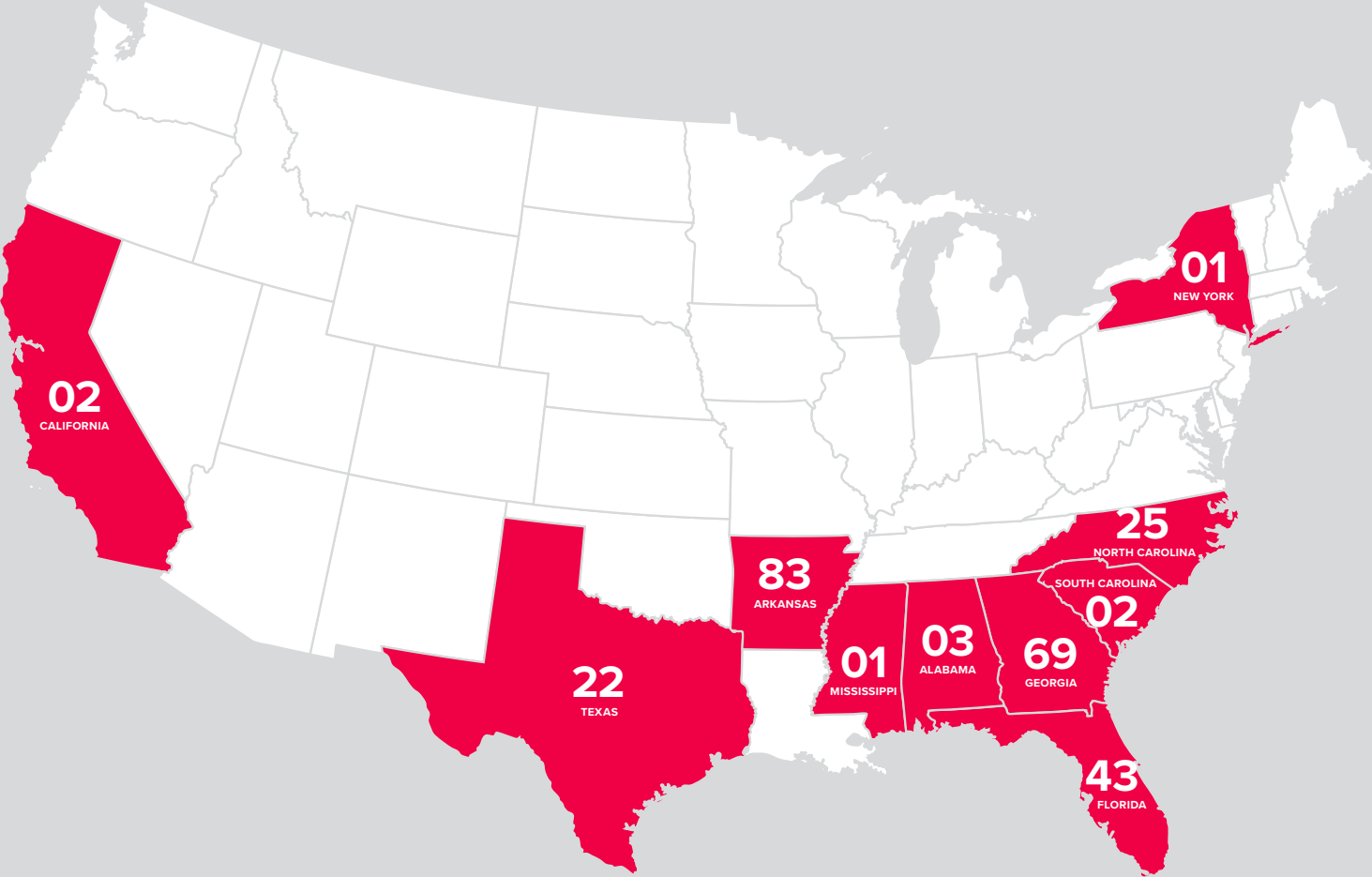




**Annual Report 2018**



**Through a combination of organic growth and acquisitions, we serve our customers in 251 offices throughout ten states.\***



\*As of December 31, 2018

This report contains forward-looking statements and reflects management's current views of future economic circumstances, industry conditions, Company performance and financial results. Actual future performance, outcomes and results may differ materially from those expressed in these forward-looking statements due to certain risks, uncertainties and assumptions. A description of certain factors that may affect future results may be found in this annual report under "Forward-Looking Information" and under "Part I—Item 1A. Risk Factors."



---

**New name, same commitment to you.**

Bank of the Ozarks is now



Bank OZK, formerly Bank of the Ozarks, has a 115-year tradition of community-based service and commitment to our customers. From our beginnings as a small community bank in Jasper, Arkansas, in 1903, we've grown to be recognized as the top performing bank in the nation 13 times over the past eight years, as determined by leading industry publications.\*

We've always been the kind of bank where customers like to do business and where our employees like to work. With a strong commitment to the communities we serve, we cultivate relationships that grow and thrive. And now, as Bank OZK, we're building on our community bank heritage while leveraging banking technology to deliver truly exceptional customer service.

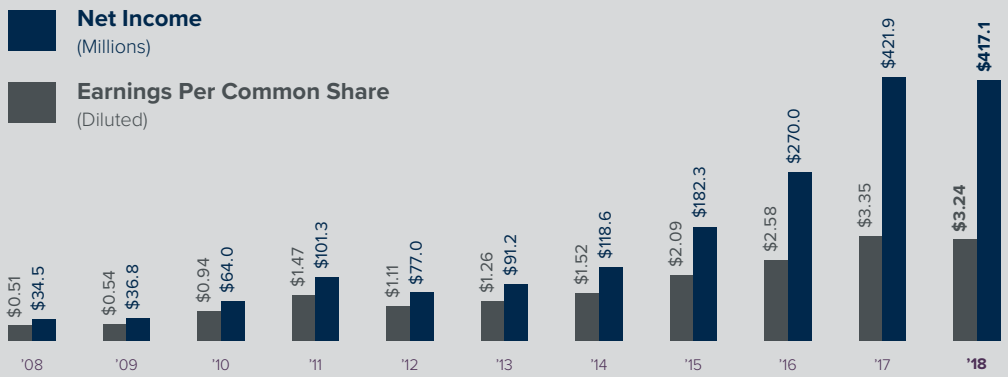
At Bank OZK, we are committed to providing the great service you've come to expect. And no matter where you go, our digital experiences can go with you, making life simpler, safer and more fun.

\*See inside back cover for details.

# A Long-Term Perspective

The strong results we achieved in 2018 reflect our commitment to excellence and our focus on long-term performance. Our constant pursuit of adding new customers, building relationships, improving performance and enhancing efficiency has consistently produced superior results.

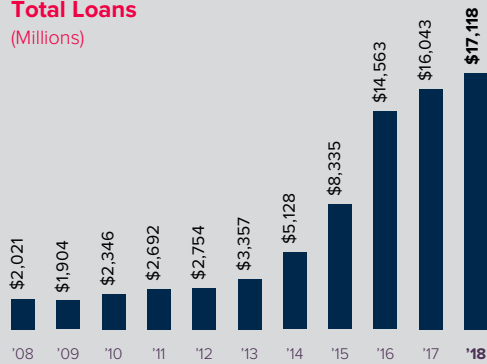
We are focused on asset quality, profitability and growth. We have achieved strong long-term growth in loans and deposits, while our net income and diluted earnings per common share have grown at similar rates.



Over the past ten years, we have achieved compound annual growth rates of **28.3%** in net income and **20.3%** in diluted earnings per common share.

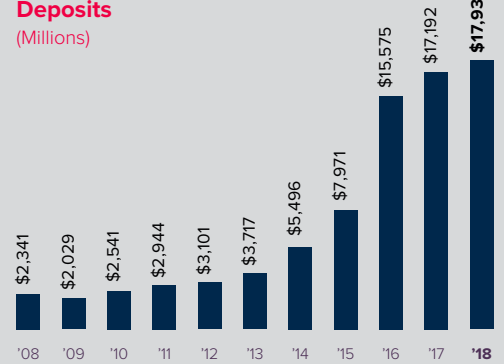


### Total Loans (Millions)



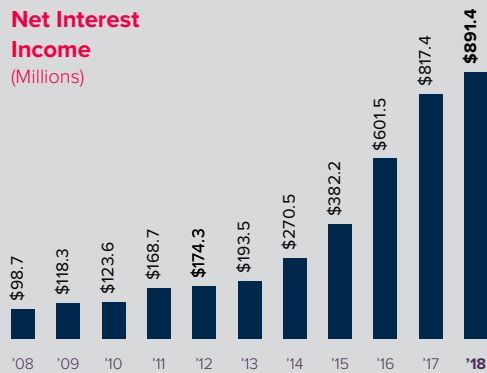
Over the past ten years, our total loans, including purchased loans, have grown at a compound annual rate of **23.8%**.

### Deposits (Millions)



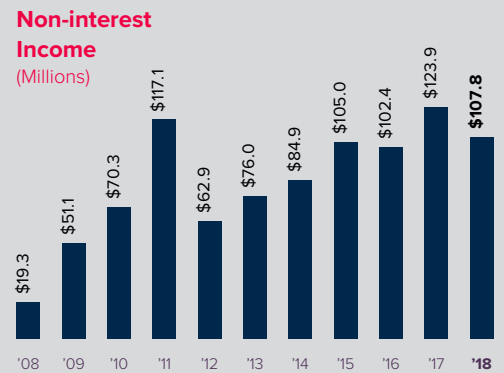
Over the past ten years, our deposits have grown at a compound annual rate of **22.6%**.

### Net Interest Income (Millions)



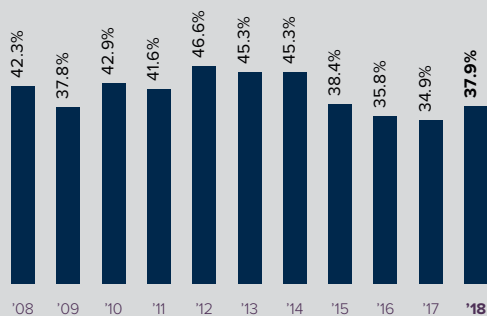
Net interest income has grown over the last ten years at a compound annual rate of **24.6%**.

### Non-interest Income (Millions)



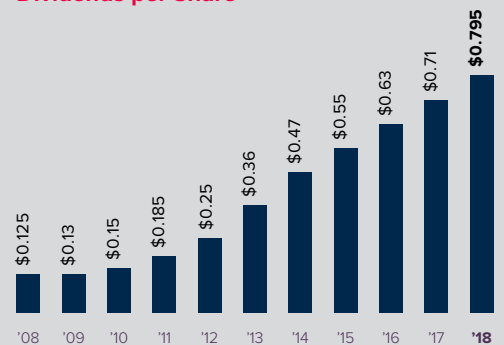
Non-interest income has grown over the last ten years at a compound annual rate of **18.7%**.

### Efficiency Ratio



We have worked relentlessly to become one of the most efficient banks in the nation. Our efficiency ratio has ranked in the top decile of the industry for the past 16 years.

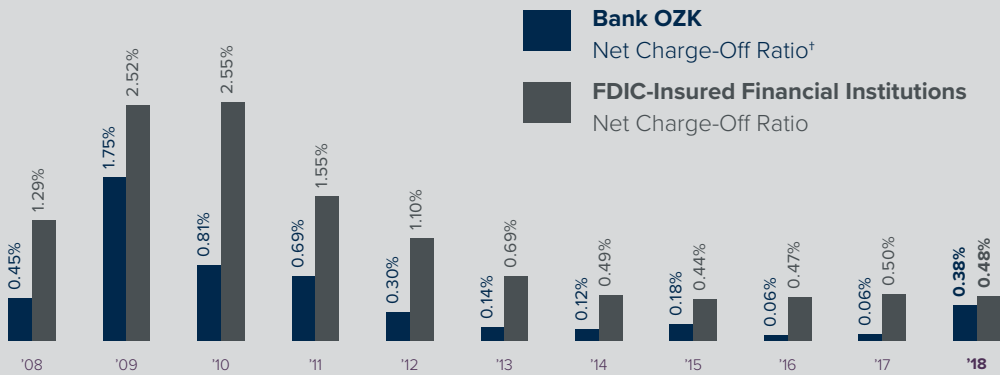
### Dividends per Share



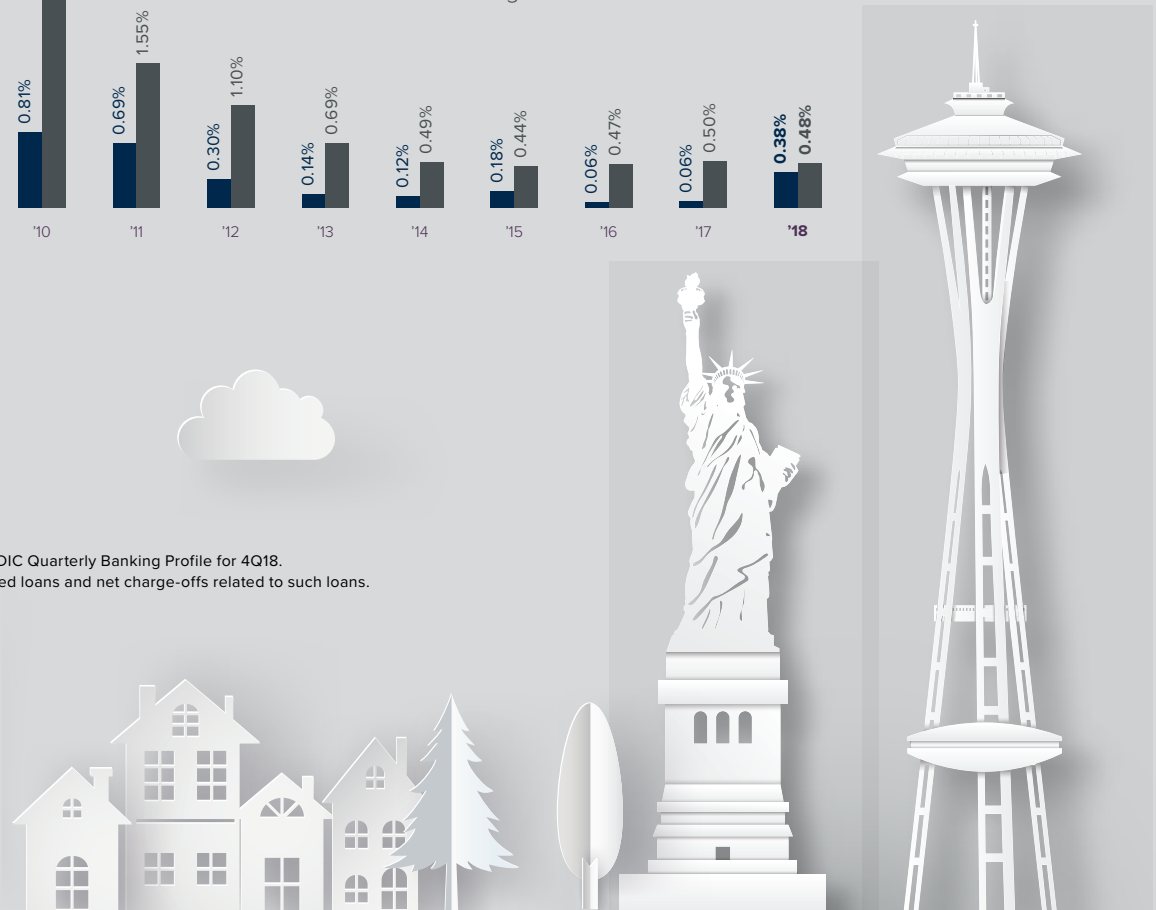
Over the past ten years, we have increased dividends paid to shareholders at a compound annual rate of **20.3%**.

# History of Asset Quality Better than the Industry

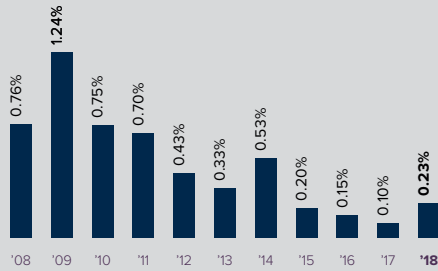
Our net charge-off ratio has consistently compared favorably with the ratio for all FDIC-insured institutions as a group.



Source: Data from the FDIC Quarterly Banking Profile for 4Q18.  
 \*Ratios exclude purchased loans and net charge-offs related to such loans.

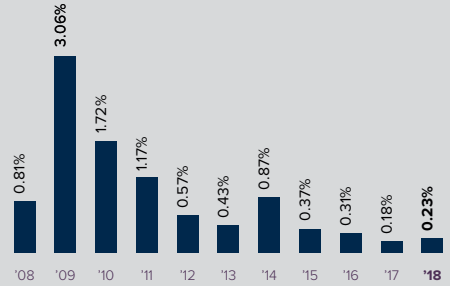


**Nonperforming Non-Purchased Loans (“NPLs”)/  
Total Non-Purchased Loans %<sup>†</sup>**



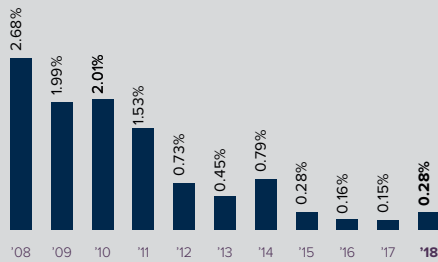
NPLs were just \$35 million, or 0.23% of total non-purchased loans, at 12/31/18.

**Nonperforming Assets (“NPAs”)/Total Assets %<sup>†\*</sup>**



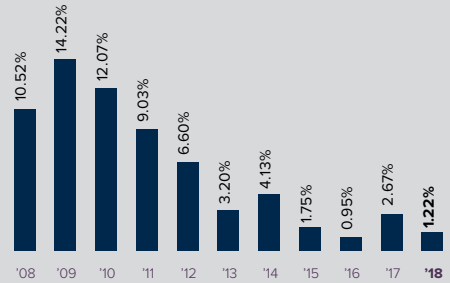
NPAs, which include NPLs and foreclosed assets, were just \$52 million, or 0.23% of total assets, at 12/31/18.

**Non-Purchased Loans Past Due 30 Days or More  
Including Past Due Nonaccrual Non-Purchased Loans  
("Loans Past Due")/Total Non-Purchased Loans %<sup>†</sup>**



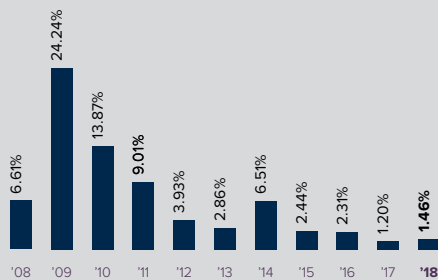
Non-purchased loans past due, including past due nonaccrual non-purchased loans, were just \$43 million, or 0.28% of total non-purchased loans, at 12/31/18.

**Substandard Non-Purchased Loans/  
Total Risk-Based Capital %<sup>†</sup>**



Substandard loans were \$43 million, or just 1.22% of total risk based capital, at 12/31/18.

**NPAs/Total Risk-Based Capital %<sup>†\*</sup>**



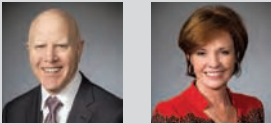
We have had tremendous growth in our total risk-based capital over the last 10 years, while our ratio of Total NPAs/ total risk-based capital has declined to a relatively nominal level.

<sup>†</sup>Ratios exclude purchased loans, except for their inclusion in total assets.

<sup>\*</sup>In 2014, we terminated our loss share agreement with the FDIC and reclassified foreclosed assets previously reported as covered by FDIC loss share to foreclosed assets.

# Quality and Diversity of Our Board Contribute to Our Success

## Non-Independent Directors:



George Gleason

Linda Gleason\*

## Independent Directors:



Nicholas Brown

Paula Cholmondeley

Richard Cisne\*

Beverly Cole

Robert East

Kathleen Franklin



Catherine B. Freedberg, Ph.D.

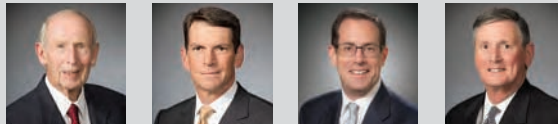
Jeffrey Gearhart

Peter Kenny

William Koefod

Jack Mullen

Christopher Orndorff



Robert Proost

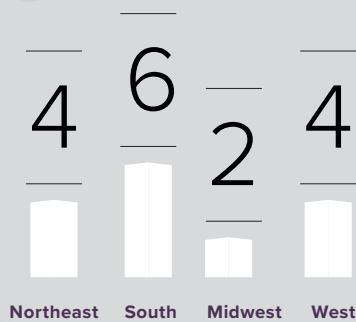
John Reynolds, M.D.

Steven Sadoff

Ross Whipple

\*Term will end at the 2019 Annual Shareholders' meeting on May 6, 2019.

## Geographic Diversity\*\* (# of Directors)



\*\*Based on the primary residence of the 16 director nominees for the 2019 Annual Shareholders' Meeting.



### Relevant Industry Experience

Including banking, financial services and real estate industry experience

### Expertise in Technology

Including backgrounds in information systems and financial technology

### Leadership Experience

Including service as CEO, CFO and other senior executive level positions

### Financial Acumen

Including financial reporting, corporate finance and accounting expertise

### Public Company Experience

Including public company board service and executive and investor relations experience

### Key Market Perspective

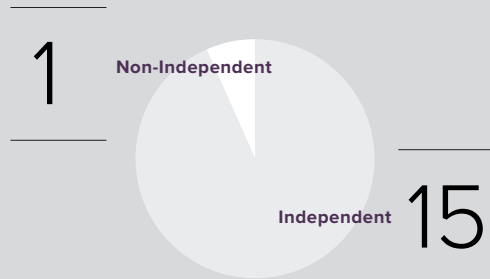
Including geographic diversity that provides valuable insight and knowledge of key markets

### Compliance Experience

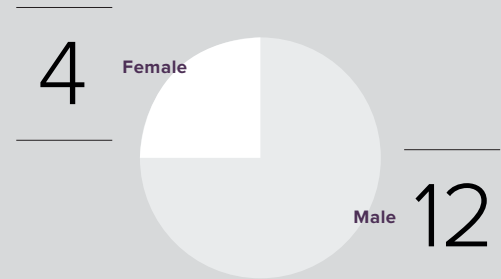
Including risk management, ethics, legal, regulatory and corporate governance experience

# Diverse Blend of Experiences & Qualifications

### Independence\*

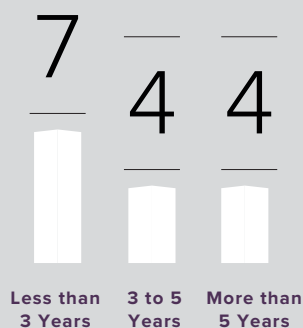


### Gender\*



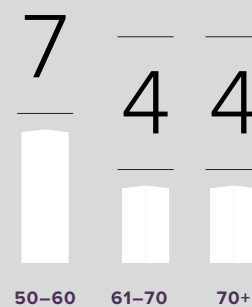
### Independent Director Tenure\*\*

(# of Directors)



### Independent Director Age\*\*

(# of Directors)



\*Includes all 16 director nominees for the 2019 Annual Shareholders' Meeting.

\*\*Includes all 15 independent director nominees for the 2019 Annual Shareholders' Meeting.

---

## Deep and Talented Executive Management Team\*



**George Gleason**

Chairman of the Board and  
Chief Executive Officer  
/ 40 years with OZK



**Greg McKinney**

Chief Financial Officer and  
Chief Accounting Officer  
/ 16 years with OZK



**Tim Hicks**

Chief Administrative Officer  
and Executive Director of  
Investor Relations  
/ 10 years with OZK



**Brannon Hamblen**

President and COO—Real  
Estate Specialties Group  
/ 11 years with OZK



**Tyler Vance**

Chief Operating Officer  
/ 13 years with OZK



**John Carter**

Chief Credit Officer and  
Chairman of the Directors'  
Loan Committee  
/ 10 years with OZK



**Alan Jessup**

Chief Lending Officer and  
Director - Community  
Banking and Chairman  
of the Officers' Loan  
Committee / 11 years with OZK



**Cindy Wolfe**

Chief Banking Officer  
/ 21 years with OZK



**Jennifer Junker**

Managing Director,  
Trust and Wealth  
Management Division  
/ 4 years with OZK



**Dennis James**

Executive Vice President and  
Director of Regulatory &  
Government Relations  
/ 14 years with OZK



**Brad Rebel**

Chief Audit Executive  
/ 2 years with OZK



**Ed Wydock**

Chief Risk Officer  
/ 4 years with OZK



**2018 Form 10-K**

**UNITED STATES**  
**FEDERAL DEPOSIT INSURANCE CORPORATION**  
Washington, D.C. 20429

**FORM 10-K**

(Mark one)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2018

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

FDIC Certificate No. 110

**BANK OZK**

(Exact name of registrant as specified in its charter)

ARKANSAS  
(State or other jurisdiction of  
incorporation or organization)

71-0130170  
(I.R.S. Employer  
Identification Number)

17901 CHENAL PARKWAY, LITTLE ROCK, ARKANSAS  
(Address of principal executive offices)

72223  
(Zip Code)

Registrant's telephone number, including area code: (501) 978-2265

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None  
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>
Smaller reporting company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity as of the last business day of the registrant's most recently completed second fiscal quarter: \$5,452,800,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at January 31, 2019
Common Stock, par value \$0.01 per share	128,936,820

**Documents incorporated by reference:** Portions of the Registrant's Proxy Statement for the 2019 Annual Meeting of Shareholders, scheduled to be held on May 6, 2019 are incorporated by reference into Part III of this Annual Report on Form 10-K.

**BANK OZK**  
**ANNUAL REPORT ON FORM 10-K**  
**December 31, 2018**

	<u>Page</u>
<b><u>INDEX</u></b>	
<b><u>PART I.</u></b>	
<u>Forward-Looking Information</u>	1
Item 1. <u>Business</u>	2
Item 1A. <u>Risk Factors</u>	18
Item 1B. <u>Unresolved Staff Comments</u>	36
Item 2. <u>Properties</u>	37
Item 3. <u>Legal Proceedings</u>	37
Item 4. <u>Mine Safety Disclosures</u>	38
<b><u>PART II.</u></b>	
Item 5. <u>Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities</u>	39
Item 6. <u>Selected Financial Data</u>	40
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	42
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	81
Item 8. <u>Financial Statements and Supplementary Data</u>	83
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	130
Item 9A. <u>Controls and Procedures</u>	130
Item 9B. <u>Other Information</u>	131
<b><u>PART III.</u></b>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	131
Item 11. <u>Executive Compensation</u>	131
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters</u>	131
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	131
Item 14. <u>Principal Accounting Fees and Services</u>	132
<b><u>PART IV.</u></b>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	132
Item 16. <u>Form 10-K Summary</u>	132
<u>Exhibit Index</u>	133
<u>Signatures</u>	135

## PART I

### FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K, including Management’s Discussion and Analysis of Financial Condition and Results of Operations, other public filings made by us and other oral and written statements or reports by us and our management include certain forward-looking statements that are intended to be covered by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management’s expectations as well as certain assumptions and estimates made by, and information available to, management at the time. Those statements are not guarantees of future results or performance and are subject to certain known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Forward-looking statements include, without limitation, statements about economic, real estate market, competitive, employment, credit market and interest rate conditions, including expectations for further changes in monetary and interest rate policy by the Board of Governors of the Federal Reserve System; our plans, goals, beliefs, expectations, thoughts, estimates and outlook for the future with respect to our revenue growth; net income and earnings per common share; net interest margin; net interest income; non-interest income, including service charges on deposit accounts, trust income, bank owned life insurance income, other income from purchased loans, loan service, maintenance and other fees, and gains (losses) on investment securities and sales of other assets; non-interest expense; efficiency ratio; future combined federal and state effective tax rates; anticipated future operating results and financial performance; asset quality and asset quality ratios, including the effects of current economic and real estate market conditions; nonperforming loans; nonperforming assets; net charge-offs and net charge-off ratios; provision and allowance for loan losses; past due loans; current or future litigation; interest rate sensitivity, including the effects of possible interest rate changes; future growth and expansion opportunities, including plans for making additional acquisitions; problems with obtaining regulatory approval of or integrating or managing acquisitions; the effect of the announcement of any future acquisition on customer relationships and operating results; plans for opening new offices or relocating or closing existing offices; opportunities and goals for future market share growth; expected capital expenditures; loan and deposit growth, including growth from unfunded closed loans; changes in the volume, yield and value of our investment securities portfolio; availability of unused borrowings; the need to issue debt or equity securities and other similar forecasts and statements of expectation. Words such as “anticipate,” “assume,” “believe,” “could,” “estimate,” “expect,” “goal,” “hope,” “intend,” “look,” “may,” “plan,” “project,” “seek,” “target,” “trend,” “will,” “would,” and similar words and expressions, as they relate to us or our management, identify forward-looking statements.

