG, right, you were doing smaller loans and you eventually scaled up and now you're doing the largest -- some of the largest construction projects in the country. Is that a similar goal with CIB? Because as you would get larger in CIB, though, the coupon would inherently be less. And I think we see that with kind of large corporate lending versus small and midsized corporate lending.

George Gleason

Well, I would say no, but I'm going to let Jake give you the real color on that. So Jake, talk about what you think our loan size diversification profile within CIB will be.

Jake Munn

Yes. And it's a great question, too. As a whole, our loans are going to be noticeably smaller than RESG on the average. On average -- if you look at fourth quarter, average loan size varied between, call it, \$30 million and \$60 million on the CIB side versus RESG, which can be a little bit more sizable. I think the key element, though, to think about in the CIB is we're relationship-focused banking. So we're following the footsteps of RESG and all the other legacy business lines of OZK. And so with that, within the CIB, we're going to commit the dollars necessary to have the relationship with the customer where we've got a seat at the table, where we're helping to design the structure and the terms of the deal, where we can cross-sell some of those needed products, as George alluded to, whether that's treasury or interest rate services, our fantastic private banking and private client services, whatever that might be that our customers need, we're relationship focused. And so that dollar amount per deal is really going to depend on that. And so if you look at the broader book, 92%, 95% plus of our deals are going to be a single lender. They're going to be 2 bank club deals with 100% voting rights and direct access to management or the broader syndications, there are opportunities where we're either leading or with the JLA or another strong named title. And so we're not here within the CIB to just buy paper. That's not what we're doing. That's not what we're going to do. We're relationship focused. And so those dollars that will commit are going to be dictated by the overall relationship.

And so as a whole, most of the CIB loans are going to be well under \$200 million, most likely well under \$150 million or \$100 million holds. But at the end of the day, we're going to do what's needed to lead those opportunities to harvest the best economics for us, but also provide the best services, products and customer service for our clients and end users.

George Gleason

And Michael, I would remind you also that we announced a quarter or two ago in connection with the activation of our capital markets desk in CIB and our ability to syndicate loans, buy and sell and so forth that we've announced that going forward, our single project hold limit in RESG is \$500 million. We've only originated a handful of loans ever over that. We only have two over that threshold now and don't really consider that to be a restraint to our business, but actually an opportunity to do even larger transactions in RESG, but to do them on a syndicated basis.

So that capability of our capital markets desk within CIB is really going to help us achieve, I think, greater growth in RESG, even though we've put that fairly unrestrictive size limit on RESG single credit transactions.

Brian Martin – *Janney Montgomery Scott*

Most of my things have been answered, George. Just maybe a couple of minor things. Just your comments about the yields within the RESG and the CIB group. This quarter, can you give any commentary on just now we've got a nice quarter under our belt, just kind of what -- between -- the yield difference between those two this quarter? I know it's general given all the different types, particularly in both units. But just any kind of commentary on just how to think about what those yields look like this quarter?

George Gleason

Yes. Brian, I would tell you that I'm not going to get specific in the numbers there. And honestly, I don't have those weighted average origination yields for each portfolio in front of me. But it's been consistent with our commentary. CIB has been a little lower spread than RESG, but augmented with various fees and deposit opportunities. So I think that general direction has certainly been borne out in the most recent quarter's results.

Brian Martin

And then should we expect any lumpiness, if you will, within the CIB group as you kind of look forward? I mean, it should it be pretty consistent by quarter? Is there lumpiness we should expect with the different business units within the CIB?

George Gleason

Yes. I think it will be less lumpy than RESG has been. In RESG you're dealing with a single sector of the economy. CIB is dealing with multiple teams working across multiple sectors of the economy. And in RESG, you've got a bigger average deal size as Jake did a good job of describing probably by a multiple of two versus CIB. So the smaller deal size, the more significant number of originations that probably will have more originations in CIB than RESG, I would think in time as they get their full momentum going. So all of that, I think, leads to less lumpiness and more kind of things leveling and averaging out with the CIB portfolio.

Brian Martin

Got you. Okay. And then just the other -- last two for me were just the opportunities on the fee income side. Can you give any -- I mean, it looks like the fees have kind of stepped up a little bit here in the last couple of quarters. Just should we be thinking about continued gradual ramp as you get more traction on the CIB group and kind of the initiatives there and as we think into 2025?

George Gleason

Yes. That's certainly our hope and expectation. And as Jake sort of alluded to, he didn't say it this way, but I think you can draw the conclusion from his comments that those guys are just getting started. And so yes, I would expect the fee elements from that to steadily ramp up at a slow rate, but steadily climbing as they grow their business.

Brian Martin

And then the last one, I don't know if anyone asked about the OREO property and just kind of a delay there. Can you give any commentary on how you're thinking about this? Is it likely just go back to remarketing at this point? Or is there still hope that the purchaser is back?

George Gleason

Our prospective buyer on that property has paid us \$6 million in either fees or non-refundable earnest money that now we've captured when we canceled that contract and applied -- after the end of the quarter, we applied capture that \$3 million of non-refundable money and applied it to the loan. Their sponsor is a busy guy. Their prospective purchaser is a busy guy. He's got his focus on a lot of different things. And they sort of seemed to casually sort of wander past the December 31 deadline to make their payments on our loan. We're not folks who deal with things casually. So we notified them of that. They said we'll deal with it. We're working on this, this, and this, and they didn't deal with it. So we just sent them a notice to the title company to close the escrow and sent us the earnings money. We're continuing to have discussions with them about reinstating that contract. We're open to that. We're obviously going to get equal or better economics than we had, and they're going to have to demonstrate to us, they're going to be respectful and serious about the timelines and the obligations they're taking on if they do that. If that happens, that's fine. If it doesn't, we'll remarket the property. Too soon to tell exactly which way that's going to go.

Brian Martin

Yes. Okay. Understood. Congrats on a great year.

George Gleason

Thank you so much. Appreciate it.

Operator

This concludes our question-and-answer session. I'll now turn it back to George Gleason for closing remarks.

George Gleason

Let me close with one closing remark. As we noted at the end of our Management Comments, next quarter, we're going to change the time of our quarterly earnings call so that it is outside of market trading hours. We think as we get to be a bigger company and have more shareholders and so forth, we just think we probably need to get the call outside of trading hours. So we're going to do that. I don't want to -- we're telling you about it now, so no one reads anything into that for next quarter. That's going to become our regular normal time to be outside of trading hours. And we'll announce the details of that when we announce the earnings call and time to release earnings next quarter.

Thank you so much. Have a great day. Thanks for joining today's call and that concludes our call.