Actual future performance, outcomes and results may differ materially from those expressed in, or implied by, forward-looking statements made by us and our management due to certain risks, uncertainties and assumptions. Certain factors that may affect our future results include, but are not limited to, potential delays or other problems in implementing our growth, expansion and acquisition strategies, including delays in identifying satisfactory sites, hiring or retaining qualified personnel, obtaining regulatory or other approvals, obtaining permits and designing, constructing and opening new offices; the ability to enter into and/or close additional acquisitions; problems with, or additional expenses relating to, integrating acquisitions; the inability to realize expected cost savings and/or synergies from acquisitions; problems with managing acquisitions; the effect of the announcement of any future acquisition on customer relationships and operating results; the availability of and access to capital; possible downgrades in our credit ratings or outlook which could increase the costs or availability of funding from capital markets; the ability to attract new or retain existing or acquired deposits or to retain or grow loans, including growth from unfunded closed loans; the ability to generate future revenue growth or to control future growth in non-interest expense; interest rate fluctuations, including changes in the yield curve between short-term and long-term interest rates or changes in the relative relationships of various interest rate indices; competitive factors and pricing pressures, including their effect on our net interest margin or core spread; general economic, unemployment, credit market and real estate market conditions, and the effect of such conditions on the creditworthiness of borrowers, collateral values, the value of investment securities and asset recovery values; changes in legal, financial and/or regulatory requirements; recently enacted and potential legislation and regulatory actions and the costs and expenses to comply with new and/or existing legislation and regulatory actions; changes in U.S. Government monetary and fiscal policy; Federal Deposit Insurance Corporation (“FDIC”) special assessments or changes to regular assessments; the ability to keep pace with technological changes, including changes regarding maintaining cybersecurity; the impact of failure in, or breach of, our operational or security systems or infrastructure, or those of third parties with whom we do business, including as a result of cyber attacks or an increase in the incidence or severity of fraud, illegal payments, security breaches or other illegal acts impacting us or our customers; adoption of new accounting standards or changes in existing standards; and adverse results (including costs, fines, reputational harm and/or other negative effects) from current or future litigation, regulatory examinations or other legal and/or regulatory actions or rulings as well as other factors described in this Annual Report on Form 10-K or as detailed from time to time in the other public reports we file with the FDIC. See also “Part I, Item 1A. Risk Factors” in this Annual Report on Form 10-K. Should one or more of the foregoing risks materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described in, or implied by, such forward-looking statements. We disclaim any obligation to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information or otherwise.

## EXPLANATORY NOTE

On June 26, 2017, as the result of an internal restructuring designed to eliminate the bank holding company structure, Bank of the Ozarks, Inc. an Arkansas corporation, merged with and into its wholly-owned subsidiary, Bank of the Ozarks, an Arkansas state banking corporation (the “Bank”), with the Bank continuing as the surviving corporation (the “Reorganization”). The Bank continues to be subject to regulation by the Arkansas State Bank Department (“ASBD”). Because the Bank is an insured depository institution that is not a member bank of the Board of Governors of the Federal Reserve System (“FRB”), our primary federal regulator is the Federal Deposit Insurance Corporation (“FDIC”). We are no longer subject to the FRB’s regulation and supervision (except such regulations as are made applicable to the Bank by law and regulation of the FDIC). Unless the context otherwise requires, references in this Annual Report on Form 10-K to terms such as “Company,” “we,” “us,” and “our” for periods prior to June 26, 2017, refer to Bank of the Ozarks, Inc., which was the parent holding company and the registrant prior to the Reorganization, and, for periods after the Reorganization, to the Bank, in each case including its consolidated subsidiaries. On July 16, 2018, the Bank changed its corporate name to Bank OZK. Shares of the Bank’s common stock are listed on the Nasdaq Global Select Market under the symbol “OZK.” The name change had no effect on the rights or interest of the Bank’s shareholders.

### Item 1. BUSINESS

*The disclosures set forth in this item are qualified by “Item 1A. Risk Factors,” the section captioned “Forward-Looking Information” and other cautionary statements set forth elsewhere in this Annual Report on Form 10-K.*

#### **General**

Chartered in 1903, we are a full-service Arkansas state-chartered bank focused on meeting the needs of our customers through a broad array of financial products and services at competitive prices and with high-quality personal service. At December 31, 2018, we had total assets of \$22.39 billion, total loans (including purchased loans) of \$17.12 billion, total deposits of \$17.94 billion and total common stockholders’ equity of \$3.77 billion. For 2018, net interest income was \$891 million, net income available to common stockholders was \$417 million and diluted earnings per common share were \$3.24.

We provide a wide range of retail and commercial banking services through 251 offices (as of December 31, 2018) in Arkansas, Georgia, Florida, North Carolina, Texas, Alabama, South Carolina, California, New York and Mississippi. Deposit services include checking, savings, money market, time deposit and individual retirement accounts. Loan services include various types of real estate, consumer, commercial, industrial and agricultural loans. We also provide, among other products and services, treasury management services for businesses, individuals and non-profit and governmental entities, including wholesale lock box services; remote deposit capture services; trust and wealth management services for businesses, individuals and non-profit and governmental entities, including financial planning, money management, custodial services and corporate trust services; real estate appraisals; ATMs; telephone banking; online and mobile banking services, including electronic bill pay and mobile deposits; debit cards and safe deposit boxes. Through third party providers, we offer credit cards for consumers and businesses and processing of merchant debit and credit card transactions. We currently operate in one business segment, and we do not have significant foreign operations.

We conduct certain of our operations through our subsidiaries, including a subsidiary that holds our investment securities, a subsidiary engaged in the development of real estate, a subsidiary that owns an interest in a corporate aircraft, various other subsidiaries that hold loans, foreclosed assets, Community Reinvestment Act (“CRA”) investments or tax credits, or engage in other activities, and a number of business trusts formed in connection with the issuance of subordinated debentures and related trust preferred securities. For additional information concerning our organization, see Note 1 to the consolidated financial statements included in “Part II, Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

#### **Business Strategy**

We believe that stable long-term growth and profitability are the result of developing comprehensive, strong banking relationships with our customers by offering a wide range of products and services and delivering excellent customer service while maintaining disciplined underwriting standards. We are focused on originating high-quality loans and growing a favorable deposit base through our emphasis on relationship-based banking. Our emphasis on these core strategies should enable us to continue to grow our loan portfolio responsibly, maintain our operational efficiency, increase our profitability, and preserve our superior asset quality.

- In recent years, we have experienced strong growth in our non-purchased loan portfolio while remaining committed to our conservative credit culture. A significant portion of our non-purchased loan portfolio is attributable to our Real Estate Specialties Group (“RESG”), which focuses on commercial real estate (“CRE”) and acquisition, construction and development lending. We are focused on continuing meaningful non-purchased loan growth, including our growth within

RESG, while diversifying our growth to achieve more balance between CRE lending and other loan originations. While RESG continues to be an industry leader in commercial real estate finance, our Indirect RV and Marine lending business has become another national lending platform that provides meaningful growth and helps us achieve significant portfolio diversification. We expect that production from our other lending teams, including our Community Banking Division (including consumer, small business, government guaranteed loans, agricultural lending, business aviation financing, affordable housing loans, middle market CRE lending and homebuilder financing), our Corporate Loan Specialties Group (“CLSG”), and our subscription finance unit, will further contribute to that diversification effort.

- As we continue to grow and diversify our lending activities, we intend to employ the same disciplined underwriting standards and credit review processes that have contributed to asset quality that is consistently better than the industry average, including our below-industry average net charge-off ratio and our ratios of past due loans, nonperforming loans and nonperforming assets.
- Our reputation, expertise and banking model enable us to build and expand our banking relationships with customers in the markets we serve. We remain committed to growing our business in a disciplined manner. We intend to focus on underwriting and originating high-quality loans and expanding our business by offering an array of financial products and services. We believe that successfully focusing on these factors will allow us to continue to achieve long-term and profitable expansion within our current markets.
- We continue to focus on the evolving role and importance of technology in our business. We are developing innovative technology-based solutions through our OZK Labs Group. We believe this focus is critical in today’s rapidly evolving banking environment where technology, automation, machine learning and artificial intelligence are becoming increasingly important in driving efficiency and speed and quality of service.
- We believe that there is an optimal market share for each market that we serve, depending in large part on its competitive makeup, that will enable us to maximize deposits and loans in the market and benefit from reasonably achievable economies of scale without inefficiently investing resources in exchange for diminishing returns. We plan to capitalize on growth opportunities we believe exist in our existing branch network and will continue to opportunistically consider opening new branches in desirable and complementary areas.
- Our focus on operational efficiency is a key factor to achieving our profitability and future growth goals and objectives. We intend to carefully manage our cost structure and continuously refine and implement internal processes to create further efficiencies and enhance our earnings. We believe that our expanded and enhanced infrastructure, which has been an area of emphasis for us in recent years, including our focus on technology, will allow us the opportunity to increase operational efficiencies as we grow our business.

## Growth and Expansion

***De Novo Growth.*** Strong organic growth has historically been and remains our top growth priority. From the commencement of our expansion strategy in 1994 through 2009, our growth was almost entirely organic as we opened *de novo* banking offices throughout Arkansas and Texas. Even as our organic growth has been augmented by acquisitions since 2010, we have continued to add one or more offices in most years as we continue our organic growth and *de novo* branching strategy.

We intend to continue our organic growth and *de novo* branching strategy in future years through the opening of additional retail branches and loan production offices. Opening new offices is subject to local banking market conditions, availability of suitable sites, hiring qualified personnel, obtaining regulatory and other approvals and many other conditions and contingencies that we cannot predict with certainty. We may increase or decrease our expected number of new office openings as a result of a variety of factors including our financial results, changes in economic or competitive conditions, strategic opportunities, our needs for deposit gathering capabilities or other factors.

***Acquisitions.*** Since 2010, we have augmented our strong organic growth by completing 15 acquisitions that have expanded our geographic presence, enhanced our profitability, increased our number of banking offices, and produced many other strategic benefits. Those acquisitions included seven failed bank transactions in 2010 and 2011 that were assisted by the FDIC, and eight live bank acquisitions in 2012 through 2016.

***Future Growth.*** We expect to continue growing through our *de novo* branching strategy. Future *de novo* branches are expected to be focused in states where we currently have banking offices and in larger markets and MSAs across the United States where we currently do not have offices and believe we can generate significant growth from one to three strategically located offices in each



such market. When we resume making acquisitions, we expect to seek acquisitions that are immediately accretive to book value and tangible book value, and are accretive to diluted earnings per share in the first 12 months following acquisition.

## **Lending Activities**

We provide a variety of commercial and consumer lending products to our customers, including most types of real estate loans, consumer and small business loans, indirect consumer marine and RV loans, business aviation financing, commercial and industrial loans, government guaranteed loans, agricultural loans, homebuilder loans, affordable housing loans and subscription financing, among others. Interest rates charged by us vary with degree of risk, type, size, complexity, repricing frequency and other relevant factors associated with the loan or financing arrangement. Competition from other lending providers also impacts the interest rates we charge. We have significantly expanded the geographic distribution of our loan portfolio in recent years, which we believe is a substantial source of strength in regard to portfolio credit quality. Included in “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”) to this Annual Report on Form 10-K is an analysis of our real estate loan portfolio based on metropolitan statistical area or other geographic area in which the principal collateral is located.

**Procedures and Authority.** Our Board of Directors and Directors’ Loan Committee (“DLC”) oversee and provide policy direction for our lending operations, which are primarily administered by our Chief Executive Officer (“CEO”) and Chief Credit Officer (“CCO”). We maintain a tiered loan limit authorization system. The CEO and CCO are granted lending authority by the Board of Directors, and other lending officers are granted authority by the DLC on the recommendation of appropriate senior officers in amounts commensurate with the officer’s skill level and knowledge. Individual and aggregate lending relationships exceeding \$10 million (up to the limits established by our Board) must be approved by the DLC. Our lending policies also contain various measures to limit concentration exposures, including customer and CRE exposures for both funded balances and funded and unfunded balances in the aggregate, as well as by property type and geography.

We employ designated compliance and credit review officers that are primarily responsible for our compliance and credit review functions, including credit review officers dedicated specifically to RESG. Periodic reviews are performed to evaluate asset quality and the effectiveness of our credit administration, and the results of such evaluations are included in reports which describe any identified deficiencies, recommendations for improvement and management’s proposed action plan for remediating or addressing identified deficiencies and recommendations. Such reports are provided to and reviewed by the Risk Committee of the Board of Directors. In addition, the various components of our lending, compliance and credit review functions, among others, are audited periodically by our internal audit group. The results of such audits, including any identified deficiencies or weaknesses and management’s proposed plans and timeliness to address any such deficiencies or weaknesses, are provided to and reviewed by the Audit Committee of the Board of Directors.

**Real Estate Loans.** Our portfolio of real estate loans is originated by both RESG and certain of our Community Banking lending teams and includes loans secured by residential 1-4 family, non-farm/non-residential, agricultural, construction/land development, multifamily residential properties and other land loans. Non-farm/non-residential loans include those secured by real estate mortgages on owner-occupied commercial buildings of various types, leased commercial, retail and office buildings, hospitals, nursing and other medical facilities, hotels and motels, mixed use properties and other business and industrial properties. Agricultural real estate loans include loans secured by farmland and related improvements, including some loans guaranteed by the Farm Service Agency (“FSA”) and the Small Business Administration (“SBA”). Real estate construction/land development loans include loans secured by vacant land, loans to finance land development or construction of industrial, commercial, residential or farm buildings or additions or alterations to existing structures. Included in our residential 1-4 family loans are home equity lines of credit.

We offer a variety of real estate loan products that are generally amortized over five to thirty years, payable in monthly or other periodic installments of principal and interest, and due and payable in full (unless renewed) at a balloon maturity generally within one to seven years. A substantial portion of our loans are structured as term loans with adjustable interest rates (adjustable daily, monthly, semi-annually, annually, or at other regular adjustment intervals usually not to exceed five years), and many of such adjustable rate loans have established “floor” and “ceiling” interest rates.

Residential 1-4 family loans are underwritten primarily based on the borrower’s ability to repay, including prior credit history, and the value of the collateral.

Other real estate loans are underwritten based on the ability of the property, in the case of income producing property, or the borrower’s business to generate sufficient cash flow to amortize the debt. Secondary emphasis is placed upon collateral value, financial strength of guarantors and other factors.

Loans collateralized by real estate have generally been originated with loan-to-appraised-value (“LTV”) ratios of not more than 89% for residential 1-4 family, 85% for other residential and other improved property, 80% for construction loans secured by

commercial, multifamily and other non-residential properties, 75% for land development loans and 65% for raw land loans. We typically require mortgage title insurance in the amount of the loan and hazard insurance on improvements. Documentation requirements vary depending on loan size, type, degree of risk, complexity and other relevant factors. Included in “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Analysis of Financial Condition – Loan Portfolio” to this Annual Report on Form 10-K is an analysis of the weighted-average LTV and loan-to-cost (“LTC”) ratios of our construction and development loan portfolio.

***Small Business and Consumer Loans.*** Our portfolio of small business loans is originated primarily by certain of our Community Banking lending teams and includes loans to businesses with less than \$1 million in annual revenues. Such loans are centrally underwritten and generally include loans for the purchase (or refinance) of commercial real estate, equipment, lines of credit and various other business purposes. We also offer certain consumer loans, including loans to fund the purchase of automobiles, ATVs, mobile homes and other similar purposes. These loans are generally collateralized and have terms ranging up to 72 months, depending upon the nature of the collateral, size of the loan, and other relevant factors. Consumer and small business loan interest rates are determined based on the borrower’s credit score, bankruptcy indicator score, LTV and amortization period, among others. The borrower’s ability to repay is of primary importance in the underwriting of consumer loans.

***Indirect Consumer Marine and RV Loans.*** Our portfolio of indirect consumer loans is originated by our Indirect RV and Marine lending team and includes loans to individuals for the purchase of marine vessels and recreational vehicles, generated largely through relationships with dealers and correspondent lenders. These loans are generally collateralized by the asset of purchase and have terms ranging up to 240 months. These loans are underwritten based on a combination of borrower credit score, documented debt service coverage, previous asset ownership, experience and borrower liquidity, among others.

***Government Guaranteed Loans.*** Our portfolio of government guaranteed loans is originated primarily by certain of our Community Banking lending teams and is comprised primarily of SBA, FSA and USDA guaranteed loans. These loans are commercial in nature and are typically for the refinance or origination of credit facilities secured by, but not limited to, commercial real estate, agricultural real estate, equipment and various other assets.

***Commercial and Industrial Loans.*** Our commercial and industrial loan portfolio is originated primarily by certain of our Community Banking lending teams and consists of loans for commercial, industrial and professional purposes including loans to fund working capital requirements (such as inventory, floor plan and receivables financing), purchases of machinery and equipment and other purposes. Also included in commercial and industrial loans is (i) the residual balance of our small ticket equipment finance agreements, for which we ceased taking new applications effective November 28, 2017, (ii) our subscription credit facilities for investment funds, and (iii) our business aviation financing. We offer a variety of commercial and industrial loan and financing arrangements, including term loans, balloon loans and lines of credit, including some loans guaranteed by the SBA, with the purpose and collateral supporting a particular loan determining its structure. These loans are offered to businesses and professionals for short and medium terms on both a collateralized and uncollateralized basis. As a general practice, we obtain as collateral a lien on furniture, fixtures, equipment, inventory, receivables, capital commitments or other assets. Our commercial and industrial loan portfolio also includes shared national credits (“SNC”) that are underwritten by our CLSG. SNC generally include syndicated loans and loan commitments, letters of credit, commercial leases, and other forms of credit.

Commercial and industrial loans, including our SNC portfolio, typically are underwritten on the basis of the borrower’s ability to make repayment from the cash flow of its business and generally are collateralized by business assets. As a result, such loans involve additional complexities, variables and risks and require more thorough underwriting and servicing than certain other types of loans.

***Agricultural (Non-Real Estate) Loans.*** Our portfolio of agricultural (non-real estate) loans is originated primarily by certain of our Community Banking lending teams and consists primarily of loans for financing agricultural production, including loans to businesses or individuals engaged in the production of timber, poultry, livestock or crops. Our agricultural (non-real estate) loans are generally secured by farm machinery, livestock, crops, vehicles or other agricultural-related collateral. A portion of our portfolio of agricultural (non-real estate) loans is comprised of loans to individuals which would normally be characterized as consumer loans but for the fact that the individual borrowers are primarily engaged in the production of timber, poultry, livestock or crops.

***Mortgage Lending.*** We offer certain residential mortgage products, including long-term fixed rate loans that are retained in our loan portfolio. Effective December 18, 2017, we ceased taking new loan applications for secondary market consumer mortgage loans through our Mortgage Division.

## Deposits

We offer an array of deposit products consisting of non-interest bearing checking accounts, interest bearing transaction accounts, business sweep accounts, savings accounts, money market accounts, time deposits, including access to products offered through the various CDARS® programs, and individual retirement accounts, among others. Rates paid on such deposits vary among banking markets and deposit categories due to different terms and conditions, individual deposit size, services rendered and rates paid by competitors on similar deposit products. We act as depository for a number of state and local governments and government agencies or instrumentalities. Such public funds deposits are often subject to competitive bid and in many cases must be secured by pledging a portion of our investment securities or a letter of credit.

Deposit balances are generally influenced by national and local economic conditions, changes in prevailing interest rates, internal pricing decisions, perceived stability of financial institutions and competition, among other factors. Our deposits come primarily from within our trade area. At December 31, 2018, we had \$2.04 billion in “brokered deposits,” defined as deposits which, to our knowledge, have been placed with us by a person who acts as a broker in placing these deposits on behalf of others or is otherwise deemed to be “brokered” by bank regulatory authority rules and regulations. At December 31, 2018, we had \$124 million in deposits obtained via the Internet based on information provided by a listing service (“Internet deposits”). Currently, none of these Internet deposits are deemed brokered deposits as none of the listing services are facilitating the placement of the deposit. Brokered and Internet deposits are typically from outside our primary trade area, and such deposit levels may vary from time to time depending on competitive interest rate conditions and other factors.

In addition to our deposit base, we have access to other sources of funding, including Federal Home Loan Bank of Dallas (“FHLB”) advances, FRB borrowings, repurchase agreements and secured and unsecured federal funds lines of credit from correspondent banks. In recent years, we have also accessed the capital markets through subordinated debt and common stock offerings. For additional information concerning the Bank’s deposits, see “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Deposits” to this Annual Report on Form 10-K.

## Other Banking Services

**Trust and Wealth Management Services.** We offer a broad array of trust and wealth management services from our headquarters in Little Rock, Arkansas, with additional staff in Northwest Arkansas, Texas, North Carolina, Georgia and Florida. These trust and wealth management services include personal trusts, custodial accounts, investment management accounts, retirement accounts, corporate trust services including trustee, paying agent and registered transfer agent services, and other incidental services. At December 31, 2018, total trust assets were approximately \$1.82 billion compared to approximately \$1.94 billion at December 31, 2017 and approximately \$1.87 billion at December 31, 2016.

**Treasury Management Services.** We offer treasury management services which are designed to provide a high level of customized solutions to business and public funds customers. Our treasury management services include ACH services (e.g. direct deposit, direct payment and electronic cash concentration and disbursement), wire transfer, zero balance accounts, current and prior day transaction reporting, wholesale lockbox services, remote deposit capture services, automated credit line transfer, investment sweep accounts, reconciliation services, positive pay services, and merchant and commercial card, among others.

## Market Areas, Concentrations and Competition

At December 31, 2018, we conducted operations through 251 offices, including offices in Arkansas, Georgia, Florida, North Carolina, Texas, Alabama, South Carolina, California, New York and Mississippi. Our business is impacted by the trends of the regional economies in the market areas we serve. We are not dependent upon any single or limited number of customers, the loss of which would have a material adverse effect on us, nor do we have customer relationships that individually account for 10% or more of our revenues. No material portion of our business is seasonal.

The banking industry in our market areas is highly competitive. In addition to competing with other commercial and savings banks and savings and loan associations, we compete with credit unions, finance companies, leasing companies, mortgage companies, “fintech” companies, insurance companies, brokerage and investment banking firms, asset-based non-bank lenders and many other financial service firms. In addition, technological advancements continue to contribute to greater competition in financial services markets. Competition is based on interest rates offered on deposit accounts, interest rates charged on loans, fees and service charges, the quality and scope of products offered and services rendered, including technology-driven solutions, and the convenience of banking facilities, as well as other factors.

A number of competing commercial banks operating in our market areas are branches or subsidiaries of larger organizations affiliated with regional or national banking companies and as a result may have greater resources and lower costs of funds than we have, may have greater access to capital markets, and may offer a broader range of financial services than we currently provide.

Additionally, we face competition from a large number of community banks, many of which have senior management who were previously with other local banks or investor groups with strong ties to local businesses and the communities in which they serve. Some of our competitors (larger or smaller) may have more liberal lending policies and processes. Competition among providers of financial products and services continues to increase as technology advances have lowered the barriers to entry for financial technology companies, with consumers having the opportunity to select from a growing variety of traditional and nontraditional alternatives, including crowdfunding, digital wallets and money transfer services. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to many of the same regulatory restrictions as banks, they can often operate with greater flexibility and lower cost structures. Despite the highly competitive environment, we believe we will continue to be competitive because of our expertise in real estate lending and various other types of lending, our strong commitment to quality customer service, convenient local branches, active community involvement and competitive products and pricing, including technology-driven solutions for our customers.

## **Information Technology**

The ability to access and use technology is an increasingly competitive factor in the financial services industry. Technology is not only important with respect to delivery of financial services and protection of the security of customer information but also in processing information. We must continually make technology investments to remain competitive in the financial services industry. We utilize, to varying degrees in our business, certain patents, copyrights and trademarks. Additionally, we have various technology applications developed or under development within OZK Labs to address the needs of our customers and our employees by using technology to provide solutions, create additional operational efficiencies and provide greater privacy and security protection for our and our customers' data. While each of these patents, copyrights, trademarks and technology applications is important to our business, we believe the loss or unavailability of one or more of these items would not be expected, at the present time, to have a material adverse effect on our business. We closely monitor information security for trends and new threats, including cybersecurity risks, and invest significant resources to continuously improve the security and privacy of our systems and data.

## **Employees**

At December 31, 2018, we had 2,563 full-time equivalent employees. None of our employees is represented by a union, collective bargaining agreement or similar arrangement, and we have not experienced any labor disputes or strikes arising from any organized labor groups. We believe our employee relations are good.

## **Executive Officers of the Registrant**

The following is a list of our executive officers. All information is given as of February 27, 2019.

*George Gleason*, age 65, Chairman and Chief Executive Officer. Mr. Gleason has served the Bank as Chairman, Chief Executive Officer and/or President since 1979. He holds a B.A. in Business and Economics from Hendrix College and a J.D. from the University of Arkansas.

*Greg McKinney*, age 50, Chief Financial Officer and Chief Accounting Officer. Mr. McKinney joined the Bank in 2003 and served as Executive Vice President and Controller prior to assuming the role of Chief Financial Officer and Chief Accounting Officer in December 2010. From 2001 to 2003 Mr. McKinney served as a member of the financial leadership team of a publicly-traded software development and data management company. From 1991 to 2000 he held various positions with a big-four public accounting firm, leaving as a senior audit manager. Mr. McKinney is a C.P.A. (inactive) and holds a B.S. in Accounting from Louisiana Tech University.

*Tyler Vance*, age 44, Chief Operating Officer. Prior to assuming the Chief Operating Officer role in 2013, Mr. Vance served as Chief Banking Officer since 2011. Mr. Vance joined the Bank in 2006 and served as Senior Vice President from 2006 to 2009 and Executive Vice President of Retail Banking from 2009 to 2011. From 2001 to 2006 Mr. Vance served as CFO of a competitor bank. From 1996 to 2000, Mr. Vance held various positions with a big-four public accounting firm. Mr. Vance is a C.P.A. (inactive) and holds a B.A. in Accounting from Ouachita Baptist University.

*Tim Hicks*, age 46, Chief Administrative Officer and Executive Director of Investor Relations. Prior to assuming the role of Chief Administrative Officer and Executive Director of Investor Relations in July 2017, Mr. Hicks served as Executive Vice President and Chief of Staff since September 2016. Mr. Hicks joined the Bank in 2009 and served as Senior Vice President, Corporate Finance until assuming the role of Executive Vice President, Corporate Finance in 2012. From 2006 to 2009, Mr. Hicks served as director of investor relations and assistant treasurer of a publicly-traded telecommunications company. Prior to 2006, Mr. Hicks held various positions with a big-four public accounting firm, leaving as a senior audit manager. Mr. Hicks is a C.P.A. (inactive) and holds a B.A. in Business and Economics from Hendrix College.

*Brannon Hamblen*, age 53, President and Chief Operating Officer – RESG since August 2018. Prior to assuming the roles of President – RESG in 2018 and Chief Operating Officer – RESG in 2017, Mr. Hamblen served as Director of Asset Management since 2012. Mr. Hamblen joined the Bank in 2008 as Senior Vice President, Originations and assumed leadership of RESG Asset Management in 2010. Prior to joining the Bank, Mr. Hamblen worked in the real estate consulting practices of Ernst & Young/Kenneth Leventhal and KPMG, and in acquisitions, development, asset management, and capital markets with R.M. Crowe Company, a large Dallas-based, privately owned real estate owner/operator. Mr. Hamblen holds a B.S. in Agricultural Economics and a M.S. in Land Economics & Real Estate from Texas A&M University.

*John Carter*, age 39, Chief Credit Officer and Chairman of the Directors' Loan Committee. Prior to assuming the title of Chief Credit Officer in June 2018, Mr. Carter served as the Director of Community Banking from February 2015 to June 2018. Mr. Carter joined the Bank in August 2009 and served as a Vice President from 2009 to June 2010, a Senior Vice President from June 2010 to June 2011, the Little Rock Market President from June 2011 to January 2014 and the Deputy Director of Community Bank Lending from January 2014 to January 2015. Mr. Carter holds a B.S. in Economics and Finance from Arkansas Tech University and a Master of Business Administration from the University of Arkansas at Little Rock.

*Cindy Wolfe*, age 53, Chief Banking Officer since August 2018. Prior to assuming the role of Chief Banking Officer, Ms. Wolfe served as Deputy Director of Community Banking since 2015 overseeing the Bank's Middle Market CRE business unit and offices across North Carolina and South Carolina. Ms. Wolfe joined the Bank in 1997, opened the Bank's Charlotte loan production office in 2001, and served as Senior Vice President – Lending from 2001 to 2005, Executive Vice President – Lending from 2005 to 2012, Charlotte Market President from 2012 to 2014, and Carolinas Division President from 2014 to 2018. Prior to joining the Bank, Ms. Wolfe held various positions with national banks in commercial lending, operations, project management and internal audit. Ms. Wolfe holds a B.A. in Business Administration from Queens University of Charlotte and is a Certified Commercial Investment Member.

*Alan Jessup*, age 46, Chief Lending Officer and Director-Community Banking/Chairman of the Officers' Loan Committee since August 2018. Prior to assuming the roles of Chief Lending Officer and Director-Community Banking/Chairman of the Officers' Loan Committee, Mr. Jessup served as Deputy Director of Community Banking since 2015 overseeing the Bank's Agricultural Lending Division and offices across South Arkansas, Alabama, Florida and Georgia. Mr. Jessup holds a B.S. in Finance from Arkansas State University.

*Jennifer Junker*, age 48, Managing Director, Trust and Wealth Management. Prior to joining the Bank in February 2015, she served as Fiduciary Director and then as Co-Leader of Trust Advisory Services and Trust Director for a national financial services firm from 2011 through December 2014. From 2006 to 2011 she was in private practice as an attorney concentrating in trust administration and high net worth estate planning. She also held the position of Senior Counsel for a national financial services firm from 2000 through 2006, and as an associate attorney for two law firms in Florida and Minnesota concentrating on legal issues involving trust and wealth management from 1995 through 2000. Ms. Junker holds a B.A. in English Literature and Communications from Wake Forest University as well as a J.D. from the University of Florida, College of Law.

*Dennis James*, age 68, Executive Vice President and Director of Regulatory and Government Relations since January 2019. Prior to assuming the role of Regulatory and Government Relations, Mr. James served as the Director of Government Relations since January 2018 and the Director of Mergers/Acquisitions since January 2012. Mr. James initially joined the Bank in March 1981 as its Chief Financial Officer and a member of the Board of Directors. In November 1984, he left the Bank to serve as Vice Chairman and Chief Operating Officer of LSI Financial Group, a consumer loan servicing company. In 2005, Mr. James rejoined the Bank and moved to the Dallas area to serve as its North Texas Division President, returning to Little Rock in 2012 as the Bank's Director of Mergers/Acquisitions. Mr. James graduated from the University of Arkansas, receiving a B.S.B.A. with a major in accounting.

*Brad Rebel*, age 53, Chief Audit Executive. Prior to joining the Bank in 2017, Mr. Rebel served as Senior Vice President and Managing Director – Audit at SunTrust Banks, Inc. (NYSE: STI) in Atlanta, Georgia from 2010 through 2017. Mr. Rebel served as Vice President – Audit at Capital One Financial Corporation in Richmond, Virginia from 2006 to 2009 and as Vice President – Accounting Policy & SEC Reporting from 2009 to 2010. From 1998 to 2002, Mr. Rebel served as Chief Audit Executive at Farm Credit Services of America and as South Dakota & Iowa Market Place Leader from 2002 to 2006. From 1989 to 1998, Mr. Rebel held various positions at PricewaterhouseCoopers LLP focusing on mergers and acquisitions, financial statement audits and accounting research in the financial services practice unit. Mr. Rebel is a C.P.A. (inactive) and holds a B.S. in Finance and Accounting from Kansas State University.

*Ed Wydock*, age 62, Chief Risk Officer. Prior to joining the Bank in 2015, Mr. Wydock served as head of Enterprise Risk Management and Chief Risk Officer for Susquehanna Bancshares, Inc. (NASDAQ: SUSQ) in Lititz, Pennsylvania from 2008 through 2015 and as Chief Audit Executive from 2002 to 2008. Mr. Wydock has also held various positions in accounting and risk management, most notably with PricewaterhouseCoopers LLP as a Director of Audit and Risk Advisory Services in Baltimore,

Maryland and Washington, D.C., serving clients in the financial services industry, and as Chief Audit Executive for CapitalOne Bank in Chevy Chase, Maryland. Mr. Wydock is a C.P.A. (inactive) and holds a B.S. in Accounting from Bloomsburg University (Pennsylvania).

## **SUPERVISION AND REGULATION**

We and our subsidiaries are subject to extensive regulation under federal and state banking laws that establish a comprehensive framework for our operations. This regulatory framework may materially impact our growth potential and financial performance and is intended primarily for the protection of depositors, customers, federal deposit insurance funds and the banking system as a whole, not for the protection of our shareholders and creditors. Significant elements of the statutes, regulations and policies applicable to us and our subsidiaries are described below. This description is qualified in its entirety by reference to the full text of the statutes, regulations and policies described herein.

### **Overview**

As an insured state bank without a holding company that is not a member of the FRB, we are examined, supervised and regulated by the ASBD and the FDIC, which is our primary federal regulator. We are also subject to the regulations of the states in which we do business, the enforcement and rulemaking authority of the Consumer Financial Protection Bureau (“CFPB”) regarding consumer protection laws and regulations, and various other regulatory authorities, as well as the information reporting requirements of the Securities Exchange Act of 1934 (the “Exchange Act”) and the FDIC rules relating thereto, as administered and enforced by the FDIC. We file periodic and current reports and other materials required to be filed under the Exchange Act with the FDIC.

In recent years, both the scope of the laws and regulations and the intensity of the supervision to which our business is subject have increased, in response to the financial crisis of 2008 as well as other factors such as technological and market changes. Regulatory enforcement and fines have also increased across the banking and financial services sector. Many of these changes have occurred as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) and its implementing regulations, most of which are now in place.

With few exceptions, state and federal banking laws have as their principal objective either the maintenance of the safety and soundness of the Deposit Insurance Fund (“DIF”) of the FDIC or the protection of customers, depositors, other classes of consumers and the banking system as a whole, rather than the specific protection of our non-deposit creditors or shareholders. Banks that fail to conduct their operations in a safe and sound manner or in compliance with applicable laws can be compelled by the regulators to change the way they do business and may be subject to regulatory enforcement actions, including civil monetary penalties and restrictions imposed on their operations, including in extraordinary circumstances, closure of the banks.

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the “EGRRCPA”) was signed into law, which, among other things, amended certain provisions of the Dodd-Frank Act and included certain additional banking-related, commercial real estate, consumer protection, and securities law-related provisions. The EGRRCPA provides limited regulatory relief to certain financial institutions while preserving the existing framework under which U.S. financial institutions are regulated. Despite the improvements for mid-sized financial institutions such as us that have resulted from the EGRRCPA, many provisions of the Dodd-Frank Act and its implementing regulations remain in place and will continue to result in additional operating and compliance costs that could have a material adverse effect on our business, financial condition, and results of operations. In addition, the EGRRCPA requires the enactment of a number of implementing regulations, the details of which may have a material effect on the ultimate impact of the law.

With a divided Congress following the midterm elections, the prospects for further statutory changes to federal banking laws in the near term are uncertain; however, even absent additional legislation, the federal banking agencies will continue to consider and potentially propose and adopt regulatory changes consistent with the principles of the current presidential administration. Changes in applicable laws or regulations, and in their interpretation and application by regulatory agencies and other governmental authorities, cannot be predicted, but any of such changes may have an adverse effect on our business, financial condition or results of operations.

### **Safety and Soundness**

The federal banking agencies have adopted guidelines pursuant to the Federal Deposit Insurance Act (“FDIA”) establishing general safety and soundness standards for depository institutions related to, among other things, internal controls, information systems, internal audit systems, loan underwriting and documentation, compensation, interest rate exposure, and asset growth. For example, the FDIA limits the interest rates paid on deposits by undercapitalized institutions, restricts the use of brokered deposits, and limits the aggregate extensions of credit by a depository institution to an executive officer, director, principal shareholder or related

interest. If we were to fail to meet these standards, the FDIC could require us to submit an acceptable compliance plan or, alternatively, could pursue other courses of action depending on the specific circumstances and severity of the noncompliance.

### **Permissible Activities**

Our business is generally limited to activities permitted by Arkansas law and any applicable federal laws. Under the Arkansas Banking Code of 1997 (the “Arkansas Banking Code”), we may generally engage in all usual banking activities, including, among other things, taking deposits, lending money, issuing letters of credit, buying, discounting and negotiating promissory notes, bonds, drafts and other forms of indebtedness, and buying and selling certain investment securities. Subject to the authorization of the Arkansas State Bank Commissioner (the “Bank Commissioner”), we may also engage in any activity then permissible for national banks.

In addition, under the Gramm-Leach-Bliley Act of 1999 (the “GLBA”), state banks such as ours may invest in financial subsidiaries that engage as the principal in activities that would only be permissible for a national bank to conduct in a financial subsidiary. This authority is generally subject to the same conditions that apply to national bank investments in financial subsidiaries.

### **Dodd-Frank Act**

Enacted largely as a response to the financial crisis of 2008, the Dodd-Frank Act fundamentally restructured federal banking regulation by shifting from prudential regulation of individual institutions to a system view of regulations. Many aspects of the Dodd-Frank Act’s implementation have required regulatory agencies to draft implementing regulations, resulting in significant regulatory change since the law’s enactment. Provisions of the Dodd-Frank Act that have had or may have a material effect on our business include, among others: changing the assessment base for federal deposit insurance; making permanent the \$250,000 limit for federal deposit insurance; eliminating the requirement that the FDIC pay dividends from the DIF in certain cases; repealing the federal prohibitions on the payment of interest on demand deposits; heightening corporate governance requirements for all public companies (including “say-on-pay” shareholder votes, compensation clawback policy requirements, expanded executive compensation disclosures and new director independence requirements); creation of the CFPB; imposing additional underwriting standards and other requirements for mortgage lending; permitting the establishment of *de novo* interstate branches; limiting debit card interchange fee charges for banks with \$10 billion or more in assets; and incentivizing and protecting whistleblowers who report violations of the federal securities laws.

Because our total assets exceed \$10 billion, we must also comply with certain additional requirements created by the Dodd-Frank Act, including enhanced prudential oversight requirements and a more frequent and enhanced regulatory examination regime. Failure to comply with these requirements could result in regulatory enforcement actions, could negatively impact our business, financial condition or results of operations and could limit our growth or expansion activities.

As summarized below, many aspects of the Dodd-Frank Act continue to be subject to rulemaking and are expected to take effect over several additional years, making it difficult to anticipate the overall financial impact on us or across the industry. The changes resulting from the Dodd-Frank Act have had and may continue to have an effect on the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes have required and may continue to require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements.

*Stress Testing.* Prior to the passage of the EGRRCPA, the Dodd-Frank Act required banking organizations with more than \$10 billion in average total consolidated assets, including FDIC-insured state non-member banks such as us, to conduct annual stress tests based on scenarios selected by the federal regulatory agencies and to assess the quarterly impact of the stress scenarios on capital over a period of nine quarters. As a result of the EGRRCPA, together with the interagency statement regarding EGRRCPA released by the federal banking agencies on July 6, 2018, we are no longer subject to the Dodd-Frank Act stress testing requirements. We will continue to utilize internal stress testing as part of our capital planning process and monitor our capital consistent with the safety and soundness expectations of the federal regulators.

*Debit Interchange Fees.* Since July 1, 2017 we have been required to comply with Section 1075 of the Dodd-Frank Act, often referred to as the Durbin Amendment, which caps interchange fees for debit card transactions, or “swipe fees,” at \$0.21 plus 5 basis points multiplied by the size of the transaction. Prior to July 1, 2017, we were exempt from the Durbin Amendment’s limitation on swipe fees because our total assets were less than \$10 billion.

*Prohibition on Proprietary Trading and Certain Fund Relationships.* Section 619 of the Dodd-Frank Act, also known as the Volcker Rule, prohibits banks and their affiliates from engaging in proprietary trading or acquiring or retaining an ownership interest in, sponsoring, or having certain relationships with a hedge fund or private equity fund. In May 2018, the federal banking agencies

released a notice of proposed rulemaking to amend the Volcker Rule and establish a tiered compliance regime. Because we do not currently engage in activities prohibited by the Volcker Rule, we do not currently anticipate that it will have a material effect on our operations. We may incur costs if we are required to adopt additional policies and systems to ensure compliance with the Volcker Rule, but any such costs are not expected to be material. Unanticipated effects of the Volcker Rule's provisions or future regulatory or court interpretations may have an adverse effect on our business.

*Emergency Economic Stabilization Act.* In December 2008, pursuant to the Troubled Asset Relief Program ("TARP") and the related Capital Purchase Plan ("CPP") established by the U.S. Treasury Department ("Treasury"), Treasury purchased \$75 million of a newly created series of our preferred stock and a warrant to purchase shares of our common stock. In November 2009, we redeemed the preferred stock from Treasury, returned to Treasury the original investment amount of \$75 million plus accrued and unpaid dividends thereon, repurchased the warrant from Treasury, and exited the TARP and CPP programs. Although we are no longer participants in the CPP and TARP programs, the Office of the Special Inspector General for TARP ("Inspector General") retains authority to audit and investigate all aspects of TARP even after the capital we received under the CPP was repaid to Treasury, and we remain subject to requests by the Inspector General for documentation pertaining to our compliance with TARP requirements prior to our repayment of such capital. In addition, in the event that any bank we have previously acquired or acquire in the future participated in the TARP and CPP programs, we are or will be subject to the same enforcement and oversight activities of the Inspector General with respect to such bank's participation.

*CRE Lending Concentrations.* The federal banking agencies, including the FDIC, have promulgated guidance governing financial institutions with concentrations in CRE lending. The guidance provides that a bank has a concentration in CRE lending if (i) total reported loans for construction, land development and other land represent 100% or more of total risk-based capital or (ii) total reported loans secured by multifamily and non-owner occupied non-farm/non-residential properties and loans for construction, land development and other land represent 300% or more of total capital and the bank's CRE loan portfolio has increased 50% or more during the prior 36 months. If a concentration is present, management must employ heightened risk management practices that address key elements, including board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of CRE lending. Based on the regulatory guidance, we have determined that we have a concentration in CRE lending. While we believe we have implemented policies and procedures with respect to our CRE lending consistent with this guidance, bank regulators could require us to implement additional policies and procedures consistent with their interpretation of the guidance that may result in additional costs to us.

The actions described above, together with additional actions announced by regulatory agencies, continue to evolve. It remains unclear at this time what will be the long-term impact on the financial markets and the financial services industry of the Dodd-Frank Act or any of the other liquidity, funding and home ownership initiatives of Treasury and other bank regulatory agencies that have been previously announced, or any additional programs that may be initiated in the future. However, given the sweeping nature of the Dodd-Frank Act and other federal government initiatives, we expect that our regulatory compliance costs will continue to increase over time.

## **Deposit Premiums and Assessments**

Our deposits are insured by the FDIC's DIF to the fullest extent permissible by law, and we are subject to deposit insurance assessments to maintain the DIF. Under the FDIC's risk-based assessment system, the assessment rates for an insured depository institution are determined by an assessment rate calculator, which is based on a number of elements such as supervisory evaluations, regulatory capital levels and other components that measure the perceived risk the institution poses to the DIF. The calculated assessment rate is applied to the institution's average consolidated total assets less its average tangible equity during the assessment period to determine the dollar amount of the assessment paid by the institution. The FDIC has the ability to make discretionary adjustments to the total score based upon its determination of the existence of significant risk factors that are not adequately captured in the calculations. In addition to ordinary assessments, the FDIC has the ability to impose special assessments in certain instances.

The Dodd-Frank Act increased the minimum target DIF reserve ratio from 1.15% to 1.35% of estimated insured deposits and required that the increased reserve ratio be reached by September 30, 2020. Pursuant to the FDIC's DIF restoration plan, insured institutions with total assets of \$10 billion or more, including our bank, are responsible for funding the increase, and on July 1, 2016, the FDIC began imposing a surcharge on such banks. The surcharge equaled an annual rate of 4.5 basis points applied to the institution's assessment base (with certain adjustments), and continued through October 1, 2018, when the reserve ratio exceeded 1.35%. The FDIC has established a long-term target for the reserve ratio of 2.0%.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.



## Capital Requirements

In recent years, the FDIC and other federal banking regulators revised the risk-based capital requirements applicable to insured depository institutions, including us, to make them consistent with agreements reached by the Basel Committee on Banking Supervision (“Basel III”) and certain provisions of the Dodd-Frank Act (the “Basel III Rules”). The Basel III Rules became effective for us on January 1, 2015 (subject to a phase-in period for certain provisions). The Basel III Rules require the maintenance of minimum amounts and ratios of common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets, and of tier 1 capital to adjusted quarterly average assets.

Under the Basel III Rules, common equity tier 1 capital consists of common stock and paid-in capital (net of treasury stock) and retained earnings. Common equity tier 1 capital is reduced by goodwill, certain intangible assets, net of associated deferred tax liabilities, deferred tax assets that arise from tax credit and net operating loss carryforwards, net of any valuation allowance, and certain other items as specified by the Basel III Rules.

Tier 1 capital includes common equity tier 1 capital and certain additional tier 1 items as provided under the Basel III Rules. Our tier 1 capital consists solely of common equity tier 1 capital. Until 2016, our trust preferred securities were grandfathered under the Basel III Rules and included as tier 1 capital; however, because we now exceed \$15 billion in total assets, our trust preferred securities are no longer included in tier 1 capital, but continue to be included as tier 2 capital.

Basel III Rules allow insured depository institutions to make a one-time election not to include most elements of accumulated other comprehensive income (loss) in regulatory capital and instead effectively use the existing treatment under the general risk-based capital rules. We made this opt-out election to avoid significant variations in our level of capital depending upon the impact of interest rate fluctuations on the fair value of our investment securities portfolio.

Total capital includes tier 1 capital and tier 2 capital. Tier 2 capital includes, among other things, the allowable portion of the allowance for loan losses (“ALL”), trust preferred securities and subordinated notes.

The Basel III Rules also changed the risk-weights of assets in an effort to better reflect perceived credit risk and other risk exposures. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans (“HVCRE”) and the unsecured portion of non-residential mortgage loans that are 90 days past due or otherwise on nonaccrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; a 250% risk weight (up from 100%) for mortgage servicing rights and deferred tax assets that are not deducted from capital; and increased risk weights (from 0% to up to 600%) for equity exposures. The EGRRCPA clarified the definition and risk-weighting of HVCRE loans, with the revised definition excluding any loans made prior to January 1, 2015, and certain other loans currently classified as HVCRE.

The Basel III Rules limit capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” consisting of 2.5% of common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets in addition to the amount necessary to meet minimum risk-based capital requirements. The Basel III Rules require us to maintain (i) a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 7.0%, (ii) a minimum ratio of tier 1 capital to risk-weighted assets of at least 6.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 8.5%, (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 10.5%, and (iv) a minimum leverage ratio of 4.0%.

## Cybersecurity and Privacy

Cybersecurity is a high-priority item for legislators and regulators at the federal and state levels, as well as internationally. State and federal banking regulators have issued various policy statements and, in some cases, regulations, emphasizing the importance of technology risk management and supervision. Such policy statements and regulations indicate that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. A financial institution’s management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution’s operations after a cyber attack involving destructive malware. A financial institution is expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber attack. These requirements, including state regulatory rules such as the detailed and extensive cybersecurity rules issued in 2016 by the New York State Department of Financial Services, may cause us to incur significant

additional compliance costs and in some cases may impact our growth prospects. Additionally, if we fail to observe federal or state regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our operations and store sensitive data. We employ an in-depth, layered, defensive approach that leverages people, processes and technology to manage and maintain cybersecurity controls. We also employ a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of our defensive measures, the threat from cyber attacks is severe, as attacks are sophisticated and increasing in volume and complexity, and attackers respond rapidly to changes in defensive measures. Our systems and those of our customers and third-party service providers are under constant threat, and it is possible that we or they could experience a significant event in the future that could adversely affect our business or operations. As cybersecurity threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Financial expenditures may also be required to meet regulatory changes in the information security and cybersecurity domains. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as the expanding use of internet banking, mobile banking and other technology-based products and services by us and our customers. See “Item 1A. Risk Factors” in this Annual Report on Form 10-K for a further discussion of risks related to cybersecurity.

Federal statutes and regulations, including the GLBA and the Right to Financial Privacy Act of 1978, limit our ability to disclose non-public information about consumers, customers and employees to nonaffiliated third parties. Specifically, the GLBA requires us to disclose our privacy policies and practices relating to sharing non-public information and enables retail customers to opt out of our ability to share information with unaffiliated third parties under certain circumstances. The GLBA also requires us to implement a comprehensive information security program that includes administrative, technical and physical safeguards to ensure the security and confidentiality of customer records and information and, if applicable state law is more protective of customer privacy than the GLBA, financial institutions, including our bank, will be required to comply with such state law. Other laws and regulations impact our ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. In connection with the regulations governing the privacy of consumer financial information, the federal banking agencies, including the FDIC, have adopted guidelines for establishing information security standards and programs to protect such information.

Proposed or new legislation and regulations may also significantly increase our compliance cost and impede our ability to grow into specific markets. There are a number of proposals that have either recently been adopted or are currently pending before federal, state, and foreign legislative and regulatory bodies. For example, the European Union adopted the General Data Protection Regulation (the “GDPR”), which became effective on May 25, 2018 and California passed the California Consumer Privacy Act of 2018 (the “CCPA”) on June 28, 2018. Both the GDPR and the CCPA impose additional obligations on companies regarding the handling of personal data and provide certain individual privacy rights to persons whose data is stored. In the event of a data breach, there are mandatory reporting requirements that may hamper the ability to fully assess an incident prior to external reporting. We must maintain awareness of additional legal and regulatory requirements that apply to existing and future subsets of the customer base for protection against legal, reputational, and financial risk due to compliance failures.

### **Community Reinvestment Act and Fair Lending**

The Community Reinvestment Act of 1977, or CRA, requires that federal banking regulators, in connection with their examinations of financial institutions, evaluate the record of financial institutions in meeting the credit needs of their local communities, including low and moderate-income individuals and neighborhoods, consistent with the safe and sound operations of the banks. Failure to adequately meet these criteria could impose additional requirements and limitations on us. These regulations also provide for regulatory assessment of a bank’s record in meeting the needs of its service areas, and this record is taken into account by the regulators when considering applications to, among other things, establish branches or merge with or acquire the assets and assume the liabilities of another bank. In the case of a potential merger or acquisition, the CRA performance record of the banks involved in the transaction are reviewed in connection with the filing of an application for approval of such merger or acquisition. An unsatisfactory record can substantially delay or block the transaction. Additionally, a bank must make certain portions of its most recent CRA examination report conducted by its federal banking regulators available for public review. In April 2018, Treasury issued a memorandum to the federal banking regulators recommending changes to the CRA’s implementing regulations to reduce their complexity and associated burdens on banks. We will continue to evaluate the impact of any changes to the regulations implementing the CRA.

We are also subject to certain fair lending requirements and reporting obligations involving our home mortgage lending operations. Fair lending laws prohibit discrimination in the provision of banking services, and bank regulators have increasingly focused on the enforcement of these laws. Fair lending laws include the Equal Credit Opportunity Act of 1974 and the Fair Housing

Act of 1968, which prohibit discrimination in credit and residential real estate transactions on the basis of prohibited factors including, among others, race, color, national origin, gender and religion. We may be liable, either through administrative enforcement or private civil actions, for policies that result in a disparate treatment of or have a disparate impact on a protected class of applicants or borrowers. If a pattern or practice of lending discrimination is alleged by a regulator, then that agency may refer the matter to the U.S. Department of Justice (“DOJ”) for investigation. Pursuant to a Memorandum of Understanding, the DOJ and CFPB have agreed to share information, coordinate investigations and generally commit to strengthen their coordination efforts. We are required to have a fair lending program that is of sufficient scope to monitor the inherent fair lending risk of our institution and that appropriately remediates issues which are identified.

### **Executive and Incentive Compensation**

The federal banking regulators have adopted guidelines prohibiting excessive compensation as an unsafe and unsound practice. Compensation is considered excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder.

The federal banking regulators have issued guidance on incentive compensation policies intended to ensure that banks’ incentive compensation policies do not undermine safety and soundness by encouraging excessive risk taking. This guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based on key principles that a bank’s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization’s ability to identify and manage risk, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective board oversight. Deficiencies in compensation practices may affect our supervisory ratings, which could affect our ability to make acquisitions or take other actions, and enforcement actions may be taken if our incentive compensation arrangements or related risk-management control or governance processes pose a risk to safety and soundness and we are not taking prompt and effective measures to correct the deficiencies.

The Dodd-Frank Act requires the federal banking agencies and the SEC to establish joint regulations or guidelines for specified regulated entities, like us, having at least \$1 billion in total assets, to prohibit incentive-based payment arrangements that encourage inappropriate risk-taking by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. These regulators must also establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The federal regulators proposed such regulations in April 2011 and issued a second proposed rule in April 2016. The April 2016 proposed rule would apply to banks with at least \$1 billion in average total consolidated assets and would prohibit certain types and features of incentive-based compensation arrangements, require incentive-based compensation arrangements to adhere to certain basic principles, and require appropriate board or committee oversight and recordkeeping and disclosures to the appropriate agency. Although final rules have not been adopted as of February 2019, if these or other regulations are adopted in a form similar to that proposed, they will impose limitations on the manner in which we may structure compensation for our executives and certain other employees.

### **Anti-Money Laundering, the USA PATRIOT Act and the Office of Foreign Assets Control Regulation**

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The Bank Secrecy Act (“BSA”) and its implementing regulations and parallel requirements of the federal banking regulators require us to maintain a risk-based anti-money laundering (“AML”) program reasonably designed to prevent and detect money laundering and terrorist financing and to comply with the recordkeeping and reporting requirements of the BSA, including the requirement to report suspicious activity. The USA PATRIOT Act of 2001 (the “Patriot Act”) substantially broadened the scope of AML laws and regulations by imposing significant new compliance and due diligence obligations on financial institutions, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Financial institutions, including banks, are required under final rules implementing Section 326 of the Patriot Act to establish procedures for collecting standard information from customers opening new accounts and verifying the identity of these new account holders within a reasonable period of time. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must take certain steps to assist government agencies in detecting and preventing money laundering and to report certain types of suspicious transactions. The Patriot Act also amended Section 18(c) of the FDIA (commonly referred to as the “Bank Merger Act”) to require federal banking regulatory authorities to consider the effectiveness of a financial institution’s AML program when reviewing an application to expand operations.

In May 2016, Treasury’s Financial Crimes Enforcement Network (“FinCEN”) issued rules (the “Customer Due Diligence Rule”) under the BSA requiring financial institutions to identify the beneficial owners who own or control certain legal entity customers at the time an account is opened and to update their AML compliance programs no later than May 11, 2018, to include risk-based policies and procedures for conducting ongoing customer due diligence, including policies and procedures that are reasonably

designed to (1) identify and verify the identity of customers; (2) identify and verify the identity of the beneficial owners of companies opening accounts; (3) understand the nature and purpose of customer relationships to develop customer risk profiles; and (4) conduct ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information. As part of the requirement to obtain beneficial ownership information, we must identify and verify the identity of any individuals who own 25 percent or more of a legal entity, and an individual who controls the legal entity.

FinCEN and the federal banking agencies continue to issue regulations and guidance with respect to the application and requirements of the BSA and their expectations for effective AML programs. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, to comply with United States sanctions that affect transactions with designated foreign countries, nationals and others, or to comply with any other relevant laws or regulations, could have serious legal, economic and reputational consequences for the institution, including causing applicable bank regulatory authorities to not approve any applications, including branch openings and mergers or acquisitions, when regulatory approval is required or to prohibit such transactions even if approval is not required.

## **Oversight and Enforcement**

*Enforcement Authority.* The FDIC possesses enforcement authority over insured banks, including us, pursuant to the FDIA, the Federal Deposit Insurance Corporation Improvement Act of 1991 (the “FDICIA”) and other statutes. Insured banks may be subject to potential actions for unsafe or unsound practices or violations of laws, rules, regulations or conditions imposed in writing by applicable federal banking agencies. The FDIC may exercise its enforcement powers by issuing a cease-and-desist order, imposing civil monetary penalties, requiring an increase in capital, entering into formal and informal agreements, or terminating deposit insurance.

The FDICIA required federal banking agencies to broaden the scope of regulatory corrective action taken with respect to depository institutions that do not meet minimum capital and related requirements and to take such actions promptly in order to minimize losses to the FDIC. In connection with the FDICIA, federal banking agencies established capital measures (including both a leverage measure and a risk-based capital measure) and specified for each capital measure the levels at which depository institutions will be considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized. If an institution becomes classified as undercapitalized, the appropriate federal banking agency will require the institution to submit an acceptable capital restoration plan and can suspend or greatly limit the institution’s ability to effect numerous actions, including capital distributions, certain deposit gathering activities, acquisitions of assets, establishing new branches, entering into new lines of business, or using brokered deposits. The capital restoration plan will not be accepted by the regulators unless any company having control of the undercapitalized institution guarantees the subsidiary’s compliance with the capital restoration plan up to a certain specified amount.

*Examination.* The ASBD and the FDIC conduct regular examinations of us, reviewing such matters as the overall safety and soundness of the institution, the adequacy of our ALL, the quality of our loans and investments, the appropriateness of management practices, risk management, interest rate exposure, vendor management, internal controls and audit systems, compliance with laws and regulations, and other aspects of our operations. These examinations are designed for the protection of our depositors, rather than our shareholders. We generally undergo FDIC and ASBD examinations that are conducted jointly by the agencies. In addition, the Dodd-Frank Act gives the CFPB the authority to include its examiners, on a sampling basis, in examinations performed by primary federal regulators such as the FDIC, in order to assess compliance with consumer financial protection laws.

*Acquisition Approvals.* Under the Bank Merger Act and the Arkansas Banking Code, the prior approval of the FDIC and the ASBD is required for us to merge with another bank or purchase all or substantially all of the assets or assume any of the deposits of another FDIC-insured depository institution. In reviewing applications for merger and acquisition transactions, bank regulators consider, among other things, the competitive effect and public benefits of the transactions, the capital position and managerial resources of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant’s CRA performance record, the applicant’s compliance with fair housing and other consumer protection laws and the effectiveness of all organizations involved in combatting money laundering activities. In addition, failure to implement or maintain adequate compliance programs could cause bank regulators not to approve an acquisition where regulatory approval is required or to prohibit an acquisition even if approval is not required.

*Change in Bank Control.* Under the Change in Bank Control Act (the “CIBCA”), a notice must be submitted to the FDIC if any person (including a company), or group acting in concert, seeks to acquire “control” of us. Control is defined as the power, directly or indirectly, to direct our management or policies or to vote 25% or more of any class of our outstanding voting securities. Additionally, a rebuttable presumption of control arises when any person (including a company), or group acting in concert, seeks to acquire 10% or more, but less than 25%, of any class of our outstanding voting securities which are publicly traded. When reviewing a notice under the CIBCA, the FDIC will take into consideration the financial and managerial resources of the acquirer, the convenience and needs of

the communities served by us, the anti-trust effects of the acquisition and other factors. Under the Bank Holding Company Act of 1956, as amended (the “BHCA”), any company that is not an existing bank holding company would be required to obtain prior approval from the FRB before it could obtain “control” of us (and thereby become a bank holding company) within the meaning of the BHCA. Control generally is defined to mean the ownership or power to vote 25% or more of any class of our voting securities, the ability to control in any manner the election of a majority of our directors or the exercise of a controlling influence over our management and policies. An existing bank holding company would be required to obtain the FRB’s prior approval under the BHCA before acquiring more than 5% of any class of our voting securities.

## **Other Regulations and Restrictions**

*Reporting Obligations.* We must submit to federal and state regulators annual audit reports prepared by independent auditors. Our Annual Report on Form 10-K, which includes the report of our independent auditors, can be used to satisfy this requirement. We also submit Federal Financial Institutions Examination Council 041 Consolidated Reports of Condition and Income (“Call Reports”) to the FDIC on a quarterly basis and file other required reports with various federal and state regulators.

*Lending Limits.* Our lending and investment authority is derived from Arkansas law. The lending power is generally subject to certain restrictions, including the amount which may be lent to a single borrower. Under Arkansas law, the obligations of one borrower to a bank may not exceed 20% of the bank’s capital base. See also note 17 of the consolidated financial statements under “Part II, Item 8. Financial Statements and Supplementary Data” of this Annual Report on Form 10-K for a discussion of lending limits.

*Reserve Requirements.* Arkansas law requires state chartered banks to maintain such reserves as are required by the applicable federal regulatory agency. Federal banking laws require all insured banks to maintain reserves against their checking and transaction accounts (primarily checking accounts, NOW and Super NOW checking accounts). Because reserves must generally be maintained in cash, non-interest bearing accounts or in accounts that earn only a nominal amount of interest, the effect of the reserve requirements is to increase our cost of funds.

*Payment of Dividends.* Regulations of the FDIC and the ASBD limit our ability to pay dividends to our shareholders without the prior approval of such agencies. FDIC regulations prevent insured state banks from paying any dividends from capital and allow the payment of dividends only from net profits then on hand after deduction for losses and bad debts. The ASBD currently limits the amount of dividends that we can pay our shareholders to 75% of net profits after taxes for the current year plus 75% of retained net profits after taxes for the immediately preceding year. In addition, our ability to pay dividends may also be restricted by certain covenants contained in the indentures governing our trust preferred securities, our subordinated debentures and our subordinated notes. See also note 17 of the consolidated financial statements under “Part II, Item 8. Financial Statements and Supplementary Data” of this Annual Report on Form 10-K for a discussion of dividend restrictions.

*Restrictions on Transactions with Affiliates or Related Parties.* Federal law substantially restricts transactions between financial institutions and their affiliates, particularly their non-financial institution affiliates. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank.

We are subject to Section 23A of the Federal Reserve Act, which places limits on the amount of loans or extensions of credit to, or investments in, or certain other transactions with, affiliates. In addition, limits are placed on the amount of advances to third parties collateralized by the securities or obligations of affiliates. Most of these loans and certain other transactions must be secured in prescribed amounts. We are also subject to Section 23B of the Federal Reserve Act, which prohibits an institution from engaging in transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with non-affiliated companies. We are subject to restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. These extensions of credit (1) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (2) must not involve more than the normal risk of repayment or present other unfavorable features.

*Securities Laws and Regulations.* We are subject to certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws. We are subject to the jurisdiction of the FDIC, the ASBD and state securities regulatory authorities for matters relating to the offer and sale of our securities.

## **Consumer Financial Protection**

The consumer protection provisions of the Dodd-Frank Act and the examination, supervision and enforcement of those laws and implementing regulations by the CFPB have created a more intense and complex environment for consumer finance regulation. We

are subject to a number of federal and state consumer protection laws that extensively govern our relationship with our customers. These laws include, among others, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Home Ownership and Equity Protection Act, the Electronic Fund Transfer Act, the Fair and Accurate Credit Transactions Act, the Fair Debt Collection Practices Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Truth in Savings Act, the Expedited Funds Availability Act, the Check Clearing for the 21st Century Act, the Service Members Civil Relief Act, the Telephone Consumer Protection Act, the CAN-SPAM Act, and similar state laws, as well as state usury laws and other state consumer protection laws. These and other laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive acts and practices, restrict our ability to raise interest rates and subject us to significant regulatory oversight. Failure to comply with these and other consumer protection requirements may result in significant liability in private civil actions or enforcement actions by federal and state bank regulators or consumer protection agencies or state attorneys general, and may prevent us from engaging in merger or acquisition transactions or other activities requiring regulatory approval or that regulators may prohibit even if approval is not required.

The CFPB is designed to prevent unfair, deceptive and abusive practices and ensure that all consumers have access to markets for consumer financial products and services, and that such markets are fair, transparent and competitive. Because our total assets exceed \$10 billion, the CFPB has direct supervision and enforcement authority over us, including the authority to investigate possible violations of federal consumer financial laws, hold hearings and commence civil litigation, and establish applicable examination, enforcement and reporting requirements. The CFPB has significant authority to implement and enforce the consumer finance laws identified above and others, as well as the authority to identify and prohibit unfair, deceptive or abusive acts and practices. The review of products and practices to prevent such unfair, deceptive or abusive acts and practices is a continuing focus of the CFPB, and of banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties. In addition, the Dodd-Frank Act provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations, to impose significant monetary penalties or injunctive relief that prohibits lenders from engaging in allegedly unlawful practices, or to obtain cease and desist orders providing for affirmative relief or monetary penalties. The CFPB has been active in bringing enforcement actions related to consumer financial protection laws and obtaining the forms of relief described above.

The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

#### **Arkansas Law**

We are subject to examination and regulation by the ASBD. Under the Arkansas Banking Code, the acquisition of more than 25% of any class of the outstanding capital stock of any bank requires approval of the Bank Commissioner. The Bank Commissioner's approval is required in order for us to make acquisitions, amend our articles of incorporation, repurchase shares of our capital stock (other than payments to dissenting shareholders in a transaction), issue preferred stock or debt, increase, reduce or retire any part of our capital stock, retire debt instruments, or conduct certain types of activities that are incidental or closely related to banking.

The Bank Commissioner has the authority, with the consent of the Governor of the State of Arkansas, to declare a state of emergency and temporarily modify or suspend banking laws and regulations in communities where such a state of emergency exists. The Bank Commissioner may also authorize a bank to close its offices and any day when such bank offices are closed will be treated as a legal holiday, and any director, officer or employee of such bank shall not incur any liability related to such emergency closing. To date no such state of emergency has been declared to exist by the Bank Commissioner.

#### **Effect of Governmental Monetary Policies**

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the U.S. government and its agencies. The monetary policies of the FRB have had, and are likely to continue to have, an important impact on the operating results of commercial banks through the FRB's statutory power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The FRB, through its monetary and fiscal policies, affects the levels of bank loans, investments and deposits through its control over the issuance of U.S. government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which member banks are subject. We cannot predict the nature or impact of future changes in the FRB's monetary and fiscal policies.

## **Future Regulation of Banks**

Certain proposals affecting the banking industry have been discussed from time to time, including but not limited to the following: regulation of all insured depository institutions by a single “super” federal regulator; limitations on the number of accounts protected by the DIF and further modification of the coverage limit on deposits. In addition to potential legislative action, it is unclear whether or to what extent the federal departments and agencies will finalize, adopt, amend or repeal existing or proposed rules and regulations, including those implementing the Dodd-Frank Act and the EGRRCPA. The ultimate impact of the Dodd-Frank Act on our business and results of operations will depend on regulatory interpretation and rulemaking, including as a result of the EGRRCPA, as well as the success of any actions taken to mitigate the negative earnings impact of certain provisions.

We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute. The scope, timing and implementation of regulatory and statutory changes are uncertain and could have an adverse effect on our business, financial condition or results of operation.

## **Available Information**

We file annual, periodic and current reports, proxy statements and other information required by the Exchange Act with the FDIC, copies of which are available electronically at the FDIC’s website at <http://www.fdic.gov>. In addition, we make available, free of charge, through the Investor Relations section of our Internet website at <http://ir.ozk.com> under “Filings,” our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such reports with or furnish them to the FDIC. You may also inspect and copy any document we file with the FDIC at the public reference facilities maintained at the FDIC, Accounting and Securities Disclosure Section, Division of Risk Management Supervision, 550 17<sup>th</sup> Street, NW, Washington, DC 20429.

We have adopted a written code of ethics that applies to all directors, officers and employees of the Bank, including our principal executive officer and senior financial officers, in accordance with Section 406 of the Sarbanes-Oxley Act of 2002 and the rules of the SEC promulgated thereunder. Our code of ethics is available on our Investor Relations website, <http://ir.ozk.com>, under “Corporate - Governance Documents.” In the event that we make changes in, or provide waivers from, the provisions of this code of ethics that we are required to disclose, we intend to disclose these events on our corporate website in such section. Also posted on our website, and available in print upon request from any shareholder to our Investor Relations Department, are our Corporate Governance Principles, Board committee charters and other corporate governance related policies and documents.

Information contained on or accessible through our website or any other website referenced in this report is not part of this report. References to websites in this report are intended to be inactive textual references only.

Shareholders may obtain a copy of any of the above-referenced corporate governance documents by writing to our Investor Relations Department at Investor Relations, Bank OZK, P. O. Box 8811, Little Rock, Arkansas 72231-8811 or by calling (501) 978-2265. Pursuant to Section 350.3 of the FDIC rules and regulations, each bank is required to make available on request an annual disclosure statement. Our Annual Report on Form 10-K serves as our annual disclosure statement.

## **Item 1A. RISK FACTORS**

*An investment in shares of our common stock involves a variety of risks, some of which are specific to us and some of which are inherent to the financial services industry. The following risks and other information in this report or incorporated in this report by reference, including our consolidated financial statements and related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” should be carefully considered before investing in our securities. These risks may adversely affect our financial condition, results of operations or liquidity. Many of these risks are out of our direct control, though efforts are made to manage those risks while optimizing financial results. These risks are not the only ones we face. Additional risks and uncertainties that we are not aware of or focused on or that we currently deem immaterial may also adversely affect our business and operation. This Annual Report on Form 10-K is qualified in its entirety by all these risk factors.*

## **RISKS RELATED TO OUR BUSINESS**

**Our financial performance may be adversely affected by conditions in the financial markets and economic conditions generally and in our markets in particular.**

Our financial performance is highly dependent on the business environment in the markets where we operate and in the U.S. as a whole. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity,

investor or business confidence, consumer sentiment, limitations on the availability or increases in the cost of credit and capital, increases in inflation or interest rates, natural disasters, terrorist attacks, acts of war, or a combination of these or other factors. A worsening of business and economic conditions generally or specifically in the principal markets in which we conduct business could have adverse effects, including the following:

- a decrease in deposit balances or the demand for loans and other products and services we offer;
- an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us, which could lead to higher levels of past due loans, nonperforming assets, net charge-offs and provisions for credit losses;
- a decrease in the value of loans and other assets secured by real estate;
- a decrease in net interest income from our lending and deposit gathering activities; and
- an increase in competition resulting from financial services companies.

It is possible that the business environment in the U.S. will experience volatility in the future. There can be no assurance that these conditions will improve in the near term or that conditions will not worsen. Such conditions could adversely affect our business, financial condition, and results of operations.

#### **We depend on key personnel for our success.**

Our operating results and ability to manage our growth and minimize loan losses are highly dependent on the services, managerial abilities and performance of our current executive officers and other key personnel. We have an experienced management team that our Board of Directors believes is capable of managing and growing our business. We do not have employment contracts with our executive officers or, except in limited cases pursuant to acquisitions, key personnel. Losses of or changes in our current executive officers or other key personnel and their responsibilities may disrupt our business and could adversely affect our financial condition, results of operations and liquidity. Additionally, our ability to retain our current executive officers and other key personnel may be further impacted by existing or new legislation and regulations regarding incentive compensation that is affecting or may affect the financial services industry, as discussed in “Item 1. Business – Supervision and Regulation – Executive and Incentive Compensation.” There can be no assurance that we will be successful in retaining our current executive officers or other key personnel, or hiring additional key personnel to assist in executing our growth, expansion, acquisition and business strategies.

#### **Our operations are significantly affected by interest rate levels.**

Our profitability is dependent to a large extent on net interest income, which is the difference between interest income earned on loans and investment securities and interest expense paid on deposits, other borrowings, subordinated debentures and subordinated notes. Our business is affected by changes in general interest rate levels and changes in the differential between short-term and long-term interest rates, both of which are beyond our control. An increase in market interest rates on loans is generally associated with a lower volume of loan originations, which may reduce earnings. Following an increase in the general level of interest rates, our ability to maintain a positive net interest spread is dependent on our ability to increase our loan offering rates, replace loan maturities with new originations, minimize increases on our deposit rates, and maintain an acceptable level and mix of funding. Although we have implemented procedures we believe will reduce the potential effects of changes in interest rates on our net interest income, these procedures may not always be successful. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest income and our net interest margin, asset quality, loan origination volume, liquidity, and overall profitability. We cannot assure you that we can minimize our interest rate risk.

We rely primarily on an earnings simulation model to analyze our interest rate risk and our sensitivity to interest rate changes. This earnings simulation model projects a baseline net interest income and estimated changes to such baseline from changes in interest rates and incorporates a number of assumptions, including, among others, (i) the expected exercise of call features on various assets and liabilities, (ii) the expected rates at which rate sensitive assets and rate sensitive liabilities will reprice, (iii) the expected growth in various interest earning assets and interest bearing liabilities and the expected interest rates on such new assets and liabilities, (iv) the expected relative movements in different interest rate indices which are used as the basis for pricing or repricing various assets and liabilities, (v) existing and expected contractual ceiling and floor rates on various assets and liabilities, (vi) expected changes in administered rates on interest bearing transaction, savings, money market and time deposit accounts and the expected impact of competition on the pricing or repricing of such accounts, (vii) the timing and amount of cash flows expected to be received on investment securities and purchased loans, (viii) the need, if any, for additional capital and/or debt to support continued growth, and (ix) other relevant factors. These assumptions and inputs into our interest simulation model are difficult to predict. Should these assumptions prove to be inaccurate, our interest simulation model results may not accurately project our interest rate risk and our sensitivity to interest rate changes. As a result, we may incur increased or unexpected losses due to changes in interest rates which could materially and adversely affect our net interest income, our net interest margin and our results of operations.



**The monetary policies of the federal government and its agencies could have a material adverse effect on our earnings.**

The FRB regulates the supply of money and credit in the U.S. Its policies determine in large part the cost of funds for lending and investing and the return earned on those loans and investments, both of which may affect our net interest income and net interest margin. Changes in the supply of money and credit can also materially decrease the value of financial assets we hold, such as debt securities. The FRB's policies can also adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in such policies are beyond our control and difficult to predict; consequently, the effect of these changes on our activities and results of operations is difficult to predict.

**Our business depends on the condition of the local and regional economies where we operate.**

A large number of our banking offices are located in south central and southeastern portions of the United States. As a result, our financial condition and results of operations may be significantly impacted by changes in the economies of the states where we currently have most of our banking offices, or the markets in which our assets are geographically located. Slowdown in economic activity in these areas, including deterioration in housing markets or increases in unemployment and under-employment, may have a significant and disproportionate effect on consumer and business confidence and the demand for our products and services, result in an increase in non-payment of loans and a decrease in collateral value, and significantly affect our deposit funding sources. Any of these events could have an adverse effect on our financial position, results of operations and liquidity.

**New lines of business, products, product enhancements or services may subject us to additional risks.**

From time to time, we may implement or acquire new lines of business or offer new products and product enhancements as well as new services within our existing lines of business. There are substantial risks and uncertainties associated with these efforts. In acquiring, developing or marketing new lines of business, products, product enhancements or services, we may invest significant time and resources, although there is no guarantee that these new lines of business, products, product enhancements or services will be successful or that we will realize their expected benefits. Further, initial timetables for the introduction and development of new lines of business, products, product enhancements or services may not be achieved, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the ultimate implementation of new lines of business or offerings of new products, product enhancements or services. Furthermore, any new line of business, product, product enhancement or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or offerings of new products, product enhancements or services could have a material adverse effect on our business, financial condition or results of operations.

**Our business may suffer if there are significant declines in the value of real estate.**

The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located, whether locally, regionally or nationally, and numerous other factors. If the value of the real estate serving as collateral for our loan portfolio were to decline materially, a significant part of our loan portfolio could become under-collateralized. If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, we may not be able to realize the value of the security anticipated when we originated the loan, which in turn could have an adverse effect on our allowance and provision for loan losses and our financial condition, results of operations and liquidity.

Most of our foreclosed assets are comprised of real estate properties. We carry these properties at their estimated fair values less estimated selling costs. While we believe the carrying values for such assets are reasonable and appropriately reflect current market conditions, there can be no assurance that the values of such assets will not further decline prior to sale, or that the amount of proceeds realized upon disposition of foreclosed assets will approximate the carrying value of such assets. If the proceeds from any such dispositions are less than the carrying value of foreclosed assets, we will record a loss on the disposition of such assets, which in turn could have an adverse effect on our results of operations.

**We are subject to environmental liability risks.**

A significant portion of our loan portfolio is secured by real property. In the ordinary course of business, we may foreclose on and take title to real properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. Additionally, we have acquired a number of retail banking facilities and other real properties, any of which may contain hazardous or toxic substances. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent

interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. We have policies and procedures that require either formal or informal evaluation of environmental risks and liabilities on real property (i) before originating any loan or foreclosure action, except for certain loans where the real estate collateral is second lien collateral or (ii) prior to the completion of any acquisition of retail banking facilities, real property for future development of retail banking facilities or any other real property, including any real property to be acquired in a merger and acquisition transaction. These policies, procedures and evaluations may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard, including any fines or penalties levied for noncompliance with environmental laws, could have an adverse effect on our financial condition, results of operations and liquidity.

**If we do not properly manage our credit risk, our business could be seriously harmed.**

There are substantial risks inherent in making any loan, including, but not limited to:

- risks resulting from changes in economic and industry conditions;
- risks inherent in dealing with individual borrowers;
- risks inherent from uncertainties as to the future value of collateral; and
- the risk of non-payment of loans.

Although we attempt to minimize our credit risk through prudent loan underwriting procedures and by monitoring concentrations of our loans, there can be no assurance that these underwriting and monitoring procedures will reduce these risks. Moreover, as we continue to expand into new markets, credit administration and loan underwriting policies and procedures may need to be adapted to local conditions. The inability to properly manage our credit risk or appropriately adapt our credit administration and loan underwriting policies and procedures to local market conditions or changing economic circumstances could have an adverse effect on our allowance and provision for loan losses and our financial condition, results of operations and liquidity.

**We make and hold a significant number of construction/land development and non-farm/non-residential real estate loans in our loan portfolio.**

Our loan portfolio is comprised of a significant amount of real estate loans, including a large number of construction/land development and non-farm/non-residential loans. Our real estate loans comprised 77.2% of our total loans at December 31, 2018 (80.8% at December 31, 2017). In addition, our construction/land development and non-farm/non-residential loans, which are subsets of our real estate loans, comprised 38.4% and 25.2%, respectively, of our total loan portfolio at December 31, 2018 (41.5% and 27.9%, respectively, at December 31, 2017). Real estate loans, including construction/land development and non-farm/non-residential loans, pose different risks than other types of loan categories. In particular, real estate construction, acquisition and development loans have certain risks not present in other types of loans, including, among others, risks associated with uncertainty of total construction costs, including the potential for construction cost overruns, project completion risk, general contractor credit risk and risks associated with the ultimate sale, lease or use of the completed construction. If a decline in economic conditions or other issues cause difficulties for our borrowers of these types of loans, if we fail to accurately evaluate the credit risk of these loans when we underwrite them or if we do not continue to adequately monitor the performance of these loans, the underlying construction projects that collateralize our loans may have material adverse deviations from projected construction plans and budgets, resulting in the potential that our loan portfolio could experience delinquencies, defaults and credit losses that could have a material adverse effect on our business, financial condition or results of operations.

We believe we have established appropriate underwriting and ongoing monitoring policies and procedures for our real estate loans, including construction/land development and non-farm/non-residential loans, and have established appropriate ALL to cover the credit risk associated with such loans. However, there can be no assurance that such underwriting and ongoing monitoring policies and procedures are, or will continue to be, appropriate or that losses on real estate loans, including construction/land development and non-farm/non-residential loans, will not require additions to our ALL, which could have an adverse effect on our financial position and results of operations.

**Our concentration in CRE lending may subject us to additional regulatory scrutiny.**

The federal banking agencies, including the FDIC, have promulgated guidance on sound risk management practices for financial institutions with concentrations in CRE lending. The guidance provides that a bank may have a concentration in CRE lending if (i) total reported loans for construction, land development and other land represent 100% or more of total risk-based capital or (ii) total reported loans secured by multifamily and non-owner occupied, non-farm/non-residential properties and loans for construction, land development and other land represent 300% or more of total risk-based capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months. Based on these criteria, we have a concentration in CRE lending as total loans for construction, land development and other land loans represented 186% of our total risk-based capital at December 31,

2018 (209% at December 31, 2017). Additionally, our total loans for multifamily and non-owner occupied, non-farm/non-residential and loans for construction, land development and other land represented 313% of our total risk-based capital at December 31, 2018 (335% at December 31, 2017). The guidance states that if a concentration is present, management must employ heightened risk management practices that address key elements, including board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of CRE lending. While we believe we have implemented policies and procedures with respect to our CRE loan portfolio consistent with this guidance, bank regulators could require us to implement additional policies and procedures consistent with their interpretation of the guidance that may result in additional costs to us.

**Our indirect lending involves risk elements in addition to normal credit risk.**

Our Indirect Marine and RV lending group makes loans to individuals for the purchase of those types of vessels and vehicles. We serve customers that cover varying ranges of creditworthiness, and the terms and rates of these types of loans reflect those varying risk profiles. We have limited personal contact with these borrowers as a result of indirect lending through non-bank channels, namely dealer relationships. If we are not able to maintain existing relationships with significant dealers or if we are not able to develop new relationships for any reason – including if we are not able to provide services on a timely basis or compete successfully with the products and services of our competitors – our indirect lending volumes, and the number of dealers with whom we have relationships, could decline in the future, which could adversely affect our results of operations or financial condition. While our lending team is experienced and skilled at underwriting and monitoring these loans, such loans involve risk elements in addition to normal credit risk. While these loans are secured, they are secured principally by depreciating assets and characterized by loan-to-value ratios that could result in us not recovering the full value of an outstanding loan upon default by the borrower. If the losses from our indirect loan portfolio are higher than anticipated, it could have a material adverse effect on our financial condition and results of operations.

**We could experience deficiencies in our allowance for loan losses.**

We maintain an ALL, established through a provision for loan losses charged to expense, that represents our best estimate of probable losses inherent in our existing loan portfolio. Although we believe that we maintain our ALL at a level adequate to absorb losses in our loan portfolio, estimates of loan losses are subjective and their accuracy may depend on the outcome of future events. Our experience in the banking industry indicates that some portion of our loans may only be partially repaid or may never be repaid at all. Loan losses occur for many reasons beyond our control. Accordingly, we may be required to make significant and unanticipated increases in our ALL during future periods which could materially affect our financial position and results of operations. Additionally, bank regulatory authorities, as an integral part of their supervisory functions, periodically review our ALL. These regulatory authorities may require adjustments to the ALL or may require recognition of additional loan losses or charge-offs based upon their judgment. Any increase in the ALL or charge-offs required by bank regulatory authorities could have an adverse effect on our financial condition, results of operations and liquidity. See *Recent Accounting Pronouncements* included in note 1 of the consolidated financial statements included in “Part II, Item 8. Financial Statements and Supplementary Data” of this Annual Report on Form 10-K for a more detailed discussion of proposed changes to how entities measure and recognize credit impairment, including the effect on the ALL.

**The performance of our investment securities portfolio is subject to fluctuation due to changes in interest rates and market conditions, including credit deterioration of the issuers of individual securities.**

Our Investment Committee, which reports to the Board of Directors, has primary responsibility for oversight of our investment portfolio functions. Changes in interest rates can negatively affect the performance of most of our investment securities. Interest rate volatility can reduce unrealized gains or increase unrealized losses in our portfolio. Interest rates are highly sensitive to many factors including monetary policies, domestic and international economic and political issues, and other factors beyond our control. Fluctuations in interest rates can materially affect both the returns on and market value of our investment securities. Additionally, actual investment income and cash flows from investment securities that carry prepayment risk, such as mortgage-backed securities and callable securities, may materially differ from those anticipated at the time of investment or subsequently as a result of changes in interest rates and market conditions.

Our investment securities portfolio consists of several securities whose trading markets are “not active.” As a result, we utilize alternative methodologies for pricing these securities that include various estimates and assumptions. There can be no assurance that we can sell these investment securities at the price derived by these methodologies, or that we can sell these investment securities at all, which could have an adverse effect on our financial position, results of operations and liquidity.

We monitor the financial position of the various issues of investment securities in our portfolio, including each of the state and local governments and other political subdivisions where we have exposure. To the extent we have securities in our portfolio from

issuers who have experienced a deterioration of financial condition, or who may experience future deterioration of financial condition, the value of such securities may decline and could result in an other-than-temporary impairment charge, which could have an adverse effect on our financial condition, results of operations and liquidity.

**We currently invest in bank owned life insurance (“BOLI”) and may continue to do so in the future.**

We had \$721 million in general, hybrid and separate account BOLI contracts at December 31, 2018. BOLI is an illiquid long-term asset that provides tax savings because cash value growth and life insurance proceeds are not taxable. However, if we needed additional liquidity and converted the BOLI to cash, such transaction would be subject to ordinary income tax and applicable penalties. We are also exposed to the credit risk of the underlying securities in the investment portfolio and to the insurance carrier’s credit risk (in a general account contract). If BOLI was exchanged to another carrier, additional fees would be incurred and a tax-free exchange could only be done for insureds that were still actively employed by us at that time. There is interest rate risk relating to the market value of the underlying investment securities associated with the BOLI in that there is no assurance that the market value of these securities will not decline. Investing in BOLI exposes us to liquidity, credit and interest rate risk, which could adversely affect our financial condition, results of operation and liquidity.

**Our accounting estimates and risk management processes rely on analytical and forecasting models and tools.**

The processes we use to estimate probable credit losses, to measure the fair value of financial instruments, and to measure and monitor risk throughout the Bank, as well as the processes used to estimate the effects of changing interest rates and other measures of our financial condition and results of operations, depend upon the use of analytical and forecasting models and tools. These models and tools reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are accurate, the models and tools may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. Any such failure in our analytical or forecasting models and tools could have a material adverse effect on our business, financial condition and results of operations.

**Our selection of accounting policies and methods may affect our reported financial results.**

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with GAAP and reflect management’s judgment of the most appropriate manner to report our financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet which may result in our reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting our financial condition and results of operations. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. Because of the uncertainty of estimates involved in these matters, we may be required to do one or more of the following: significantly increase the ALL or sustain loan losses that are significantly higher than the reserve provided; recognize significant impairment on goodwill and other intangible asset balances; reduce the carrying value of an asset measured at fair value; or significantly increase our accrued tax liability. Any of these could have a material adverse effect on our business, financial condition or results of operations. For a discussion of our critical accounting policies, see “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies.”

**Failures or interruptions in or breaches to our computer systems, or other cyber threats or information security incidents, could materially and adversely affect our business and operations.**

We are dependent upon information technologies, computer systems and networks, including those maintained by us and those maintained and provided to us by third parties (e.g. cloud solutions and “software-as-a-service”), to conduct operations and are reliant on technology to help increase efficiency in our business. These systems could become unavailable or impaired from a variety of causes, including storms and other natural disasters, terrorist attacks, fires, utility outages, internal or external theft or fraud, design defects, human error or complications encountered as existing systems are maintained, replaced or upgraded. We maintain a system of internal controls and security to mitigate the risks of many of these occurrences and maintain insurance coverage for certain risks; however, should an event occur that is not prevented or detected by our internal controls, causes an interruption in service, or is uninsured against or in excess of applicable insurance limits, such occurrence could have an adverse effect on our business and our reputation, which, in turn, could have a material adverse effect on our financial condition, results of operations and liquidity.

In addition, our operations require us to protect our information systems, technology infrastructure and data. Cyber security incidents and other disruptions could jeopardize the security of information stored in and transmitted through our information systems and networks and result in the transmission, theft, disclosure and/or destruction of our confidential information, including client and customer information, corporate information or other assets. We proactively monitor our network and deploy appropriate security personnel, processes and technologies to identify, protect, detect, respond and recover from damage or unauthorized access to our information systems and network; however, there can be no assurance that these security measures or procedures will be completely successful against every threat, every time, or that we will discover a breach in a timely fashion, especially as the methods used become increasingly complex and sophisticated and change frequently. Additionally, our risk and exposure to cyber threats and other information security breaches is heightened as we expand our use of cloud technology and internet and mobile banking delivery channels for our products and services.

We also face the risk of operational disruption, failure, termination, or capacity constraints of any of the third parties that facilitate our business activities, including vendors, exchanges, and other financial intermediaries. Such parties could also be the source or cause of an attack on, or breach of, our operational systems, data or infrastructure, and could disclose such attack or breach to us in a delayed manner or not at all. In addition, we may be at risk of an operational failure with respect to our customers' systems. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats and the continued uncertain global economic environment.

As cyber threats continue to evolve, we may be required to expend significant, additional resources to continue to modify or enhance our protective measures, investigate and remediate any information security vulnerabilities, or respond to any changes to state or federal regulations, policy statements or laws concerning information systems or security. Any failure to maintain adequate security over our information systems, our technology-driven products and services or our customers' personal and transactional information could negatively affect our business and our reputation and result in fines, penalties, or other costs, including litigation expense and/or additional compliance costs, all of which could have a material adverse effect on our financial condition, results of operations and liquidity.

**Our recent results may not be indicative of our future results.**

We may not be able to grow our business at the same rate of growth achieved in recent years or even grow our business at all. Additionally, in the future we may not have the benefit of several factors that have been favorable to our business in past years, such as an interest rate environment where changes in rates occur at a relatively orderly and modest pace, the ability to find suitable expansion opportunities, or otherwise to capitalize on opportunities presented by economic turbulence, or other factors and conditions. Numerous factors, such as weakening or deteriorating economic conditions, regulatory and legislative considerations, and competition may impede or restrict our ability to expand our market presence and could adversely affect our future operating results.

**To implement our growth strategy successfully, we must expand our operations in both new and existing markets.**

We intend to continue the expansion and development of our business by pursuing our growth and *de novo* branching strategies. Accordingly, our growth prospects must be considered in light of the risks, expenses and difficulties frequently encountered by banking companies pursuing growth strategies. In order to execute our growth strategy successfully, we must, among other things:

- identify and expand into suitable markets;
- obtain regulatory and other approvals;
- identify and acquire suitable sites for new banking offices;
- attract and retain qualified bank management and staff;
- build a substantial customer base;
- expand our loan portfolio while maintaining credit quality;
- attract sufficient deposits and capital to fund anticipated loan growth;
- maintain adequate common equity and regulatory capital;
- sustain employee productivity while pursuing various organizational initiatives; and
- maintain sufficient qualified staffing, infrastructure and organizational capacity to support growth and compliance with increasing regulatory requirements.

In addition to the foregoing factors, there are considerable costs involved in opening banking offices, and such new offices generally do not generate sufficient revenues to offset their costs until they have been in operation for some time. Therefore, any new banking offices we open can be expected to negatively affect our operating results until those offices reach a size at which they become profitable. We could also experience an increase in expenses if we encounter delays in opening any new banking offices. Moreover, we cannot give any assurances that any new banking offices we open will be successful, even after they have become

established, or that we can hire and retain qualified bank management and staff to achieve our growth and profitability goals. If we do not manage our growth effectively, our business, future prospects, financial condition, results of operations and liquidity could be adversely affected.

**We may not be able to meet the cash flow requirements of our depositors, borrowers, or creditors, or the cash needs for expansion or other corporate activities.**

Liquidity represents an institution's ability to provide funds to satisfy demands from depositors, borrowers and other creditors by either converting assets into cash or accessing new or existing sources of incremental funds. Liquidity risk arises from the possibility that we may be unable to satisfy current or future funding requirements and needs. Our ALCO Committee ("ALCO"), which reports to the Board of Directors, has primary responsibility for oversight of our liquidity, funds management, asset/liability (interest rate risk) position and capital.

The objective of managing liquidity risk is to ensure that our cash flow requirements resulting from depositor, borrower and other creditor demands are met, as well as our operating cash needs, and that our cost of funding such requirements and needs is reasonable. We maintain an asset/liability and interest rate risk policy and a liquidity and funds management policy, including a contingency funding plan that, among other things, include procedures for managing and monitoring liquidity risk. Generally we rely on deposits, repayments of loans and cash flows from our investment securities as our primary sources of funds. Our principal deposit sources include consumer, commercial and public funds customers in our markets. We have used these funds, together with wholesale deposit sources such as brokered deposits, FHLB advances, federal funds purchased and other sources of short-term borrowings, to make loans, acquire investment securities and other assets and to fund continuing operations.

Deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, returns available to customers on alternative investments, general economic and market conditions and other factors. Loan repayments are a relatively stable source of funds but are subject to the borrowers' ability to repay loans, which can be adversely affected by a number of factors including changes in general economic conditions, adverse trends or events affecting business industry groups or specific businesses, declines in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and other factors. Furthermore, loans may not be readily convertible to cash. Accordingly, we may be required from time to time to rely on secondary sources of liquidity to meet loan growth or deposit withdrawal demands or otherwise fund operations. Such secondary sources include wholesale deposit sources, secured and unsecured federal funds lines of credit from correspondent banks, FRB borrowings and/or accessing the capital markets.

We anticipate we will continue to rely primarily on deposits, loan repayments, and cash flows from our investment securities, as well as other funding sources as appropriate, to provide liquidity. Additionally, where necessary, the secondary sources of borrowed funds described above will be used to augment our primary funding sources. If we are unable to access any of these secondary funding sources when needed, or if we otherwise experience a lack of liquidity or an increase in the cost of liquidity, we might be unable to meet our depositors', borrowers' or creditors' needs, which would adversely affect our financial condition and results of operations.

**If we lose a significant portion of our core deposits or our cost of funding deposits increases, our liquidity and/or profitability could be adversely impacted.**

Our profitability depends in part on successfully attracting and retaining a stable base of relatively low-cost deposits, as deposits have traditionally served as our largest source of funding. The competition for these deposits in our markets is strong, and deposit trends can shift with economic conditions. Our deposit levels might fall if an improving economy, rising market rates, or increased competition causes depositors to become more comfortable with risk and to demand higher interest rates on their deposits or seek other investments or vehicles offering higher rates of return.

We sometimes offer credit enhancements to depositors, such as FHLB letters of credit and, for certain deposits of public monies, pledges of collateral in the form of readily marketable securities. Any event or circumstance that interferes with or limits our ability to offer these products to customers that require greater security for their deposits, such as a significant regulatory enforcement action or a significant decline in our capital levels, could negatively impact our ability to attract and retain deposits. If we were to lose a significant portion of our low-cost deposits, we would be required to borrow from other sources at higher rates and our liquidity and profitability could be adversely impacted.

**We use brokered deposits which may be an unstable and/or expensive deposit source to fund earning asset growth.**

We use brokered deposits, subject to certain limitations and requirements, as a source of funding to augment deposits generated from our branch network. Our Board of Directors has established policies and procedures with respect to the use of brokered deposits. Such policies and procedures require, among other things, that (i) we limit the amount of brokered deposits as a percentage of total deposits and (ii) our ALCO monitor our use of brokered deposits on a regular basis, including interest rates and the total volume of

such deposits in relation to our total deposits. ALCO has typically approved the use of brokered deposits when such deposits are (i) from internally-approved and stable funding sources and (ii) less costly to us than the marginal cost of additional deposits generated from our branch network. At December 31, 2018 we had \$2.04 billion in brokered deposits (\$1.16 billion at December 31, 2017). In the event that our funding strategies call for the use of brokered deposits, there can be no assurance that such sources will be available, or will remain available, or that the cost of such funding sources will be reasonable. Additionally, should we no longer be considered well-capitalized, our ability to access new brokered deposits or retain existing brokered deposits could be affected by market conditions, regulatory requirements or a combination thereof, which could result in most, if not all, brokered deposit sources being unavailable. The inability to utilize brokered deposits as a source of funding could have an adverse effect on our financial position, results of operations and liquidity.

**We may need to raise additional capital in the future to continue to grow, but that capital may not be available when needed.**

Federal and state bank regulators require us to maintain adequate levels of capital to support operations. At December 31, 2018, our regulatory capital ratios were at “well-capitalized” levels under regulatory guidelines. However, our business strategy calls for continued growth in our existing banking markets and to expand into new markets as appropriate opportunities arise. Growth in assets at rates in excess of the rate at which our capital is increased through retained earnings will reduce our capital ratios unless we continue to increase capital. If our capital ratios were to fall below “well-capitalized” levels, the FDIC insurance assessment rate would increase until capital is restored and maintained at a “well-capitalized” level. Additionally, should our capital ratios fall below “well-capitalized” levels, certain funding sources could become more costly or could cease to be available to us until such time as capital is restored and maintained at a “well-capitalized” level. A higher assessment rate resulting in an increase in FDIC insurance premiums, increased cost of funding or loss of funding sources could have an adverse effect on our financial condition, results of operations and liquidity.

We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs. As a publicly traded company, a likely source of additional funds is the capital markets, accomplished generally through the issuance of equity, including common stock, preferred stock, warrants, depository shares, stock purchase contracts or stock purchase units, and the issuance of senior debt or subordinated debentures. Our ability to raise additional capital, including senior debt or subordinated debentures, if needed, will depend, among other things, on conditions in the equity and/or debt markets at that time, which are outside of our control, and our financial performance. In addition, any issuance of preferred stock or debt by us will require the prior approval of the ASBD and may be accompanied by time delays associated with obtaining such approval. If market conditions change during any time delays associated with obtaining regulatory approval, we may not be able to issue equity or debt on as favorable terms as were contemplated at the time of commencement of the process, or at all.

We cannot assure you that access to such capital will be available to us on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, our depositors or counterparties participating in the capital markets, may materially and adversely affect our capital costs and our ability to raise capital and/or debt and, in turn, our liquidity. If we cannot raise additional capital when needed, our ability to continue to grow in our existing banking markets and to expand into new markets could be impaired.

**We and/or the holders of certain classes of our securities could be adversely affected by unfavorable ratings from rating agencies.**

The ratings agencies regularly evaluate us, and their ratings of our long-term debt are based on a number of factors, including our financial strength, as well as factors not entirely within our control, including conditions affecting the financial services industry in general. There can be no assurance that we will not receive adverse changes in our ratings in the future, which could adversely affect the cost and other terms upon which we are able to obtain funding, and the way in which we are perceived in the capital markets. Actual or anticipated changes, or downgrades in our credit ratings, including any announcement that our ratings are under review for a downgrade, could adversely affect the market value and liquidity of our securities, increase our borrowing costs and negatively impact our profitability. Additionally, a downgrade of the credit rating of any particular security issued by us could negatively affect the ability of the holders of that security to sell the securities and the prices at which any such securities may be sold.

**We may be adversely affected by risks associated with completed or any potential future acquisition.**

We plan to continue to grow our business organically. However, we have pursued and expect to pursue additional acquisition opportunities in the future that we believe support our business strategy and may enhance our profitability. Acquisitions involve numerous risks, including, among others:

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in our attention being diverted from the operation of our existing business;

- using inaccurate estimates, assumptions and judgments to evaluate credit, operations, management and market risks with respect to the target institution or assets;
- the risk that the acquired business will not perform to our expectations;
- difficulties, inefficiencies or cost overruns in integrating and assimilating the organizational cultures, operations, technologies, products and services of the acquired business with ours;
- the risk of key vendors not fulfilling our expectations or not accurately converting data;
- entering geographic and product markets in which we have limited or no direct prior experience;
- the potential loss of key employees, vendors, customers and depositors of the acquired business;
- the potential for liabilities, claims and/or other contingencies arising out of the acquired business; and
- the risk of not receiving required regulatory approvals or such approvals being restrictively conditional.

Acquisitions of financial institutions also involve operational risks and uncertainties, and acquired companies may have unknown or contingent liabilities with no corresponding accounting reserve or allowance, exposure to unexpected asset quality problems that require write downs or write-offs (as well as restructuring and impairment or other charges), difficulty retaining key employees and customers and other issues that could negatively affect our business. We may not be able to realize any projected cost savings, synergies or other benefits associated with any such acquisition we complete. Acquisitions may involve the payment of a premium over book and market values and, therefore, some dilution of our tangible book value and diluted earnings per common share may occur in connection with any future acquisition. Failure to successfully integrate the entities we acquire into our existing operations could significantly increase our operating costs and have a material adverse effect on our business, financial condition and results of operations.

We must generally satisfy a number of meaningful conditions prior to completing any acquisition, including, in certain cases, federal and state regulatory approval. Bank regulators consider a number of factors when determining whether to approve a proposed transaction, including the effect of the transaction on financial stability and the ratings and compliance history of all institutions involved, including the CRA examination results and AML and BSA compliance records of all institutions involved. The process for obtaining required regulatory approvals may be difficult. We may fail to pursue, evaluate or complete strategic acquisition opportunities as a result of our inability, or our perceived inability, to obtain any required regulatory approvals in a timely manner or at all.

In addition, we face significant competition from numerous other financial services institutions, some of which will have greater financial resources than we do, when considering acquisition opportunities. Accordingly, attractive acquisition opportunities may not be available to us. There can be no assurance that we will be successful in identifying or completing any potential future acquisitions.

**If our goodwill becomes impaired, we could be required to record impairment charges.**

Goodwill represents the amount by which the acquisition cost exceeds the fair value of net assets we acquire in an acquisition. We review goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate the carrying value might be impaired. At December 31, 2018 our goodwill totaled \$661 million. While our previous evaluations of goodwill have not resulted in any impairment charges or write downs of our goodwill, there can be no assurance that future evaluations of goodwill will not result in findings of impairment and related write downs, which may have a material adverse effect on our financial condition and results of operations.

**We face strong competition in our markets.**

Competition in many of our banking markets is intense. We compete with financial and bank holding companies, state and national commercial banks, savings and loan associations, consumer finance companies, credit unions, securities brokerages, insurance companies, mortgage companies, money market mutual funds, asset-based non-bank lenders and other financial institutions and intermediaries, as well as non-financial institutions offering payroll, debit card and other services. Some of these competitors have an advantage over us through greater financial resources, lending limits and larger distribution networks, and may be able to offer a broader range of products and services. Other competitors, many of which are smaller, are either privately-held or non-banks that are not subject to the same extensive regulations that govern our activities and thus benefit from greater flexibility than we have in adopting or modifying growth or operational strategies. Some of our competitors (larger or smaller) may have more liberal lending policies and processes. If we fail to compete effectively for deposits, loans and other banking customers in our markets, we could lose substantial market share, suffer a slower growth rate or no growth and our financial condition, results of operations and liquidity could be adversely affected.



**The soundness of other financial institutions could adversely affect us.**

Our ability to engage in routine funding transactions could be adversely affected by the actions, or inactions, and financial stability of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to various counterparties, including brokers and dealers, commercial and correspondent banks, and others. As a result, defaults by, or rumors or questions about, one or more other financial services institutions, or the financial services industry generally, may result in market-wide liquidity problems and could lead to losses or defaults by such other institutions. Such occurrences could expose us to credit risk in the event of default of one or more counterparties and could have a material adverse effect on our financial position, results of operations and liquidity.

**We depend on the accuracy and completeness of information about customers.**

In deciding whether to extend credit or enter into certain transactions, we rely on information furnished by or on behalf of customers, including financial statements, credit reports, tax returns and other financial information. We may also rely on representations of those customers or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading information, financial statements, credit reports, tax returns or other financial information, including information falsely provided as a result of identity theft, could have an adverse effect on our business, financial condition and results of operations.

**Reputational risk and social factors may impact our results.**

Our ability to originate and maintain accounts is highly dependent upon consumer and other external perceptions of our business practices and/or our financial health. Adverse perceptions regarding our business practices and/or financial health could damage our reputation, leading to difficulties in originating and retaining loans and deposits. Adverse developments, consumer sentiment, or other external perceptions regarding the practices of competitors, or the industry as a whole, may also adversely impact our reputation and business prospects. These perceptions could stem from negative posts or communications about us on a social media website or the disclosure of non-public information or negative comments regarding us or our business from employees or others on social media or other websites. In addition, adverse reputational effects on third parties with whom we have important relationships may also adversely affect our reputation. Adverse effects on our reputation, or the reputation of the industry, may also result in greater regulatory and/or legislative scrutiny, which may lead to laws or regulations that may change or constrain the manner in which we engage with our customers and the products and services we offer. Adverse reputational effects or events may also increase litigation risk. Any of these factors could have an adverse effect on our ability to achieve our business objectives, which could have an adverse effect on our financial conditions, results of operations and liquidity.

**We may be subject to claims and litigation pertaining to fiduciary responsibility.**

From time to time as part of our normal course of business, customers may make claims and take legal action against us based on actions or inactions related to the fiduciary responsibilities of our Trust and Wealth Management Division. If such claims and legal actions are not resolved in a manner favorable to us, they may result in financial liability and/or adversely affect our market reputation or our products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

**We may be subject to claims and litigation asserting lender liability.**

From time to time, and particularly during periods of economic stress, customers, including real estate developers, may make claims or otherwise take legal action pertaining to performance of our responsibilities. These claims are often referred to as “lender liability” claims and are sometimes brought in an effort to produce or increase leverage against us in workout negotiations or debt collection proceedings. Lender liability claims frequently assert one or more of the following allegations: breach of fiduciary duties, fraud, economic duress, breach of contract, breach of the implied covenant of good faith and fair dealing, and similar claims. Whether customer claims and legal action related to the performance of our responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a favorable manner, they may result in significant financial liability and/or adversely affect our market reputation, products and services, as well as potentially affecting customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition, results of operations and liquidity.

**We need to stay current on technological changes in order to compete and meet customer demands.**

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven solutions, and as customer preferences and expectations continue to evolve, technology has lowered barriers to entry and made it

possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems, as well as nontraditional alternatives like crowdfunding and digital wallets. Our future success will depend, in part, upon our ability, including our ability to fully deploy and leverage the technology applications under development from our OZK Labs group, to address the needs of our customers by using technology to provide solutions that will satisfy customer demands for convenience, as well as to create additional operational efficiencies and greater privacy and security protection for customers and their personal information. Some of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven solutions or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could impair our ability to retain or acquire new business and could have an adverse effect on our business, financial position, results of operations and liquidity.

**We may not be able to protect our intellectual property, and may be subject to claims of third-party intellectual property rights.**

We utilize, to varying degrees in our business, certain patents, copyrights, trademarks, trade secret laws and confidentiality provisions to establish and protect our proprietary rights, including those created by our OZK Labs group. If we are unable to protect our intellectual property and proprietary technology, including any technology applications developed by our OZK Labs group, our competitors may be able to duplicate our technology and products. To the extent that we do not effectively protect our proprietary intellectual property through patents or other means, other parties, including former employees, with knowledge of our intellectual property may seek to exploit our intellectual property for their own or others' advantage. In addition, we may unintentionally infringe on claims of third-party patents, and we may face intellectual property challenges from other parties. We may not be successful in defending against any such challenges or obtaining licenses to avoid or resolve any intellectual property disputes. Third-party intellectual property rights, valid or not, may also impede our deployment of the full scope of our products and service capabilities, including our OZK Labs technology applications, in all of the market areas in which we operate or market our products and services. The intellectual property of an acquired business may be an important component of the value that we agree to pay for such a business. Such an acquisition, however, is subject to the risks that, among others, the acquired business may not own the intellectual property that we believe we are acquiring, that the intellectual property is dependent on licenses from third parties, that the acquired business infringes on the intellectual property rights of others, or that the technology does not have the acceptance in the marketplace that we may have anticipated. Any inability to protect our intellectual property or any claims of third-party intellectual property rights may negatively affect our business, which, in turn, could have an adverse effect on our business reputation, financial condition or results of operations.

In some instances, litigation may be necessary to enforce our intellectual property rights and protect our proprietary information, or to defend against claims by third parties that our products, services or technology infringe or otherwise violate their intellectual property or proprietary rights. Third parties may have, or may eventually be issued, patents that could be infringed by our products, services or technology. Any of these third parties could bring an infringement claim against us with respect to our products, services or technology. We may also be subject to third-party infringement, misappropriation, breach or other claims with respect to copyright, trademark, license usage or other intellectual property rights. In addition, in recent years, individuals and groups, including patent holding companies, have been purchasing intellectual property assets in order to make claims of infringement and attempt to extract settlements from companies in the banking and financial services industry. Any litigation or claims brought by or against us, whether with or without merit, could result in substantial costs to us and divert the attention of our management, which could harm our business and results of operations. In addition, any intellectual property litigation or claims against us could result in the loss or compromise of our intellectual property and proprietary rights, subject us to significant liabilities including damage awards, result in an injunction prohibiting us from marketing or selling certain of our products or services, require us to redesign affected products or services, or require us to seek licenses and pay royalties which may only be available on unfavorable terms, if at all, any of which could harm our business and results of operations.

**We are involved in legal proceedings and may be the subject of additional litigation and/or investigations in the future.**

Our business is subject to increased litigation, government investigation and regulatory risks as a result of a number of factors, including the highly regulated nature of the financial services industry and the focus of state and federal prosecutors on banks and the financial services industry generally. This focus has intensified since the financial crisis commencing in 2008 and its aftermath, with regulators and prosecutors focusing on a variety of financial institution practices and requirements, including foreclosure practices, compliance with applicable consumer protection laws, compliance with AML statutes and the BSA, and sanctions imposed by the Office of Foreign Assets Control of Treasury.

In the normal course of business, from time to time, we are or have been named as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our business activities and acquisitions. Certain legal actions may include claims for substantial compensatory or punitive damages or indeterminate amounts of damages. In addition,

while the arbitration provisions in certain of our customer agreements historically have limited our exposure to consumer class action litigation, there can be no assurance that we will be able to include or enforce such arbitration clauses in the future.

Although we have developed policies and procedures to minimize the impact of legal noncompliance and other disputes and endeavored to provide reasonable insurance coverage, litigation, government investigations and regulatory actions present an ongoing risk. We cannot predict with certainty the cost of defense, the cost of prosecution or the ultimate outcome of litigation and other proceedings filed by or against us, our directors, management or employees, including remedies or damage awards. On at least a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings as well as certain threatened claims (which are not considered incidental to the ordinary conduct of our business) utilizing the latest and most reliable information available. In accordance with GAAP, for matters where a loss is not probable or the amount of the loss cannot be estimated, no accrual is established. For matters where it is probable we will incur a loss and the amount can be reasonably estimated, we establish an accrual for the loss. Once established, the accrual is adjusted periodically to reflect any relevant developments. The actual cost of any outstanding legal proceedings or threatened claims, however, may turn out to be substantially higher than the amount accrued. Further, our insurance may not cover all litigation, other proceedings or claims, or the costs of defense. Future developments could result in an unfavorable outcome for any existing or new lawsuits or investigations in which we are, or may become, involved, which may have a material adverse effect on our business and our results of operations.

### **We rely on certain third-party vendors.**

Our reliance on certain third-party vendors to provide products and services necessary to maintain our day-to-day operations subjects us to the risk of operational disruption, failure or capacity constraints. Third-party vendors provide certain key operational components, such as cloud-based computing, storage services, payment and card processing services and internet connections and network access. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with applicable contractual arrangements or service level agreements. We maintain a system of policies and procedures designed to monitor vendor risks including, among other things, (i) changes in the vendor's organizational structure, (ii) changes in the vendor's financial condition, (iii) changes in existing products and services or the introduction of new products and services, and (iv) changes in the vendor's support for existing products and services. While we believe these policies and procedures help to mitigate risk, the failure of an external vendor to perform in accordance with applicable contractual arrangements or the service level agreements could be disruptive to our operations, which could have a material adverse effect on our business and our financial condition and results of operations.

### **Reductions in interchange fees and the effects of the Durbin Amendment may further reduce our non-interest income.**

An interchange fee is a fee merchants pay to the interchange network in exchange for the use of the network's infrastructure and payment facilitation, and which is paid to debit, credit and prepaid card issuers to compensate them for the costs associated with card issuance and operation. In the case of credit cards, this includes the risk associated with lending money to customers. Merchants, trying to decrease their operating expenses, have sought to, and have had some success at, lowering interchange rates. In particular, the Durbin Amendment to the Dodd-Frank Act limited the amount of interchange fees that may be charged for debit and prepaid card transactions by financial institutions whose total assets exceed \$10 billion. Effective July 1, 2017, we became subject to the Durbin Amendment and, as a result, our interchange fee income was reduced beginning in the third quarter of 2017 and thereafter.

Recent events and actions indicate a continuing focus on interchange fees by both regulators and merchants. Beyond pursuing litigation, legislation and regulation, merchants are also pursuing alternate payment platforms as a means to lower payment processing costs. To the extent interchange fees are further reduced, our non-interest income from those fees will be reduced, which could have a material adverse effect on our business and results of operations. In addition, the payment card industry is subject to the operating regulations and procedures set forth by payment card networks, and our failure to comply with these operating regulations, which may change from time to time, could subject us to various penalties, fines or fees and/or the termination of our license to use the payment card networks, all of which could have a material adverse effect on our business, financial condition and results of operations.

### **Natural disasters and climate change may adversely affect us.**

Our operations and customer base are located in markets where natural disasters, including tornadoes, severe storms, fires, floods, hurricanes, earthquakes and other extreme weather conditions often occur. Such natural disasters could significantly impact the local population and economies and our business, and could pose physical risks to our properties and/or employees, and could increase the risk that many of our borrowers may experience losses or sustained job interruption, which may materially impair their ability to satisfy their loan obligations. Although our banking offices are geographically dispersed primarily throughout the south central and southeastern portions of the United States and we maintain insurance coverages for such events, a significant natural disaster in or near one or more of our markets could have a material adverse effect on our financial condition, results of operations and liquidity. Some of our operations and customer base are also located in markets which could experience the effects of climate change and

resulting rising sea levels. The effects of climate change and rising sea levels could have a material effect on our financial condition and results of operations.

**Changes in accounting standards could materially impact how we report our financial results.**

The Financial Accounting Standards Board (“FASB”), the SEC and other bodies that establish and/or interpret accounting standards periodically change the financial accounting and reporting standards that govern the preparation of our consolidated financial statements or may change prior interpretations or positions on how these standards should be applied. These changes may be difficult to predict and may materially affect how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, which would result in changes to previously reported financial results.

**A new accounting standard may require us to increase our ALL and could have a material adverse effect on our financial condition, results of operations and capital.**

The FASB has adopted a new accounting standard that will be effective for the Bank beginning January 1, 2020. This standard, referred to as current expected credit loss (“CECL”) will replace the incurred loss model currently used to determine periodic estimates of lifetime expected credit losses on loans with the CECL model. The CECL guidance requires the ALL to be more forward-looking and requires immediate recognition of estimated credit losses over the remaining life of financial assets. The CECL model will apply to the measurement of credit losses on the financial assets measured at amortized cost, including but not limited to loan receivables. It will also apply to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). For assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. We are currently developing and implementing processes and procedures to comply with the CECL requirements. This will change the current method of provisioning ALL, which could require us to increase our ALL and will increase the types of data we need to collect and review to determine the appropriate ALL. In addition, this change may result in more volatility in the level of ALL. While we are evaluating the potential impact on our consolidated financial statements, the quantitative impact cannot yet be reasonably determined, in part because the magnitude of the anticipated change in the ALL will be impacted by economic conditions and trends in our portfolio at the time of adoption. An increase, to the extent material, in our ALL or expenses incurred to determine the appropriate level of the ALL could have a material adverse effect on our financial condition, results of operations and capital.

**RISKS ASSOCIATED WITH OUR INDUSTRY**

**We are subject to extensive government regulation that limits or restricts our activities and could adversely affect our operations.**

We operate in a highly regulated industry and are subject to examination, supervision and comprehensive regulation by various federal and state agencies. Compliance with these regulations is costly and restricts certain activities, including issuance or redemption of debt securities, common stock or other forms of capital, payment of dividends on shares of our common stock, mergers and acquisitions, investments, interest rates charged for loans, interest rates paid on deposits, opening, closing or relocation of banking offices and various other activities and aspects of our operations. We are also subject to capital guidelines established by regulators which require maintenance of adequate capital. Many of these regulations are intended to protect depositors, the public and the FDIC’s DIF rather than shareholders. Additionally, in order to conduct certain activities, including acquisitions, we are required to obtain regulatory approval. There can be no assurance that any required approvals can be obtained, or obtained without conditions or on a timeframe acceptable to us.

The Sarbanes-Oxley Act of 2002 and the related rules and regulations issued by the SEC and NASDAQ, as well as numerous other recently enacted statutes and regulations, including the Dodd-Frank Act and regulations promulgated thereunder, have increased the scope, complexity and cost of corporate governance and reporting and disclosure practices, including the costs of maintaining our internal controls. We continue to implement a number of externally driven regulatory programs, changes and enhancements. The cumulative impact of the collective change initiatives could be significant and have direct implications on resourcing and our people. Our ability to execute our strategy may also be limited by our operational capacity and the increasing complexity of the regulatory environment in which we operate.

Government regulation greatly affects the business and financial results of all commercial banks, and increases our costs of complying with regulatory requirements. Additionally, the failure to comply with these various rules and regulations could subject us to monetary penalties or sanctions or otherwise expose us to reputational risk and could adversely affect our results of operations.

**We are subject to the Community Reinvestment Act and federal and state fair lending laws, and failure to comply with those laws could lead to material penalties.**

The Community Reinvestment Act, the Equal Credit Opportunity Act and the Fair Housing Act impose nondiscriminatory lending requirements on financial institutions. The CFPB, the Department of Justice, and other federal and state agencies are responsible for enforcing these laws and regulations. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. A successful challenge to our performance under the fair lending laws and regulations could adversely impact our rating under the Community Reinvestment Act and result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on acquisition activity and restrictions on expansion activity, which could negatively impact our reputation, business, financial condition and results of operations.

**Changes to or possible elimination of LIBOR may adversely affect the holder of, the market value of, and the interest expense paid on our subordinated notes and our subordinated debentures and related trust preferred securities, and may affect certain of our loans.**

On July 27, 2017, the Financial Conduct Authority, which regulates London Interbank Offered Rates ("LIBOR"), announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the LIBOR administrator. The announcement indicates that the continuation of LIBOR on the current basis will not be guaranteed after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the LIBOR administrator, whether LIBOR will cease to be published or supported before or after 2021 or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. In June 2017, the FRB's Alternative Reference Rates Committee selected the Secured Overnight Financing Rate ("SOFR") as the preferred alternative to LIBOR and began publication of SOFR in April 2018. However, uncertainty remains as to whether SOFR may become an accepted alternative to LIBOR and it is impossible to predict the effect of SOFR or any other alternatives on the value of securities based on LIBOR such as our subordinated notes and our subordinated debentures and related trust preferred securities.

Uncertainty as to the replacement or disappearance of LIBOR or other reforms may adversely affect the value of and the return on our subordinated notes and our subordinated debentures and related trust preferred securities, as well as the interest we pay on those securities. In the event that a published LIBOR rate is unavailable, the rate on our subordinated notes and our subordinated debentures and related trust preferred securities will be determined as set forth in the governing agreements. If a published LIBOR rate is unavailable and banks are unwilling to provide quotations for the calculation of LIBOR as set forth in the agreements governing our subordinated notes and our subordinated debentures and related trust preferred securities, the LIBOR rate for those securities will be the LIBOR rate in effect for the prior interest period, except that if a published LIBOR rate is unavailable prior to July 1, 2021, the interest rate for our subordinated notes will reset to 5.50% on July 1, 2021 and remain at that rate until such time, if any, that a LIBOR rate is published. As a result, the interest rate on our subordinated notes and our subordinated debentures and related trust preferred securities may effectively become fixed. If this occurs, the value of and trading market for these securities, as well as the interest we pay on them, may be adversely affected.

At December 31, 2018, approximately 49% of our total loan portfolio was indexed to 30-day or 90-day LIBOR (approximately 55% at December 31, 2017). Most of our loan agreements that are indexed to LIBOR include provisions that do not require us to default to any alternative index recommendations but instead allow us, in our sole discretion, to designate an alternative interest rate index in the event that LIBOR should become unavailable or unstable. While we believe these provisions within our loan agreements address the potential future unavailability of LIBOR, there can be no assurance that such provisions will be effective or will not be challenged by our borrowers.

**Increases in FDIC insurance premiums may adversely impact our earnings and financial condition.**

Our deposits are insured by the FDIC up to legal limits and, accordingly, we are subject to FDIC deposit insurance assessments. We generally cannot control the amount of premiums we will be required to pay for FDIC insurance, with such premiums being based on our risk classification under an FDIC risk-based assessment system. Our assessments are based on our average consolidated total assets minus our average tangible equity. To determine our initial assessment rate, the FDIC uses a performance score and a loss-severity score, and in calculating these scores the FDIC uses our capital level and supervisory ratings and certain financial measures to assess our ability to withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in these calculations. Changes to our assessment base or assessment rate, which are determined on a quarterly basis, could result in an increase in our FDIC insurance premiums. In addition, unfavorable economic conditions, increased bank failures or other events causing the DIF to suffer losses may cause the FDIC to charge additional special assessments. Future increases of FDIC insurance premiums or special assessments could have a material adverse effect on our business, financial condition or results of operations.

## **Existing and proposed legislation and regulations may affect our operations and growth.**

To address turbulence in the U.S. economy and the banking and financial markets, the U.S. government has enacted a series of laws, regulations, guidelines and programs, many of which are discussed under the section “Item 1. Business-Supervision and Regulation” in this Annual Report on Form 10-K. The changes resulting from the Dodd-Frank Act may affect the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. In particular, the potential effect of the Dodd-Frank Act on our operations and activities, both currently and prospectively, may include the following risks, among others:

- a reduction in our ability to generate or originate revenue-producing assets as a result of compliance with heightened capital standards;
- an increased cost of operations due to greater regulatory oversight, supervision and examination of banks;
- the limitation on our ability to raise qualifying regulatory capital through the use of trust preferred securities or subordinated notes as these securities and notes are no longer included in Tier 1 capital; and
- the limitations on our ability to offer certain consumer products and services due to anticipated stricter consumer protection laws and regulations.

Examples of some of these changes that have already been established and/or implemented include, but are not limited to:

- creation of the Financial Stability Oversight Council that may recommend increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity;
- changes to the assessment base used by the FDIC to assess insurance premiums from insured depository institutions and increases to the minimum reserve ratio for the DIF with provisions to require institutions with total consolidated assets of \$10 billion or more to bear a greater portion of the costs associated with increasing the DIF’s reserve ratio;
- establishment of the CFPB with broad authority to implement new consumer protection regulations and to examine and enforce compliance with federal consumer laws; and
- amendment of the Electronic Fund Transfer Act to, among other things, give the regulatory agencies the authority to issue rules limiting debit card interchange fees.

Further, we have been and will continue investing significant management attention and resources to evaluate and make changes necessary to comply with new statutory and regulatory requirements under the Dodd-Frank Act. The Dodd-Frank Act created the CFPB, which is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The CFPB has rulemaking authority over many of the statutes governing products and services offered to bank consumers. For banking organizations with assets of \$10 billion or more, the CFPB has exclusive rulemaking and examination authority, and primary enforcement authority for most federal consumer financial laws. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB. Compliance with any such new regulations will likely increase our cost of operations. Failure to comply with these new requirements, among others, may adversely affect our results of operations and financial condition.

Additionally, in the routine course of regulatory oversight, proposals to change the laws and regulations governing the operations of banks and other financial institutions are frequently raised in the U.S. Congress, state legislatures and before bank regulatory authorities. The likelihood of significant changes in laws and regulations in the future and the effect that such changes might have on our operations are impossible to determine. Similarly, proposals to change the accounting and financial reporting requirements applicable to banks and other depository institutions are frequently raised by the SEC, the federal banking agencies and other authorities. Further, federal intervention in financial markets and the commensurate effect on financial institutions may adversely affect our rights under contracts with such other institutions and the way in which we conduct business in certain markets. The likelihood and impact of any future changes in these accounting and financial reporting requirements and the effect these changes might have on our business and operations are also impossible to determine at this time.

## **Changes in U.S. trade policies and other factors beyond our control, including the imposition of tariffs and retaliatory tariffs, may adversely impact our business, financial condition and results of operations.**

Following the U.S. presidential election in 2016, there has been discussion and dialogue regarding potential changes to U.S. trade policies, legislation, treaties and tariffs, including trade policies and tariffs affecting other countries, including China, the European Union, Canada and Mexico and retaliatory tariffs by such countries. Tariffs and retaliatory tariffs have been imposed, and additional tariffs and retaliation tariffs have been proposed. Such tariffs, retaliatory tariffs or other trade restrictions on products and materials that our customers import or export could cause the prices of our customers’ products to increase which could reduce demand for such products, or reduce our customers’ margins, and adversely impact their revenues, financial results and ability to service debt; which, in turn, could adversely affect our financial condition and results of operations. In addition, to the extent changes

in the political environment have a negative impact on us or on the markets in which we operate, our business, results of operations and financial condition could be materially and adversely affected. It remains unclear what the U.S. Administration or foreign governments will or will not do with respect to tariffs already imposed, additional tariffs that may be imposed, or international trade agreements and policies. On October 1, 2018, the United States, Canada and Mexico agreed to a new trade deal to replace the North American Free Trade Agreement (“NAFTA”), which remains subject to congressional approval, and assuming such approval is obtained, various components of the agreement are not effective until 2020. The full impact of this agreement on us, our customers and on the economic conditions in our markets is currently unknown. A trade war or other governmental action related to tariffs or international trade agreements or policies has the potential to negatively impact ours and/or our customers' costs, demand for our customers' products, and/or the U.S. economy or certain sectors thereof and, thus, adversely impact our business, financial condition and results of operations.

**We are subject to changes in federal and state tax laws, interpretation of existing laws and examinations and challenges by taxing authorities.**

Our financial performance is impacted by federal and state tax laws. Given the current economic and political environment, and ongoing budgetary pressures, the enactment of additional new federal or state tax legislation may occur or interpretations of existing tax laws could change. The enactment of such legislation or changes in the interpretation of existing law may have a material adverse effect on our financial condition, results of operations and liquidity.

In the normal course of business, we are routinely subjected to examinations and audits from federal and state taxing authorities regarding tax positions taken by us and the determination of the amount of tax due. These examinations may relate to income, franchise, gross receipts, payroll, property, sales and use, unclaimed property or other tax returns filed, or not filed, by us. The challenges made by taxing authorities may result in adjustments to the amount of taxes due, and may result in the imposition of penalties and interest. If any such challenges are not resolved in our favor, they could have a material adverse effect on our financial condition, results of operations and liquidity.

**We are subject to heightened regulatory requirements.**

The Dodd-Frank Act and its implementing regulations impose various additional requirements on banks with \$10 billion or more in total assets. In addition, banks with \$10 billion or more in total assets are primarily examined by the CFPB with respect to various federal consumer financial protection laws and regulations. As a relatively new agency with evolving regulations and practices, there is uncertainty as to how the CFPB's examination and regulatory authority might affect our business. Compliance with these requirements will necessitate that we hire additional compliance or other personnel, design and implement additional internal controls and risk management processes and incur other significant expenses, all of which could have a material adverse effect on our results of operations.

**Consumers may decide not to use banks to complete their financial transactions.**

Technology and other changes are allowing parties to complete, through alternative methods and delivery channels, financial transactions that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds with an Internet-only bank, or with virtually any bank in the country through online or mobile banking. Consumers can also complete transactions such as purchasing goods and services, paying bills and/or transferring funds directly without the assistance of banks by transacting through non-bank enterprises or through the use of emerging payment technologies such as cryptocurrencies. The process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower-cost deposits as a source of funds could have an adverse effect on our financial condition, results of operations and liquidity.

**RISKS ASSOCIATED WITH OUR COMMON STOCK**

**The price of our common stock is affected by a variety of factors, many of which are outside our control.**

Stock price volatility may make it more difficult for investors to sell shares of our common stock at times and prices they find attractive. Our common stock price can fluctuate significantly in response to a variety of factors, including, among other things:

- actual or anticipated variations in quarterly results of operations;
- recommendations or changes in recommendations by securities analysts regarding our securities;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry;

- perceptions in the marketplace about us and/or our competitors;
- new technology used, or products and services offered, by competitors;
- changes in the political climate;
- changes in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates, stock, commodity or real estate valuations or volatility and other geopolitical, regulatory or judicial events;
- significant acquisitions or business combinations, strategic partnerships, joint ventures, or capital commitments by or involving us or our competitors; and
- changes in, or proposed changes to, governmental regulations.

General market fluctuations, industry factors and general economic and political conditions and events such as economic slowdowns, expected or incurred interest rate changes, credit loss trends, and various other factors and events could adversely affect the price of our common stock.

**We cannot guarantee that we will pay dividends to common shareholders in the future.**

Our shareholders are only entitled to receive dividends on our common stock as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared such dividends, we are not required to do so and may reduce or eliminate our common stock dividend in the future. Our ability to pay dividends on our common stock to our shareholders is subject to the restrictions set forth in Arkansas law, by our federal regulator, and by certain covenants contained in the indentures governing our trust preferred securities, our subordinated debentures and our subordinated notes. For example, in the event we become subject to an enforcement action or depending upon our regulatory status, our regulators may prevent us from paying dividends to our shareholders. Further, any lenders making loans to us may impose financial covenants that may be more restrictive than regulatory requirements with respect to our payment of dividends to common shareholders. Accordingly, there can be no assurance that we will continue to pay dividends to our common shareholders in the future. See note 17 of the consolidated financial statements under “Part II, Item 8. Financial Statements and Supplementary Data” of this Annual Report on Form 10-K for a discussion of dividend restrictions.

**Certain state and/or federal laws may deter potential acquirers and may depress our stock price.**

Certain provisions of federal and state laws may have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of us. Under certain federal and state laws, a person, entity, or group must give notice to applicable regulatory authorities before acquiring a significant amount, as defined by such laws, of the outstanding voting stock of a bank, including shares of our common stock. Regulatory authorities review a potential acquisition to determine if it will result in a change of control. The applicable regulatory authorities will then act on the notice, taking into account the resources of the potential acquirer, the potential antitrust effects of the proposed acquisition and numerous other factors. As a result, these statutory provisions may delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider to be in such shareholder’s best interest, including those attempts that might result in payment of a premium over the market price for the shares held by shareholders.

**The holders of our subordinated debentures and subordinated notes have rights that are senior to those of our common shareholders, and any future debt or preferred equity securities we may offer may adversely affect the market price of our common stock.**

At December 31, 2018, we had an aggregate principal amount of \$118 million of floating rate subordinated debentures and related trust preferred securities outstanding. We guarantee payment of the principal and interest on the trust preferred securities, and the subordinated debentures are senior to shares of our common stock. As a result, we must make payments on the subordinated debentures (and the related trust preferred securities) before any dividends can be paid on shares of our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the subordinated debentures would receive a distribution from our available assets before any distributions could be made to the holders of common stock. We have the right to defer distributions on our subordinated debentures and the related trust preferred securities for up to five years, during which time no dividends may be paid to holders of our common stock.

At December 31, 2018, we had an aggregate principal amount of \$225 million of subordinated notes which are senior to shares of our common stock. In the event of our bankruptcy, dissolution or liquidation, the holders of the subordinated notes would receive a distribution from our available assets before any distribution could be made to the holders of common stock.

We may from time to time issue debt securities, which would be senior to our common stock upon liquidation, and/or preferred equity securities, which may be senior to our common stock for purposes of dividend distributions or upon liquidation, borrow money



through other means, or issue preferred stock. Our Board of Directors is authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of our shareholders, so long as we obtain regulatory approval prior to issuing such securities. Our Board of Directors also has the power, without shareholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over our common stock with respect to dividends or upon our dissolution, winding-up and liquidation and other terms. If we issue preferred stock in the future that has a preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution, or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

**Our common stock trading volume may not provide adequate liquidity for investors.**

Although shares of our common stock are listed on the NASDAQ Global Select Market, the average daily trading volume in the common stock may be less than that of larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of a sufficient number of willing buyers and sellers of the common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Significant sales of our common stock in a brief period of time, or the expectation of these sales, could cause a decline in the price of our common stock.

**Future issuances of additional equity securities could result in dilution of existing shareholders' equity ownership.**

We may determine from time to time to issue additional equity securities to raise additional capital, support growth, or to make acquisitions. Further, we may issue stock options, grant restricted stock awards or other stock grants, awards or units to retain, compensate and/or motivate our employees and directors. These issuances of our securities could dilute the voting and economic interests of existing shareholders.

**Issuing additional shares of our common stock in connection with our growth strategy may result in dilution for existing shareholders and may adversely affect the market price of our stock.**

We have issued, and may issue in the future, shares of our common stock in connection with our growth strategy. Resales of substantial amounts of common stock in the public market and the potential of such sales could adversely affect the prevailing market price of our common stock and impair our ability to raise additional capital through the sale of equity securities.

**Our common stock is not an insured deposit.**

Shares of our common stock are not a bank deposit and, therefore, losses in value are not insured by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in shares of our common stock is inherently risky for the reasons described in this "Risk Factors" section of this Annual Report on Form 10-K, and is subject to the same market forces and investment risks that affect the price of common stock in any other company, including the possible loss of some or all principal invested.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

## Item 2. **PROPERTIES**

Our principal executive office is located at 17901 Chenal Parkway in Little Rock, Arkansas. At December 31, 2018, we conducted banking operations in 251 offices in ten states, including 242 banking offices and nine loan production offices. Such offices include both owned and leased facilities.

The following table sets forth specific information about our facilities, by state, at December 31, 2018.

State	Banking Facility		Total
	Owned	Leased	
Arkansas	75 <sup>(1)</sup>	8 <sup>(2)</sup>	83
Georgia	59	10 <sup>(3)</sup>	69
Florida	30	13 <sup>(4)</sup>	43
North Carolina	23	2 <sup>(5)</sup>	25
Texas	18	4 <sup>(6)</sup>	22
Alabama	3	—	3
South Carolina	2	—	2
California	—	2 <sup>(7)</sup>	2
New York	—	1	1
Mississippi	—	1 <sup>(8)</sup>	1
Total	<u>210</u>	<u>41</u>	<u>251</u>

(1) Includes our principal executive office in Little Rock.

(2) Includes one loan production office in Little Rock.

(3) Includes two loan production offices in Atlanta.

(4) Includes a loan production office in Winter Park.

(5) Includes a loan production office in Raleigh.

(6) Includes a loan production office in Tyler.

(7) Includes one loan production office each in Los Angeles and San Francisco.

(8) Includes a loan production office in Brookhaven.

During January 2019, we opened a loan production office for our Indirect RV & Marine lending team in Alpharetta, Georgia and a loan production office for our Community Banking agricultural lending team in Greenville, North Carolina.

## Item 3. **LEGAL PROCEEDINGS**

On October 26, 2018, a purported class action complaint was filed against Bank OZK in the United States District Court for the Eastern District of Arkansas, captioned *Jordan Colbert et al. v. Bank OZK et al.*, case number 4:18-cv-793-JM. On November 19, 2018, a second purported class action complaint based upon similar allegations of violations of federal securities laws was filed against Bank OZK in the United States District Court for the Southern District of New York, captioned *Ryan A. Wood v. Bank OZK et al.*, case number 1:18-cv-10800. Under applicable federal law, the federal district court in the *Colbert* case named Strathclyde Pension Fund as the lead class plaintiff. Upon motion of the defendants, the court in the *Wood* case transferred that suit to the Eastern District of Arkansas. On February 21, 2019, the plaintiff in the *Wood* case voluntarily dismissed that complaint, without prejudice. The *Colbert* complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, by the Bank, its CEO, George Gleason, and its CFO, Greg McKinney, for making allegedly false and misleading statements and allegedly failing to disclose material facts relating to the risk of loss regarding two commercial real estate loans. The complaint alleges essentially that the Bank lacked adequate internal controls to assess credit risk; as a result, such loans, which were classified as substandard, posed an increased risk of loss and were reasonably likely to lead to charge-offs, which actually occurred in the third quarter of 2018; and consequently, defendants' public statements during the class period about the Bank's business, operations, and prospects were materially misleading and/or lacked a reasonable basis. The complaint identified the respective proposed class period as encompassing persons who purchased the Bank's common stock between February 29, 2016 and October 18, 2018. The Bank and the individual defendants believe that the plaintiffs' allegations set forth in the above proceedings are without merit, and the Bank and the individual defendants intend to vigorously defend against the alleged claims.

On December 4, 2018, a shareholder derivative complaint was filed in the Circuit Court of Pulaski County, Arkansas, case number 60CV-18-8280, by Barbara Peak as plaintiff, against the Bank, as a nominal defendant, and the Bank's directors and CFO, Greg McKinney. The plaintiff in the derivative suit alleges, among other things, that the individual named defendants, including particularly the members of the Board's audit committee and risk committee, respectively, breached their fiduciary duties in the context of the same factual circumstances recited in the two purported class action complaints noted in the preceding paragraph, by allegedly failing to properly maintain oversight over the Bank's internal controls and practices and procedures, and allegedly allowing the Bank to disseminate materially misleading information through its public disclosures. The complaint seeks damages against the individual defendants and disgorgement of any profits, benefits and other compensation received by them. As of the date of filing of this Annual Report on Form 10-K, neither the Bank nor the individual defendants have been served with process in this action.

#### **Other Litigation**

The Bank is a party as both plaintiff and defendant to various other claims arising in the ordinary course of business, including administrative and/or legal proceedings that may include employment-related claims as well as claims of lender liability, breach of contract, and other similar lending-related claims encountered on a routine basis. While the ultimate resolution of these ordinary course claims and proceedings cannot be determined at this time, management believes that such claims and proceedings, individually or in the aggregate, will not have a material adverse effect on the Bank's financial condition or results of operations.

#### **Item 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**PART II**

**Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

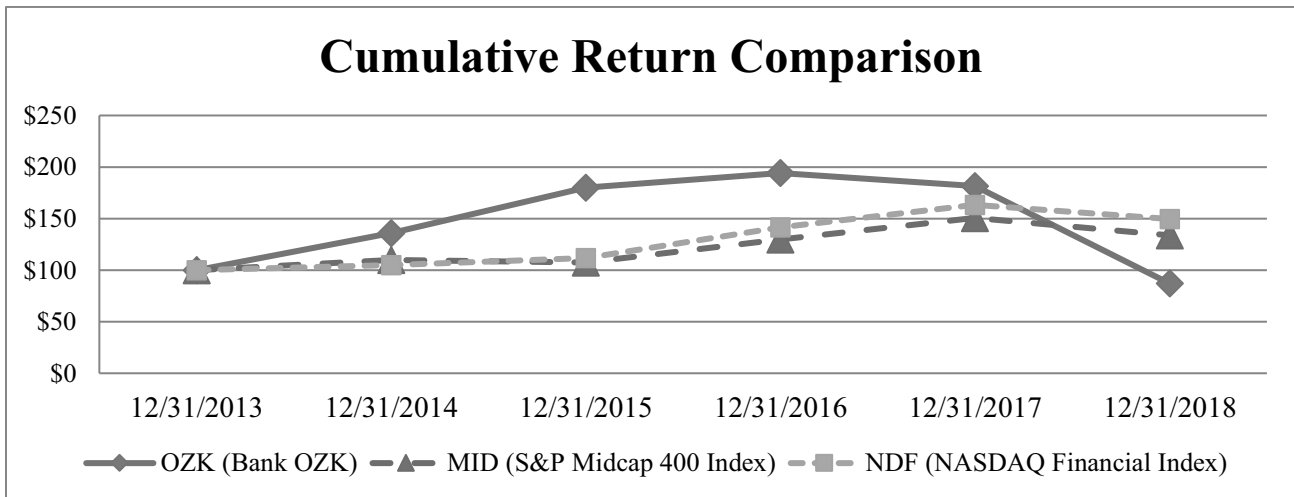
The Bank’s common stock is listed on the NASDAQ Global Select Market under the symbol “OZK” and at December 31, 2018, the Bank had approximately 1,259 shareholders of record. On December 31, 2018, the closing price of our common stock was \$22.83 per share.

During the fourth quarter of 2018, the Bank issued 6,850 shares of common stock in connection with the exercise of stock options issued to certain participants under the Bank’s Stock Option Plans. The shares were issued in reliance on the exemption provided by Section 3(a)(2) of the Securities Act of 1933, because the sales involved securities issued by a bank.

During the fourth quarter of 2018, the Bank issued 224 shares of restricted common stock to certain officers and employees pursuant to the Bank’s Restricted Stock and Incentive Plan. We did not receive any cash consideration in connection with these restricted stock grants. These grants were exempt from registration pursuant to Section (3)(a)(2) of the Securities Act of 1933 because the grants involved securities issued by a bank.

During the fourth quarter of 2018, we had no repurchases of shares of our common stock.

The graph below shows a comparison for the period commencing December 31, 2013 through December 31, 2018 of the cumulative total stockholder returns (assuming reinvestment of dividends) for our common stock, the S&P Midcap 400 Index and the NASDAQ Financial Index, assuming a \$100 investment on December 31, 2013.



	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
OZK (Bank OZK)	\$ 100	\$ 136	\$ 180	\$ 194	\$ 182	\$ 87
MID (S&P Midcap 400 Index)	\$ 100	\$ 110	\$ 107	\$ 130	\$ 151	\$ 134
NDF (NASDAQ Financial Index)	\$ 100	\$ 105	\$ 112	\$ 141	\$ 163	\$ 149

## Item 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data is derived from our audited financial statements as of and for each of the five years ended December 31, 2018 and should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8. Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
(Dollars in thousands, except per share amounts)					
<b>Income statement data:</b>					
Interest income	\$ 1,100,820	\$ 932,593	\$ 662,555	\$ 409,719	\$ 291,449
Interest expense	209,387	115,164	61,050	27,568	20,955
Net interest income	891,433	817,429	601,505	382,151	270,494
Provision for loan losses	64,398	28,092	23,792	19,415	16,915
Non-interest income	107,775	123,858	102,399	105,015	84,883
Non-interest expense	380,752	332,672	255,754	190,982	166,015
Net income available to common stockholders	417,106	421,891	269,979	182,253	118,606
<b>Common share and per common share data:</b>					
Earnings – diluted	\$ 3.24	\$ 3.35	\$ 2.58	\$ 2.09	\$ 1.52
Book value	29.32	26.98	23.02	16.16	11.37
Tangible book value <sup>(1)</sup>	23.90	21.45	17.08	14.48	10.04
Dividends	0.795	0.71	0.63	0.55	0.47
Weighted-average diluted shares outstanding (thousands)	128,740	125,809	104,700	87,348	78,060
End of period shares outstanding (thousands)	128,611	128,288	121,268	90,612	79,924
<b>Balance sheet data at period end:</b>					
Total assets	\$ 22,388,030	\$ 21,275,647	\$ 18,890,142	\$ 9,879,459	\$ 6,766,499
Total loans	17,117,823	16,043,029	14,563,115	8,334,671	5,127,817
Non-purchased loans	15,073,791	12,733,937	9,605,093	6,528,634	3,979,870
Purchased loans	2,044,032	3,309,092	4,958,022	1,806,037	1,147,947
Allowance for loan losses	102,264	94,120	76,541	60,854	52,918
Foreclosed assets	16,171	25,357	43,702	22,870	37,775
Investment securities	2,888,281	2,622,796	1,471,612	602,348	839,321
Goodwill and other intangible assets	696,461	709,040	720,950	152,340	105,576
Deposits	17,938,415	17,192,345	15,574,878	7,971,468	5,496,382
Repurchase agreements with customers	20,564	69,331	65,110	65,800	65,578
Other borrowings	96,692	22,320	41,903	204,540	190,855
Subordinated notes	223,281	222,899	222,516	—	—
Subordinated debentures	119,358	118,800	118,242	117,685	64,950
Unfunded balance of closed loans	11,364,975	13,192,439	10,070,043	5,804,257	2,964,042
Total common stockholders’ equity	3,770,330	3,460,728	2,791,607	1,464,631	908,390
Loan, including purchased loans, to deposit ratio	95.43%	93.31%	93.50%	104.56%	93.29%
<b>Average balance sheet data:</b>					
Total average assets	\$ 21,911,255	\$ 19,654,664	\$ 14,270,078	\$ 8,621,334	\$ 5,913,807
Total average common stockholders’ equity	3,598,628	3,127,576	2,068,328	1,217,475	786,430
Average common equity to average assets	16.42%	15.91%	14.49%	14.12%	13.30%
<b>Performance ratios:</b>					
Return on average assets	1.90%	2.15%	1.89%	2.11%	2.01%
Return on average common stockholders’ equity	11.59	13.49	13.05	14.97	15.08
Return on average tangible common stockholders’ equity <sup>(1)</sup>	14.41	17.49	16.25	17.02	16.63
Net interest margin – FTE	4.59	4.85	4.92	5.19	5.52
Efficiency ratio	37.93	34.88	35.84	38.45	45.35
Common stock dividend payout ratio	24.51	21.03	23.03	25.83	30.46
<b>Asset quality ratios:</b>					
Net charge-offs to average non-purchased loans <sup>(2)</sup>	0.38%	0.06%	0.06%	0.18%	0.12%
Net charge-offs to total average loans	0.34	0.07	0.07	0.17	0.16
Nonperforming loans to total loans <sup>(3)</sup>	0.23	0.10	0.15	0.20	0.53
Nonperforming assets to total assets <sup>(3)</sup>	0.23	0.18	0.31	0.37	0.87
<b>Allowance for loan losses as a percentage of:</b>					
Non-purchased loans <sup>(4)</sup>	0.67%	0.73%	0.78%	0.91%	1.33%
Nonperforming loans <sup>(4)</sup>	284%	717%	521%	452%	251%
<b>Capital ratios:</b>					
Tier 1 leverage	14.25%	13.83%	11.99%	14.96%	12.92%
Common equity tier 1	12.56	11.17	9.99	10.79	N/A
Tier 1 risk-based capital	12.56	11.17	9.99	11.62	11.74
Total risk-based capital	14.37	12.94	11.99	12.12	12.47

(1) The calculations of tangible book value per common share and return on average tangible common stockholders’ equity and the reconciliations to U.S. generally accepted accounting principles are included in “Item 7. Management’s Discussion and Analysis of Financial Conditions and Results of Operations – Capital Resources and Liquidity” of this Annual Report on Form 10-K.

(2) Excludes purchased loans and net charge-offs related to such loans.

(3) Excludes purchased loans, except for their inclusion in total assets.

(4) Excludes purchased loans and any allowance for such loans.

N/A Ratio not applicable for year indicated.

## Selected Quarterly Financial Data

The following tables are summaries of quarterly results of operations for the periods indicated and should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8. Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

	2018 – Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(Dollars in thousands, except per share amounts)			
Interest income	\$ 257,492	\$ 273,664	\$ 277,595	\$ 292,069
Interest expense	(39,716)	(49,003)	(56,981)	(63,687)
Net interest income	217,776	224,661	220,614	228,382
Provision for loan losses	(5,567)	(9,610)	(41,949)	(7,271)
Non-interest income	28,707	27,386	24,121	27,560
Non-interest expense	(93,810)	(89,107)	(102,942)	(94,893)
Income taxes	(33,973)	(38,589)	(25,665)	(38,750)
Noncontrolling interest	11	10	1	3
Net income available to common stockholders	<u>\$ 113,144</u>	<u>\$ 114,751</u>	<u>\$ 74,180</u>	<u>\$ 115,031</u>
Basic earnings per common share	<u>\$ 0.88</u>	<u>\$ 0.89</u>	<u>\$ 0.58</u>	<u>\$ 0.89</u>
Diluted earnings per common share	<u>\$ 0.88</u>	<u>\$ 0.89</u>	<u>\$ 0.58</u>	<u>\$ 0.89</u>

	2017 – Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(Dollars in thousands, except per share amounts)			
Interest income	\$ 213,770	\$ 228,158	\$ 241,566	\$ 249,100
Interest expense	(22,999)	(26,053)	(31,844)	(34,269)
Net interest income	190,771	202,105	209,722	214,831
Provision for loan losses	(4,933)	(6,103)	(7,777)	(9,279)
Non-interest income	29,058	31,840	32,747	30,213
Non-interest expense	(78,268)	(83,828)	(84,399)	(86,177)
Income taxes	(47,417)	(53,488)	(54,246)	(3,434)
Noncontrolling interest	(23)	6	(40)	10
Net income available to common stockholders	<u>\$ 89,188</u>	<u>\$ 90,532</u>	<u>\$ 96,007</u>	<u>\$ 146,164</u>
Basic earnings per common share	<u>\$ 0.73</u>	<u>\$ 0.73</u>	<u>\$ 0.75</u>	<u>\$ 1.14</u>
Diluted earnings per common share	<u>\$ 0.73</u>	<u>\$ 0.73</u>	<u>\$ 0.75</u>	<u>\$ 1.14</u>

## **Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Overview**

The following is a discussion of our financial condition at December 31, 2018 and 2017 and our results of operations for each of the years in the three-year period ended December 31, 2018. The purpose of this management's discussion and analysis of financial condition and results of operations ("MD&A") is to focus on information about our financial condition and results of operations that is not otherwise apparent from the consolidated financial statements and footnotes. This discussion should be read in conjunction with the disclosure regarding "Forward-Looking Information" in Part I as well as the risks discussed under "Part I, Item 1A. Risk Factors," and our consolidated financial statements and notes thereto included under "Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

On June 26, 2017, as the result of an internal restructuring designed to eliminate the bank holding company structure, Bank of the Ozarks, Inc. an Arkansas corporation, merged with and into its wholly-owned subsidiary, Bank of the Ozarks, an Arkansas state banking corporation (the "Bank"), with the Bank continuing as the surviving corporation (the "Reorganization"). The Bank continues to be subject to regulation by the Arkansas State Bank Department ("ASBD"). Because the Bank is an insured depository institution that is not a member bank of the Board of Governors of the Federal Reserve System ("FRB"), our primary federal regulator is the Federal Deposit Insurance Corporation ("FDIC"). We are no longer subject to the FRB's regulation and supervision (except such regulations as are made applicable to the Bank by law and regulation of the FDIC). Unless the context otherwise requires, references in this Annual Report on Form 10-K to terms such as "Company," "we," "us," and "our" for periods prior to June 26, 2017, refer to Bank of the Ozarks, Inc., which was the parent holding company and the registrant prior to the Reorganization, and, for periods after the Reorganization, to the Bank, in each case including its consolidated subsidiaries. On July 16, 2018, the Bank changed its corporate name to Bank OZK. Shares of the Bank's common stock are listed on the Nasdaq Global Select Market under the symbol "OZK." The name change had no effect on the rights or interest of the Bank's shareholders.

Our primary business is retail and commercial banking conducted by the Bank and various subsidiaries of the Bank. The Bank operates in only one segment – community banking. Our results of operations depend primarily on net interest income, which is the difference between the interest income from earning assets, such as loans and investments, and the interest expense incurred on interest bearing liabilities, such as deposits, borrowings, subordinated debentures and subordinated notes. We also generate non-interest income, including service charges on deposit accounts, trust income, bank owned life insurance ("BOLI") income, other income from purchased loans, loan service, maintenance and other fees, and gains on investment securities and from sales of other assets.

Our non-interest expense consists primarily of employee compensation and benefits, net occupancy and equipment expense and other operating expenses. Our results of operations are significantly affected by our provision for loan losses and our provision for income taxes.

### **Critical Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements. Our determination of (i) the provisions to and the adequacy of the allowance for loan losses ("ALL"), (ii) the fair value of our investment securities portfolio, and (iii) our accounting for income taxes all involve a higher degree of judgment and complexity than our other significant accounting policies. Accordingly, we consider each of these to be critical accounting policies.

*Provisions to and adequacy of the ALL.* The ALL is established through a provision for such losses charged against income. All or portions of loans deemed to be uncollectible are charged against the ALL when we believe that collectability of all or some portion of outstanding principal is unlikely. Subsequent recoveries, if any, of loans previously charged off are credited to the ALL.

The ALL is maintained at a level we believe will be adequate to absorb probable incurred losses in the loan portfolio. Provisions to and the adequacy of the ALL are based on evaluations of the loan portfolio utilizing objective and subjective criteria. The objective criteria primarily include an internal grading system and specific allowances. In addition to these objective criteria, we subjectively assess the adequacy of the ALL and the need for additions thereto, with consideration given to the nature and mix of the portfolio, national, regional and local business and economic conditions that may affect borrowers' ability to pay, concentrations of credit, changes in the experience, ability and depth of lending management and other relevant staff, changes in the nature and volume of the portfolio and in the terms of the loans, overall portfolio quality and other relevant factors. Changes in these criteria or the availability of new information could require adjustment of the ALL in future periods. While a specific allowance has been calculated for impaired loans, no portion of our ALL is restricted to any individual loan or group of loans, and the entire ALL is available to absorb losses from any and all loans.

Our internal grading system assigns grades to all non-purchased loans, except residential 1-4 family loans (including consumer construction loans on 1-4 family properties), consumer loans, indirect loans and certain other loans, with each grade being assigned an allowance allocation percentage. The grade for each graded individual loan is determined by the account officer and other senior lending officers at the time the loan is made and changed from time to time to reflect an ongoing assessment of loan risk. Grades are reviewed on specific loans from time to time by senior management and as part of our internal credit review process. These risk elements considered in our determination of the appropriate grade for individual loans include the following, among others: (1) for non-farm/non-residential, multifamily residential, and agricultural real estate loans, the debt service coverage ratio (income from the property in excess of operating expenses compared to loan repayment requirements), interest rate stress tolerance (the project's ability to withstand increases in applicable interest rates), operating results of the owner in the case of owner-occupied properties, the loan-to-value ("LTV") ratio, the age, condition, value, nature, quality and marketability of the collateral and the specific risks and volatility of income, property value and operating results typical of properties of that type; (2) for construction and land development loans, the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or ability to lease property constructed for lease, the quality and nature of contracts for presale or preleasing, if any, experience and ability of the developer, loan-to-cost ("LTC") and LTV ratios, interest rate stress tolerance (the project's ability to withstand increases in applicable interest rates), permanent refinancing exit rate stress tolerance (the effect of increases in applicable interest rates on exiting the loan via permanent loan refinancing), sales exit capitalization rate stress tolerance (the effect of increases in capitalization rates on exiting the loan via a sale of the property), and sales exit margin ratio (the percentage of individual units (e.g. lots or condos) sold that are needed to repay the loan); (3) for commercial and industrial loans, the operating results of the commercial, industrial or professional enterprise, the borrower's business, professional and financial ability and expertise, the specific risks and volatility of income and operating results typical for businesses in the applicable industry, the age, condition, value, nature, quality and marketability of collateral and, for certain loans, the marketability of such loans in any secondary market; and (4) for non-real estate agricultural loans, the operating results, experience and ability of the borrower, historical and expected market conditions and the age, condition, value, nature, quality and marketability of collateral. In addition, for each category we consider secondary sources of income and the financial strength of the borrower and any guarantors.

Residential 1-4 family, consumer loans and certain other loans are assigned an allowance allocation percentage based on past due status. For indirect loans, each individual loan is assigned a risk level based on the borrower's individual credit score. Each risk level is assigned a probability of default ("PD") based on the borrower's credit score and an expected loss given default ("LGD") based on the underlying collateral securing the loan. The PD factor is based on composite third-party information for similar loans and borrowers that have previously defaulted.

Allowance allocation percentages for the various risk grades and past due categories for residential 1-4 family, consumer loans and certain other loans are determined by management and are adjusted periodically. In determining these allowance allocation percentages, we consider, among other factors, historical loss percentages over various time periods and a variety of subjective criteria.

Assets acquired and liabilities assumed in business combinations are recorded at estimated fair value on their purchase date. As provided for under GAAP, we have up to 12 months following the date of the acquisition to finalize the fair values of acquired assets and assumed liabilities. Once we have finalized the fair values of acquired assets and assumed liabilities within this 12-month period, we consider such values to be the day 1 fair values ("Day 1 Fair Values").

For purchased loans, we segregate this portfolio into loans that contain evidence of credit deterioration on the date of acquisition and loans that do not contain evidence of credit deterioration on the date of acquisition. Purchased loans with evidence of credit deterioration at the date of acquisition are regularly monitored and are periodically reviewed by management. To the extent that a loan's performance has deteriorated from our expectations established in conjunction with the determination of the Day 1 Fair Values, such loan is considered in the determination of the required level of ALL. To the extent that a revised loss estimate exceeds the loss estimate established in the determination of Day 1 Fair Values, such determination will result in an allowance allocation or a partial or full charge-off.

All other purchased loans are graded by management at the time of purchase. The grade on these purchased loans is reviewed regularly as part of the ongoing assessment of such loans. To the extent that current information indicates it is probable that we will not be able to collect all amounts according to the contractual terms thereof, such loan is considered in the determination of the required level of ALL and may result in an allowance allocation or a partial or full charge-off.

At both December 31, 2018 and 2017, we had established an ALL totaling \$1.6 million for our purchased loan portfolio. Such ALL was based on our historical charge-off analysis of the purchased loan portfolio and reflects our estimate of probable incurred losses in the purchased loan portfolio that had not previously been charged off or had not otherwise been considered in establishing our Day 1 Fair Values.



The accrual of interest on non-purchased loans and purchased loans without evidence of credit deterioration at the date of acquisition is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. We generally place a loan, excluding purchased loans with evidence of credit deterioration on the date of acquisition, on nonaccrual status when such loan is (i) deemed impaired or (ii) 90 days or more past due, or earlier when doubt exists as to the ultimate collection of payments. We may continue to accrue interest on certain loans contractually past due 90 days or more if such loans are both well secured and in the process of collection. At the time a loan is placed on nonaccrual status, interest previously accrued but uncollected is reversed and charged against interest income. Nonaccrual loans are generally returned to accrual status when payments are less than 90 days past due and we reasonably expect to collect all payments. If a loan is determined to be uncollectible, the portion of the principal determined to be uncollectible will be charged against the ALL. Loans for which the terms have been modified and for which (i) the borrower is experiencing financial difficulties and (ii) we have granted a concession to the borrower are considered troubled debt restructurings ("TDRs") and are included in impaired loans. Income on nonaccrual loans, including impaired loans, is recognized on a cash basis when and if actually collected. Income on TDRs is recognized on a cash basis until such time as the TDR has performed in accordance with its modified terms for a reasonable period of time (generally at least six months) and is expected to continue to perform. Once such performance and expected performance conditions are met, the TDR is returned to accrual status but continues to be reported as an impaired loan.

All loans deemed to be impaired are evaluated individually. We consider a loan, excluding purchased loans with evidence of credit deterioration at the date of acquisition, to be impaired when based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms thereof. We consider a purchased loan with evidence of credit deterioration at the date of acquisition to be impaired once a decrease in expected cash flows or other deterioration in the loan's expected performance, subsequent to the determination of the Day 1 Fair Values, results in an allowance allocation, a partial or full charge-off or a provision for loan losses. Most of our nonaccrual loans, excluding purchased loans with evidence of credit deterioration at the date of acquisition, and all TDRs are considered impaired. The majority of our impaired loans are dependent upon collateral for repayment. For such loans, impairment is measured by comparing collateral value and anticipated cash payments, if any, net of holding and selling costs, to the current investment in the loan. For all other impaired loans, we compare estimated discounted cash flows to the current investment in the loan. To the extent that our current investment in a particular loan exceeds the estimated net collateral value or the estimated discounted cash flows, the impaired amount is charged off as a reduction of the ALL. Our practice is to charge off any estimated loss as soon as management is able to identify and reasonably quantify such potential loss.

We may also include specific ALL allocations for qualitative factors.

Changes in the criteria used in this evaluation or the availability of new information could cause our ALL to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require adjustments to our ALL based on their judgment and estimates.

*Fair value of the investment securities portfolio.* We determine the appropriate classification of investment securities at the time of purchase and reevaluate such designation as of each balance sheet date. At December 31, 2018 and 2017, we classified all of our investment securities as available for sale ("AFS").

Investment securities AFS are stated at estimated fair value, with the unrealized gains and losses determined on a specific identification basis. Such unrealized gains and losses, net of tax, are reported as a separate component of stockholders' equity, included in other comprehensive income (loss) and are adjusted for changes in unrealized gains and losses, net of tax, reported in accumulated other comprehensive income (loss), on a specific identification basis. We utilize independent third parties as our principal pricing sources for determining fair value of investment securities which are measured on a recurring basis. As a result, we consider estimates of fair values from at least two independent pricing sources for the majority of our individual securities within our investment portfolio. For investment securities traded in an active market, fair values are based on quoted market prices if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities, broker quotes or comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs. All fair value estimates we receive for our investment securities are reviewed on a quarterly basis.

Declines in the fair value of investment securities below their amortized cost are reviewed at least quarterly for other-than-temporary impairment. Factors considered during such review include, among other things, the nature and cause of the unrealized loss, the severity and duration of the unrealized loss and the credit quality, financial condition and near term prospects of the issuer. We also assess whether we have the intent to sell the investment security or more likely than not would be required to sell the investment security before any anticipated recovery in fair value. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through the income statement. For securities that do not meet the aforementioned criteria, the amount of impairment is split into (i) other-than-temporary impairment related to credit loss, which must be recognized in the income statement, and (ii) other-than-temporary impairment related to other factors, which is

recognized in other comprehensive income (loss). The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

The fair values of our investment securities traded in both active and inactive markets, can be volatile and may be influenced by a number of factors including market interest rates, prepayment speeds, discount rates, credit quality of the issuer, general market conditions including market liquidity conditions and other factors. Factors and conditions are constantly changing and fair values could be subject to material variations that may significantly affect our financial condition, results of operations and liquidity.

*Accounting for income taxes.* We utilize the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based upon the difference between the values of the assets and liabilities as reflected in the financial statements and their related tax basis using enacted tax rates in effect for the year or years in which the differences are expected to be recovered or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Business combination transactions may result in the acquisition of net operating loss carryforwards and other assets with built-in losses, the realization of which are subject to limitations pursuant to section 382 (“section 382 limitation”) of the Internal Revenue Code (“IRC”). In determining the section 382 limitation associated with a business combination, we must make a number of estimates and assumptions regarding the ability to utilize acquired net operating loss carryforwards and the expected timing of future recoveries or settlements of acquired assets with built-in losses. To the extent that information available as of the date of acquisition results in our determination that some portion of acquired net operating loss carryforwards cannot be utilized or assets with built-in losses are expected to be settled or recovered in future periods in which the ability to realize the benefits will be subject to the section 382 limitation, a deferred tax asset valuation allowance is established for the estimated amount of the deferred tax assets subject to the section 382 limitation. To the extent that information becomes available that results in a change in our estimates and assumptions, an increase or decrease of the deferred tax asset valuation allowance will be recorded as an adjustment to deferred income tax expense (benefit).

We are subject to the income tax laws of the United States, its states and the municipalities in which we conduct business. These laws are complex and subject to different interpretations by the taxpayer and the various taxing authorities. We review income tax expense and the carrying value of deferred tax assets and liabilities quarterly, and as new information becomes available, we adjust the balances as appropriate.

In establishing a provision for income tax expense, we must make judgments and interpretations about the application of tax laws. We must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions. We recognize a tax position as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that has a greater than 50% likelihood of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Actual results could differ significantly from these estimates due to tax law interpretations used in determining the current and deferred income tax liabilities.

We are subject to routine corporate tax audits by the various tax jurisdictions to which we are subject, and there can be no assurances that estimates and interpretations used by us in determining income tax assets and liabilities may not be challenged by federal and state taxing authorities. To the extent that the final tax outcome of these matters is different from the tax positions taken and amounts recorded based on our interpretation of federal and state income tax laws, such differences will impact income tax expense (benefit) in the period in which such determination is made.

## Analysis of Results of Operations

### General

The table below shows total assets, investment securities AFS, total loans, deposits, common stockholders' equity, net income available to common stockholders, diluted earnings per common share, book value per common share and tangible book value per common share as of and for the years indicated and the percentage of change year over year.

	December 31,			% Change	
	2018	2017	2016	2018 from 2017	2017 from 2016
	(Dollars in thousands, except per share amounts)				
Total assets	\$22,388,030	\$21,275,647	\$18,890,142	5.2%	12.6%
Investment securities AFS	2,862,340	2,593,873	1,465,452	10.4	77.0
Total loans	17,117,823	16,043,029	14,563,115	6.7	10.2
Deposits	17,938,415	17,192,345	15,574,878	4.3	10.4
Common stockholders' equity	3,770,330	3,460,728	2,791,607	8.9	24.0
Net income available to common stockholders	417,106	421,891	269,979	(1.1)	56.3
Diluted earnings per common share	3.24	3.35	2.58	(3.3)	29.8
Book value per common share	29.32	26.98	23.02	8.7	17.2
Tangible book value per common share <sup>(1)</sup>	23.90	21.45	17.08	11.4	25.6

(1) The calculation of our tangible book value per common share and the reconciliation to GAAP is included under the section "Capital Resources and Liquidity" in this MD&A.

Highlights of 2018 include the following:

- Growth in total assets of 5.2% to \$22.39 billion at December 31, 2018;
- Growth in total loans of 6.7% to \$17.12 billion at December 31, 2018;
- Growth in deposits of 4.3% to \$17.94 billion at December 31, 2018;
- Net income available to common stockholders of \$417.1 million for 2018, a 1.1% decrease from net income available to common stockholders for 2017;
- Return on average assets of 1.90% for 2018;
- Returns on average common stockholders' equity and average tangible common stockholders' equity of 11.59% and 14.41%, respectively, for 2018 (the calculation of our return on average tangible common stockholders' equity and the reconciliation to GAAP are included in this MD&A under the section "Capital Resources and Liquidity");
- Net interest margin, on a fully taxable equivalent ("FTE") basis, of 4.59% for 2018;
- An efficiency ratio (non-interest expense divided by the sum of net interest income, on a FTE basis, and non-interest income) of 37.93% for 2018;
- A net charge-off ratio for total loans of 0.34% for 2018; and
- Excluding purchased loans, our ratio of nonperforming loans to total loans was 0.23% at December 31, 2018, and our ratio of nonperforming assets to total assets was 0.23% at December 31, 2018.

Net income available to our common stockholders was \$417.1 million for 2018, a 1.1% decrease from \$421.9 million for 2017. During 2017, we recognized a one-time tax benefit of \$49.8 million as a result of the revaluation, in the fourth quarter of 2017, of our net deferred tax liability position to reflect the reduction in our federal corporate income tax rate from 35% to 21% due to the Tax Cuts and Jobs Act ("Tax Act") enacted on December 22, 2017.

Additionally, on July 16, 2018, we changed our name to Bank OZK, changed our ticker symbol to "OZK," and adopted a new logo and signage, all as part of a strategic rebranding. As a result of this name change and strategic rebranding, we incurred pretax expense of approximately \$11.7 million in 2018 (none in 2017).

During the third quarter of 2018, we incurred combined charge-offs of \$45.5 million on two credits. These two unrelated projects are in South Carolina and North Carolina, have been in our portfolio since 2007 and 2008, and were previously classified as substandard; however, neither credit was past due or otherwise deemed to be nonperforming or impaired at June 30, 2018. The combined balance of these two credits, after the charge-offs, was \$20.6 million at December 31, 2018. Additionally, both credits were past due, were on nonaccrual status and were deemed impaired at December 31, 2018.

## Net Interest Income

Net interest income and net interest margin are analyzed in this discussion on a FTE basis. The adjustment to convert net interest income to a FTE basis consists of dividing tax-exempt interest income by one minus the statutory federal income tax rate of 21% in 2018 and 35% in 2017 and 2016. Effective January 1, 2018, the Tax Act reduced the statutory federal income tax rate to 21%. As a result, the FTE adjustment for comparable amounts of tax-exempt interest income was lower in 2018 compared to 2017 and 2016. The FTE adjustments to net interest income were \$4.7 million in 2018, \$12.5 million in 2017 and \$9.8 million in 2016. No adjustments have been made in this analysis for income exempt from state income taxes or for interest expense deductions disallowed under the provisions of the IRC as a result of investments in certain tax-exempt securities.

### *2018 compared to 2017*

Net interest income for 2018 increased 8.0% to \$896.1 million compared to \$829.9 million for 2017. Net interest margin decreased 26 basis points (“bps”) to 4.59% for 2018 compared to 4.85% for 2017. The increase in net interest income was primarily the result of the growth in average earning assets, which increased 14.1% to \$19.52 billion for 2018 compared to \$17.11 billion for 2017. The decrease in net interest margin for 2018 compared to 2017 was primarily due to the 53 bps increase in rates paid on interest bearing liabilities, partially offset by a 14 bps increase in yield on average earning assets.

Yields on average earning assets increased to 5.66% for 2018 compared to 5.52% for 2017 primarily due to an increase in yield on our non-purchased loan portfolio. This increase was partially offset by decreases in yield on our purchased loan portfolio and our aggregate investment securities portfolio. The yield on our portfolio of non-purchased loans increased 57 bps to 6.11% for 2018 compared to 5.54% for 2017. This increase was primarily due to recent increases in the federal funds target rate and London Interbank Offered Rates (“LIBOR”). At December 31, approximately 76% of our non-purchased loans were variable interest rate loans and generally reprice with movements in LIBOR or the Wall Street Journal Prime Rate. The yield on our purchased loan portfolio decreased three bps to 6.59% for 2018 compared to 6.62% for 2017. The yield on our purchased loan portfolio is significantly affected by both the volume and timing of early payoffs and paydowns which typically result in any remaining purchase accounting valuation amounts treated as yield adjustments. Because the volume and timing of purchased loan payoffs and paydowns may vary significantly from period to period, the yield on such loans will also vary from period to period. At December 31, 2018, approximately 43% of our purchased loan portfolio contained loans with variable interest rates. The yield on our aggregate investment securities portfolio for 2018 decreased 57 bps to 2.63% compared to 3.20% for 2017. This decrease was primarily the result of (i) the change in mix from tax-exempt securities to taxable securities and (ii) the lower tax equivalent yield as a result of the Tax Act. Beginning in 2017 and continuing in 2018, we took steps to add on-balance sheet liquidity and to position our investment securities portfolio for a rising interest rate environment and lower tax rates, including efforts to maintain or reduce average maturities, modified duration, and the portion of our portfolio invested in tax-exempt securities. These efforts have been dilutive to both our yield on investment securities and our net interest margin.

The overall increase in rates on average interest bearing liabilities, which increased 53 bps for 2018 compared to 2017, was primarily due to increases in rates on interest bearing deposits, which increased 54 bps for 2018 compared to 2017. The increase in rates on our interest bearing deposits, the largest component of our interest bearing liabilities, was primarily due to recent increases in the federal funds target rate and increased competition for deposits. To the extent that deposit competition continues or there are future increases in the federal funds target rate, we would expect to experience further increases in the cost of our interest-bearing deposits in future periods.

Our other borrowing sources include (i) repurchase agreements with customers (“repos”), (ii) other borrowings comprised primarily of Federal Home Loan Bank of Dallas (“FHLB”) advances, and, to a lesser extent, federal funds purchased, (iii) subordinated notes and (iv) subordinated debentures. The rates on repos increased 60 bps in 2018 compared to 2017 primarily due to recent increases in the federal funds target rate. The rates on our other borrowing sources decreased 26 bps for 2018 compared to 2017, primarily as a result of an increase in capitalized interest associated with the ongoing construction during 2018 of our new corporate headquarters, partially offset by recent increases in the federal funds target rate. Our subordinated notes consist of \$225 million in aggregate principal amount of 5.50% fixed-to-floating rate subordinated notes. The rate on these subordinated notes includes the amortization of debt issuance costs over the estimated holding period of seven years. The rates paid on our subordinated debentures, which are tied to a spread over the 90-day LIBOR and reset periodically, increased 98 bps in 2018 compared to 2017 primarily due to increases in LIBOR on the applicable reset dates.

The increase in average earning assets for 2018 compared to 2017 was due to increases in the average balance of non-purchased loans and investment securities, partially offset by a decrease in purchased loans. Average non-purchased loans increased \$3.06 billion, or 27.9%, to \$14.04 billion for 2018 compared to 2017, primarily due to growth in loan fundings, partially offset by the continued elevated levels of paydowns. Average investment securities increased \$808 million, or 43.2%, to \$2.68 billion for 2018 compared to 2017. The increase in the average balance of investment securities was primarily due to adding on-balance sheet liquidity and positioning our portfolio for a rising interest rate environment and lower federal income tax rates. Average purchased loans decreased \$1.54 billion, or 36.9%, to \$2.63 billion for 2018 compared to 2017, primarily due to continued paydown and payoff activity in that portfolio.

#### *2017 compared to 2016*

Net interest income for 2017 increased 35.8% to \$829.9 million compared to \$611.3 million for 2016. Net interest margin decreased seven bps to 4.85% for 2017 compared to 4.92% for 2016. The increase in net interest income was primarily the result of the growth in average earning assets, which increased 37.8% to \$17.11 billion for 2017 compared to \$12.42 billion for 2016. The decrease in net interest margin for 2017 compared to 2016 was primarily due to the 23 bps increase in rates paid on interest bearing liabilities, partially offset by an eleven bps increase in yield on average earning assets.

Yields on average earning assets increased to 5.52% for 2017 compared to 5.41% for 2016 primarily due to an increase in yield on our non-purchased loan portfolio. This increase was partially offset by decreases in yield on our purchased loan portfolio and our aggregate investment securities portfolio. The yield on our portfolio of non-purchased loans increased 45 bps to 5.54% for 2017 compared to 5.09% for 2016. This increase was primarily due to (i) increases in interest rates in 2017, including three, 25 bps increases in the federal funds target rate and increases in both the 30-day and 90-day LIBOR and (ii) the continued elevated level of loan prepayments in 2017 on certain of our construction and development loans resulting in prepayment penalties and/or yield maintenance provisions recorded as an adjustment to loan yield. We have also maintained a large percentage of variable rate loans in our non-purchased loan portfolio in an effort to lower our interest rate risk. At December 31, 2017, variable rate loans, many of which are indexed to and reprice with changes in LIBOR, comprised 79% of our non-purchased loans compared to 82% at December 31, 2016. The yield on our purchased loan portfolio decreased seven bps to 6.62% for 2017 compared to 6.69% for 2016. This decrease was primarily attributable to the loans acquired in our acquisitions of Community & Southern Holdings, Inc. ("C&S") and C1 Financial, Inc. ("C1") during 2016, many of which did not contain evidence of credit deterioration on the date of acquisition and were priced at a lower yield compared to the then existing yield on our purchased loan portfolio. The yield on our aggregate investment securities portfolio for 2017 decreased 72 bps to 3.20% compared to 3.92% for 2016. This decrease was primarily the result of the purchase of approximately \$1.58 billion of highly liquid, short duration U.S. Government agency mortgage-backed pass through securities in 2017 with yields ranging from approximately 2.00% to 2.30%.

The overall increase in rates on average interest bearing liabilities, which increased 23 bps for 2017 compared to 2016, was primarily due to an increase in rates on interest bearing deposits, which increased 22 bps for 2017 compared to 2016. The increase in rates on our interest bearing deposits was primarily due to (i) our deposit gathering initiatives that were implemented in several target markets to fund growth in loans and (ii) the three, 25 bps increases in the federal funds target rate in 2017.

The rates on repos increased three bps in 2017 compared to 2016. The rates on our other borrowing sources decreased 42 bps for 2017 compared to 2016, primarily as a result of the increased utilization in 2017 of short-term FHLB advances. Such short-term advances bear interest at lower rates than fixed rates, callable FHLB advances, which comprised most of our other borrowings in 2016. During 2016, we completed an underwritten public offering of \$225 million in aggregate principal amount of our 5.50% fixed-to-floating rate subordinated notes. The rate on these subordinated notes includes the amortization of debt issuance costs over the estimated holding period of seven years. The rates paid on our subordinated debentures, which are tied to a spread over the 90-day LIBOR and reset periodically, increased 51 bps in 2017 compared to 2016 primarily due to increases in LIBOR on the applicable reset dates.

The increase in average earning assets for 2017 compared to 2016 was due to increases in the average balance of non-purchased loans, investment securities and purchased loans. Average non-purchased loans increased \$2.90 billion, or 35.8%, to \$10.98 billion for 2017 compared to 2016, primarily due to continued strong growth in our originations of non-purchased loans. Average investment securities increased \$892 million, or 91.0%, to \$1.87 billion for 2017 compared to 2016, primarily due to the purchase during 2017 of approximately \$1.58 billion of investment securities described above. The increase in the average balance of our purchased loans for 2017 was due to our acquisitions of C&S and C1 during July 2016, partially offset by paydowns and payoffs of such loans subsequent to acquisition.

The following table sets forth certain information relating to our average balances of assets and liabilities and our net interest income for the periods indicated. Average balances are derived from daily average balances for such assets and liabilities. The yields and rates are derived by dividing interest income or interest expense by the average balance of the related assets or liabilities, respectively. The average balances of investment securities are computed based on amortized cost adjusted for unrealized gains and losses on investment securities AFS and other-than-temporary impairment writedowns, if any. The yields on investment securities include amortization of premiums and accretion of discounts. The average balance of non-purchased loans and purchased loans includes loans on which we have discontinued accruing interest. The yields on non-purchased loans and purchased loans without evidence of credit deterioration at date of acquisition include late fees, any prepayment penalties, yield maintenance or minimum interest provisions on loan repayments and amortization or accretion of certain deferred fees, origination costs, dealer fees (for non-purchased indirect marine and RV loans) and, for such purchased loans, accretion or amortization of any purchase accounting yield adjustment. The yields on purchased loans with evidence of credit deterioration at date of acquisition includes accretion of the net present value of expected future cash flows using the effective yield method over the term of the loans and include late fees and any prepayment penalties. Interest expense and rates on our other borrowing sources are presented net of interest capitalized on construction projects and include the amortization of debt issuance costs, if any. Interest expense on subordinated notes includes amortization of debt issuance costs. The interest expense on the subordinated debentures assumed through an acquisition includes the amortization of any purchase accounting adjustments.

## Average Consolidated Balance Sheets and Net Interest Analysis

	Year Ended December 31,								
	2018			2017			2016		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
(Dollars in thousands)									
<b>ASSETS</b>									
Interest earning assets:									
Interest earning deposits and federal funds sold	\$ 160,148	\$ 3,039	1.90%	\$ 81,504	\$ 656	0.81%	\$ 30,260	\$ 366	1.21%
Investment securities:									
Taxable	2,143,455	50,021	2.33	1,158,519	25,460	2.20	466,059	11,373	2.44
Tax-exempt – FTE	537,616	20,497	3.81	714,329	34,508	4.83	514,545	27,049	5.26
Non-purchased loans – FTE	14,040,952	858,466	6.11	10,979,369	607,925	5.54	8,083,647	411,181	5.09
Purchased loans	2,633,271	173,465	6.59	4,175,146	276,499	6.62	3,325,443	222,350	6.69
Total earning assets – FTE	19,515,442	1,105,488	5.66	17,108,867	945,048	5.52	12,419,954	672,319	5.41
Non-interest earning assets	2,395,813			2,545,797			1,850,124		
Total assets	<u>\$21,911,255</u>			<u>\$19,654,664</u>			<u>\$14,270,078</u>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>									
Interest bearing liabilities:									
Deposits:									
Savings and interest bearing transaction	\$ 9,983,075	\$ 118,771	1.19%	\$ 8,587,404	\$ 53,496	0.62%	\$ 5,897,821	\$ 20,316	0.34%
Time deposits of \$100 or more	3,183,108	47,691	1.50	3,164,843	31,222	0.99	2,439,447	19,906	0.82
Other time deposits	1,651,960	20,155	1.22	1,560,035	11,365	0.73	1,448,166	8,372	0.58
Total interest bearing deposits	14,818,143	186,617	1.26	13,312,282	96,083	0.72	9,785,434	48,594	0.50
Repurchase agreements with customers	101,682	785	0.77	75,915	132	0.17	64,044	89	0.14
Other borrowings <sup>(1)</sup>	166,937	3,017	1.81	62,988	1,305	2.07	46,949	1,168	2.49
Subordinated notes	223,089	12,757	5.72	222,705	12,620	5.67	116,679	6,801	5.83
Subordinated debentures	119,076	6,211	5.22	118,515	5,024	4.24	117,958	4,398	3.73
Total interest bearing liabilities	15,428,927	209,387	1.36	13,792,405	115,164	0.83	10,131,064	61,050	0.60
Non-interest bearing liabilities:									
Non-interest bearing deposits	2,695,623			2,652,895			2,006,933		
Other non-interest bearing liabilities	185,035			78,684			60,553		
Total liabilities	18,309,585			16,523,984			12,198,550		
Common stockholders' equity	3,598,628			3,127,576			2,068,328		
Noncontrolling interest	3,042			3,104			3,200		
Total liabilities and stockholders' equity	<u>\$21,911,255</u>			<u>\$19,654,664</u>			<u>\$14,270,078</u>		
Net interest income – FTE	<u>\$ 896,101</u>			<u>\$829,884</u>			<u>\$611,269</u>		
Net interest margin – FTE	<u>4.59%</u>			<u>4.85%</u>			<u>4.92%</u>		

(1) The interest expense and rates for other borrowings were impacted by interest capitalized, primarily for our corporate headquarters facility that is currently under construction, totaling \$0.6 million in 2018, \$0.2 million in 2017 and \$0.1 million in 2016. In the absence of this interest capitalization, these rates on other borrowings would have been 2.19% in 2018, 2.44% in 2017 and 2.59% in 2016.

The following table reflects how changes in the volume of interest earning assets and interest bearing liabilities and changes in interest rates have affected our interest income – FTE, interest expense and net interest income – FTE for the years indicated. Information is provided in each category with respect to changes attributable to (1) changes in volume (changes in volume multiplied by prior yield/rate); (2) changes in yield/rate (changes in yield/rate multiplied by prior volume); and (3) changes in both yield/rate and volume (changes in yield/rate multiplied by changes in volume). The changes attributable to the combined impact of yield/rate and volume have all been allocated to the changes due to volume.

### Analysis of Changes in Net Interest Income—FTE

	2018 over 2017			2017 over 2016		
	Volume	Yield/ Rate	Net Change	Volume	Yield/ Rate	Net Change
(Dollars in thousands)						
Increase (decrease) in:						
Interest income – FTE:						
Interest earning deposits and federal funds sold	\$ 1,493	\$ 890	\$ 2,383	\$ 412	\$ (122)	\$ 290
Investment securities:						
Taxable	22,985	1,576	24,561	15,218	(1,131)	14,087
Tax-exempt – FTE	(6,739)	(7,272)	(14,011)	9,652	(2,193)	7,459
Non-purchased loans – FTE	187,186	63,355	250,541	160,335	36,409	196,744
Purchased loans	(101,570)	(1,464)	(103,034)	56,271	(2,122)	54,149
Total interest income – FTE	103,355	57,085	160,440	241,888	30,841	272,729
Interest expense:						
Savings and interest bearing transaction	16,605	48,670	65,275	16,755	16,425	33,180
Time deposits of \$100 or more	273	16,196	16,469	7,157	4,159	11,316
Other time deposits	1,122	7,668	8,790	814	2,179	2,993
Repurchase agreements with customers	198	455	653	21	22	43
Other borrowings	1,879	(167)	1,712	332	(195)	137
Subordinated notes	21	116	137	6,008	(189)	5,819
Subordinated debentures	29	1,158	1,187	24	602	626
Total interest expense	20,127	74,096	94,223	31,111	23,003	54,114
Increase (decrease) in net interest income – FTE	\$ 83,228	\$ (17,011)	\$ 66,217	\$ 210,777	\$ 7,838	\$ 218,615

### Non-Interest Income

Our non-interest income consists primarily of service charges on deposit accounts, trust income, BOLI income, other income from purchased loans, loan service, maintenance and other fees and net gains on investment securities and from sales of other assets.

#### 2018 compared to 2017

Non-interest income for 2018 decreased 13.0% to \$107.8 million compared to \$123.9 million for 2017.

Service charges on deposit accounts, the largest component of our non-interest income, decreased 7.7% to \$39.5 million in 2018 compared to \$42.9 million in 2017. This decrease was primarily due to the effect of the Durbin Amendment, which limits the amount of interchange fees that may be charged for debit and prepaid card transactions. We became subject to the provisions of the Durbin Amendment effective July 1, 2017.

As a result of our decision in December 2017 to exit the secondary market mortgage lending business and wind down that business during the first half of 2018, mortgage lending income decreased 91.6% to \$0.5 million in 2018 compared to \$6.4 million in 2017.

Trust income increased 3.6% to \$6.9 million in 2018 compared to \$6.7 million in 2017. This increase in trust income was primarily due to growth in personal trust income, partially offset by a decrease in corporate trust income.

BOLI income increased 28.0% to \$23.9 million in 2018 compared to \$18.7 million in 2017 primarily due to the purchase of \$45 million of BOLI during the first and second quarters of 2018 and the purchase of \$60 million of BOLI during the fourth quarter of 2017. Additionally, our BOLI income included \$3.2 million of tax-exempt BOLI death benefits in 2018 compared to \$0.4 million of



such benefits in 2017. BOLI income in the form of increases in cash surrender value helps to offset a portion of employee benefit costs.

Other income from purchased loans decreased 42.2% to \$7.8 million in 2018 compared to \$13.5 million in 2017. Other income from purchased loans consists primarily of income recognized on purchased loan prepayments and payoffs that are not considered yield adjustments. Because other income from purchased loans may be significantly affected by purchased loan pre-payments and payoffs, this income item may vary significantly from period to period, but is generally expected to decrease in future periods as our portfolio of purchased loans decreases.

Loan service, maintenance and other fees, which includes unused line fees and other fees on our non-purchased loans that are not considered yield adjustments, increased 29.7% to \$20.4 million in 2018 compared to \$15.7 million in 2017. The increase in loan service, maintenance and other fees during 2018 compared to 2017 was due to our continued efforts to include provisions for such fees in many of our larger non-purchased loan transactions.

We had essentially no net gains from the sale of investment securities during 2018, compared to \$4.0 million in 2017. Gains on sales of other assets were \$2.2 million in 2018 compared to \$5.6 million in 2017. Net gains on sales of other assets for 2018 included a charge of \$1.26 million related to the sale of our corporate aircraft.

#### *2017 compared to 2016*

Non-interest income for 2017 increased 21.0% to \$123.9 million compared to \$102.4 million for 2016.

Service charges on deposit accounts increased 11.4% to \$42.9 million in 2017 compared to \$38.5 million in 2016. This increase was primarily due to growth in the number of transaction accounts and the addition of deposit customers in 2016 from our C&S and C1 acquisitions. Partially offsetting these increases was the effect of the Durbin Amendment, which limits the amount of interchange fees that may be charged for debit and prepaid card transactions. We became subject to the provisions of the Durbin Amendment effective July 1, 2017.

Mortgage lending income decreased 20.5% to \$6.4 million in 2017 compared to \$8.1 million in 2016. During the fourth quarter of 2017, we ceased taking new loan applications for secondary market consumer mortgage loans.

Trust income increased 6.7% to \$6.7 million in 2017 compared to \$6.3 million in 2016. This increase in trust income was primarily due to growth in personal trust income.

BOLI income increased 26.1% to \$18.7 million in 2017 compared to \$14.8 million in 2016 primarily due to \$103 million in BOLI purchases that occurred during the third and fourth quarters of 2016 and \$60 million of BOLI purchased in the fourth quarter of 2017.

Other income from purchased loans decreased 22.1% to \$13.5 million in 2017 compared to \$17.3 million in 2016. Other income from purchased loans consists primarily of income recognized on purchased loan prepayments and payoffs that are not considered yield adjustments.

Loan service, maintenance and other fees, which includes fees on our non-purchased loans that are not considered yield adjustments, increased 129.6% to \$15.7 million in 2017 compared to \$6.8 million in 2016. The increase in loan service, maintenance and other fees during 2017 compared to 2016 was due to recent efforts to include provisions for such fees in many of our larger non-purchased loan transactions, the effects of which have resulted in an increase in such loan service, maintenance and other fees.

We had net gains on investment securities of \$4.0 million in 2017 from the sale of approximately \$239 million of investment securities, compared to no significant net gains on investment securities in 2016. Gains on sales of other assets were \$5.6 million in 2017 compared to \$4.2 million in 2016.

The following table presents non-interest income for the years indicated.

### Non-Interest Income

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Service charges on deposit accounts	\$ 39,544	\$ 42,853	\$ 38,461
Mortgage lending income	538	6,399	8,054
Trust income	6,935	6,691	6,268
BOLI income	23,911	18,677	14,808
Other income from purchased loans, net	7,784	13,456	17,278
Loan service, maintenance and other fees	20,354	15,696	6,836
Net gains on investment securities	17	4,033	4
Gains on sales of other assets	2,219	5,553	4,156
Other	6,473	10,500	6,534
Total non-interest income	<u>\$ 107,775</u>	<u>\$ 123,858</u>	<u>\$ 102,399</u>

### Non-Interest Expense

Non-interest expense consists of salaries and employee benefits, net occupancy and equipment expense and other operating expenses.

#### 2018 compared to 2017

Non-interest expense increased 14.5% to \$380.8 million in 2018 compared to \$332.7 million in 2017. The increase in our non-interest expense in 2018 compared to 2017 was primarily attributable to approximately \$11.7 million incurred during 2018 (none in 2017) of non-interest expense related to our name change and strategic rebranding initiatives. Additionally, we have continued to expand and enhance our infrastructure for information technology, cybersecurity, business resilience, enterprise risk management, internal audit, compliance, Bank Secrecy Act (“BSA”) and anti-money laundering (“AML”) monitoring activities, training and a number of other important areas, including expanding our human and physical infrastructure to serve low-to-moderate income and majority-minority markets and customer segments (collectively, “our infrastructure initiatives”).

Salaries and employee benefits, our largest component of non-interest expense, increased 12.0% to \$170.5 million in 2018 compared to \$152.2 million in 2017. The increase in salaries and benefits for 2018 compared to 2017 is primarily due to employees added as we continue to grow, including our focus on our infrastructure initiatives as discussed above. We had 2,563 full-time equivalent employees at December 31, 2018, compared to 2,400 full-time equivalent employees at December 31, 2017.

Net occupancy and equipment expense increased 5.9% to \$56.4 million in 2018 compared to \$53.2 million in 2017. At December 31, 2018 we had 251 offices compared to 253 at December 31, 2017.

Other operating expenses increased 20.9% to \$153.9 million in 2018 compared to \$127.3 million in 2017. The increase in other operating expense in 2018 compared to 2017 is primarily attributable to our name change and strategic rebranding initiatives and our infrastructure initiatives.

Our efficiency ratio (non-interest expense divided by the sum of net interest income–FTE and non-interest income) was 37.9% for 2018 compared to 34.9% for 2017. Because non-interest income–FTE is a component of the calculation of our efficiency ratio, the decrease in the federal income tax rate for 2018 as a result of the Tax Act reduced our FTE adjustment for tax-exempt interest income which resulted in a modest increase in our efficiency ratio. Additionally, our name change and strategic rebranding initiatives and, to a lesser extent, our infrastructure initiatives increased our efficiency ratio for 2018 compared to 2017.

#### 2017 compared to 2016

Non-interest expense increased 30.1% to \$332.7 million in 2017 compared to \$255.8 million in 2016. The increase in our non-interest expense in 2017 compared to 2016 was primarily attributable to our C&S and C1 acquisitions that closed in 2016. Additionally, beginning in 2016 and continuing throughout 2017, we significantly increased our expenses related to our infrastructure initiatives.

Salaries and employee benefits increased 23.9% to \$152.2 million in 2017 compared to \$122.8 million in 2016. The increase in salaries and benefits for 2017 compared to 2016 is primarily due to employees added from our C&S and C1 acquisitions, along with employees added as we continue our focus on our infrastructure initiatives. We had 2,400 full-time equivalent employees at December 31, 2017, compared to 2,315 full-time equivalent employees at December 31, 2016.

Net occupancy and equipment expense increased 25.1% to \$53.2 million in 2017 compared to \$42.5 million in 2016. The increase in our net occupancy and equipment expense for 2017 compared to 2016 is primarily the result of our C&S and C1 acquisitions. At December 31, 2017, we had 253 offices compared to 250 offices at December 31, 2016.

Other operating expenses increased 40.8% to \$127.3 million in 2017 compared to \$90.4 million in 2016. The increase in other operating expense in 2017 compared to 2016 is primarily attributable to our growth, including growth as a result of our C&S and C1 acquisitions, as well as expenses related to our infrastructure initiatives.

Our efficiency ratio (non-interest expense divided by the sum of net interest income—FTE and non-interest income) was 34.9% for 2017 compared to 35.8% for 2016.

The following table presents non-interest expense for the years indicated.

### Non-Interest Expense

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Salaries and employee benefits	\$ 170,478	\$ 152,194	\$ 122,832
Net occupancy and equipment expense	56,362	53,198	42,524
Other operating expenses:			
Professional and outside services	35,867	32,441	21,330
Software and data processing	13,729	10,126	4,950
Telecommunication services	13,080	13,935	8,800
Advertising and public relations	11,557	5,989	5,617
Travel and meals	9,650	8,477	8,130
Postage and supplies	9,144	7,769	5,566
FDIC insurance	11,800	9,700	5,125
FDIC and state assessments	2,940	3,414	1,626
ATM expense	4,227	5,725	4,774
Loan collection and repossession expense	3,302	5,303	4,612
Writedowns of foreclosed assets	2,996	3,488	3,610
Amortization of intangibles	12,579	12,580	9,037
Writedowns of signage due to strategic rebranding	4,915	—	—
Other	18,126	8,333	7,221
Total non-interest expense	<u>\$ 380,752</u>	<u>\$ 332,672</u>	<u>\$ 255,754</u>

### Income Taxes

Our provision for income taxes was \$137.0 million in 2018 compared to \$158.6 million in 2017 and \$154.3 million in 2016. Our effective income tax rates were 24.7% for 2018, 27.3% for 2017 and 36.4% for 2016. The decrease in the effective tax rate for 2018 compared to 2017 is primarily due to a reduction in the federal tax rate from 35% for 2017 to 21% for 2018 as a result of the Tax Act. This decrease was partially offset by our reduction, in the fourth quarter of 2017 as a result of the Tax Act, of our net deferred tax liabilities to reflect the federal tax rate of 21% applicable to the periods in which these net deferred tax liabilities are expected to reverse. The reduction of our effective tax rate for 2017 compared to 2016 was primarily the result of the net deferred tax liability reduction in the fourth quarter of 2017 that resulted in a one-time income tax benefit of \$49.8 million in 2017.

The effective tax rates were also affected by various other factors including adjustments to the state income tax apportionment factors based on changes in business activity and lending volumes in higher income tax rate states and municipalities, changes in certain non-deductible executive compensation expenses and various other factors related to non-taxable income and non-deductible expenses. A reconciliation between the statutory federal income tax rates and our effective income tax rates for 2018, 2017 and 2016 is included in note 12 to the consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

## Analysis of Financial Condition

### Loan Portfolio

At December 31, 2018, our total loan portfolio was \$17.12 billion, an increase of 6.7% from \$16.04 billion at December 31, 2017. At December 31, 2018, our total loan portfolio consisted of 77.2% real estate loans, 4.8% commercial and industrial loans, 13.7% consumer loans and 4.3% other loans. Real estate loans, our largest category of loans, include all loans made to finance the development of real property construction projects, provided such loans are secured by real estate, and all other loans secured by real estate as evidenced by mortgages or other liens.

The amount and type of total loans outstanding, as of the dates indicated, are reflected in the following table.

### Loan Portfolio

	December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
<b>Real estate:</b>					
Residential 1-4 family	\$ 1,049,460	\$ 1,174,427	\$ 1,259,289	\$ 737,206	\$ 638,958
Non-farm/non-residential	4,319,388	4,478,876	4,665,401	3,146,413	2,008,430
Construction/land development	6,562,185	6,648,061	5,295,860	2,873,398	1,511,614
Agricultural	165,088	150,003	124,857	94,358	95,223
Multifamily residential	1,116,026	508,514	744,005	580,325	253,590
Total real estate	13,212,147	12,959,881	12,089,412	7,431,700	4,507,815
Commercial and industrial	823,417	738,225	577,335	439,538	472,007
Consumer	2,345,863	1,472,593	1,028,991	35,232	40,937
Other	736,396	872,330	867,377	428,201	107,058
Total loans	<u>\$17,117,823</u>	<u>\$16,043,029</u>	<u>\$14,563,115</u>	<u>\$ 8,334,671</u>	<u>\$ 5,127,817</u>

Included in “other” loans at December 31, 2018, 2017, 2016, 2015 and 2014 are loans totaling approximately \$656 million, \$830 million, \$835 million, \$394 million and \$61 million, respectively, that were originated to acquire promissory notes from non-depository financial institutions and are typically collateralized by an assignment of the promissory note and all related note documents including mortgages, deeds of trust, etc. While the loans are considered “other” loans in accordance with FDIC instructions for the Federal Financial Institutions Examination Council 041 Consolidated Reports of Condition and Income (“Call Report”), we underwrite these lending transactions based on the fundamentals of the underlying collateral, repayment sources and guarantors, among others, consistent with other similar lending transactions.

The amount and type of our real estate loans at December 31, 2018 based on the metropolitan statistical area (“MSA”) and other geographic areas in which the principal collateral is located are reflected in the following table. Data for individual states or MSAs is separately presented when aggregate real estate loans in that state or MSA exceed \$10 million.

### Geographic Distribution of Real Estate Loans

	Residential 1-4 Family	Non-Farm/ Non- Residential	Construction/ Land Development	Agricultural	Multifamily Residential	Total
	(Dollars in thousands)					
New York:						
New York–Newark–Jersey City, NY–NJ–PA MSA	\$ 4,310	\$ 437,693	\$ 2,713,076	\$ —	\$ 108,203	\$3,263,282
All other New York <sup>(1)</sup>	577	14,812	—	—	—	15,389
Total New York	4,887	452,505	2,713,076	—	108,203	3,278,671
Florida:						
Miami–Fort Lauderdale–West Palm Beach, FL MSA	65,322	283,134	796,077	382	99,335	1,244,250
Tampa–St. Petersburg–Clearwater, FL MSA	66,531	176,119	111,758	213	10,117	364,738
Orlando–Kissimmee–Sanford, FL MSA	6,076	59,151	50,466	—	102,013	217,706
North Port–Sarasota–Bradenton, FL MSA	35,599	52,525	9,811	—	610	98,545
Cape Coral–Fort Myers, FL MSA	14,362	42,718	9,635	—	304	67,019
Naples–Immokalee–Marco Island, FL MSA	1,020	4,924	38,590	—	—	44,534
Crestview–Fort Walton Beach–Destin, FL MSA	6,499	37,427	224	118	—	44,268
Jacksonville, FL MSA	2,190	30,238	2,751	—	—	35,179
Ocala, FL MSA	2,891	21,768	52	—	—	24,711
Punta Gorda, FL MSA	8,093	8,262	2,246	—	—	18,601
Lakeland–Winter Haven, FL MSA	190	11,995	2,429	—	47	14,661
Gainesville, FL MSA	30	12,269	—	—	—	12,299
Deltona–Daytona Beach–Ormond Beach, FL MSA	267	11,109	332	—	—	11,708
All other Florida <sup>(1)</sup>	9,021	104,483	394	268	1,484	115,650
Total Florida	218,091	856,122	1,024,765	981	213,910	2,313,869
Texas:						
Dallas–Fort Worth–Arlington, TX MSA	64,964	292,532	304,326	1,717	103,337	766,876
Austin–Round Rock, TX MSA	12,592	35,414	174,716	—	19,994	242,716
Houston–The Woodlands–Sugar Land, TX MSA	14,044	46,926	85,488	—	30,358	176,816
College Station–Bryan, TX MSA	—	26,659	24,948	—	—	51,607
Texarkana, TX–AR MSA	8,592	4,550	287	162	1,162	14,753
San Antonio–New Braunfels, TX MSA	1,236	4,455	5,022	—	409	11,122
All other Texas <sup>(1)</sup>	844	43,910	7,213	3,063	—	55,030
Total Texas	102,272	454,446	602,000	4,942	155,260	1,318,920
Georgia:						
Atlanta–Sandy Springs–Roswell, GA MSA	165,761	391,233	199,556	3,980	24,714	785,244
Dalton, GA MSA	8,913	12,745	982	995	1,029	24,664
Gainesville, GA MSA	3,130	13,296	6,873	102	691	24,092
Athens–Clarke County, GA MSA	3,039	19,038	811	99	—	22,987
Macon, GA MSA	4,015	7,125	239	—	4,874	16,253
Brunswick, GA MSA	7,415	3,372	237	78	—	11,102
All other Georgia <sup>(1)</sup>	53,228	119,377	27,849	8,440	16,843	225,737
Total Georgia	245,501	566,186	236,547	13,694	48,151	1,110,079

### Geographic Distribution of Real Estate Loans (continued)

	Residential 1-4 Family	Non-Farm/ Non- Residential	Construction/ Land Development	Agricultural	Multifamily Residential	Total
	(Dollars in thousands)					
Arkansas:						
Little Rock–North Little Rock–Conway, AR MSA	137,327	258,840	47,404	15,489	17,333	476,393
Hot Springs, AR MSA	38,651	62,094	5,310	814	1,676	108,545
Fayetteville–Springdale–Rogers, AR–MO MSA	20,996	39,170	11,819	22,538	8,334	102,857
Fort Smith, AR–OK MSA	27,503	51,066	6,564	2,955	12,063	100,151
Western Arkansas <sup>(2)</sup>	15,816	26,132	6,457	5,606	1,899	55,910
Southern Arkansas <sup>(3)</sup>	19,675	15,676	1,526	14,471	618	51,966
Northern Arkansas <sup>(4)</sup>	23,257	8,933	1,774	11,425	281	45,670
Jonesboro, AR MSA	2,821	5,578	2,994	—	225	11,618
All other Arkansas <sup>(1)</sup>	17,424	21,969	2,927	46,235	3,709	92,264
Total Arkansas	303,470	489,458	86,775	119,533	46,138	1,045,374
California:						
Los Angeles–Long Beach–Anaheim, CA MSA	723	86,592	281,792	—	—	369,107
Sacramento–Roseville–Arden–Arcade, CA MSA	—	128,406	49,405	—	—	177,811
San Francisco–Oakland–Hayward, CA MSA	—	—	152,265	—	—	152,265
San Jose–Sunnyvale–Santa Clara, CA MSA	—	63,728	70,403	—	—	134,131
San Diego–Carlsbad, CA MSA	—	—	28,585	—	—	28,585
Riverside–San Bernardino–Ontario, CA MSA	—	14,365	—	—	—	14,365
Total California	723	293,091	582,450	—	—	876,264
North Carolina:						
Charlotte–Concord–Gastonia, NC–SC MSA	41,353	112,730	66,859	1,372	72,843	295,157
Winston–Salem, NC MSA	36,701	31,289	3,071	—	1,466	72,527
Greensboro–High Point, NC MSA	14,758	26,049	3,429	854	26,515	71,605
North Carolina Foothills <sup>(5)</sup>	33,065	24,983	954	2,270	1,051	62,323
Wilmington, NC MSA	3,938	33,711	4,609	393	—	42,651
Raleigh, NC MSA	216	1,462	15,537	—	15	17,230
All other North Carolina <sup>(1)</sup>	8,747	12,607	37,352	—	5,926	64,632
Total North Carolina	138,778	242,831	131,811	4,889	107,816	626,125
Illinois:						
Chicago–Naperville–Elgin, IL–IN–WI MSA	—	257,165	257,566	4,533	70,342	589,606
All other Illinois <sup>(1)</sup>	—	3,541	—	—	—	3,541
Total Illinois	—	260,706	257,566	4,533	70,342	593,147
Colorado:						
Denver–Aurora–Lakewood, CO MSA	3	124,185	221,881	—	129,563	475,632
All other Colorado <sup>(1)</sup>	1,046	2,166	3,538	—	—	6,750
Total Colorado	1,049	126,351	225,419	—	129,563	482,382
Seattle–Tacoma–Bellevue, WA MSA	—	—	160,643	—	104,192	264,835
South Carolina:						
Charleston–North Charleston, SC MSA	693	1,182	84,128	—	41,693	127,696
Columbia, SC MSA	352	28,576	1,252	—	578	30,758
Myrtle Beach–Conway–North Myrtle Beach, SC–NC MSA	1,543	3,053	20,096	—	23	24,715
Greenville–Anderson–Mauldin, SC MSA	4,486	2,785	12,615	—	—	19,886
Hilton Head Island–Bluffton–Beaufort, SC MSA	2,674	7,451	35	—	—	10,160
All other South Carolina <sup>(1)</sup>	1,896	2,643	917	—	152	5,608
Total South Carolina	11,644	45,690	119,043	—	42,446	218,823

**Geographic Distribution of Real Estate Loans (continued)**

	<b>Residential 1-4 Family</b>	<b>Non-Farm/ Non- Residential</b>	<b>Construction/ Land Development</b>	<b>Agricultural</b>	<b>Multifamily Residential</b>	<b>Total</b>
	(Dollars in thousands)					
<b>Tennessee:</b>						
Nashville–Davidson–Murfreesboro– Franklin, TN MSA	—	96,730	34,879	—	—	131,609
All other Tennessee <sup>(1)</sup>	1,163	7,413	993	62	—	9,631
<b>Total Tennessee</b>	<b>1,163</b>	<b>104,143</b>	<b>35,872</b>	<b>62</b>	<b>—</b>	<b>141,240</b>
<b>Washington DC / Virginia / Maryland:</b>						
Washington–Arlington–Alexandria, DC–VA– MD–WV MSA	219	11,760	61,160	—	—	73,139
All other Virginia <sup>(1)</sup>	356	10,453	4,011	—	74	14,894
All other Maryland <sup>(1)</sup>	—	1,279	—	—	8,928	10,207
<b>Total Washington DC / Virginia / Maryland</b>	<b>575</b>	<b>23,492</b>	<b>65,171</b>	<b>—</b>	<b>9,002</b>	<b>98,240</b>
Phoenix–Mesa–Scottsdale, AZ MSA	—	17,657	79,322	—	—	96,979
<b>Utah:</b>						
Salt Lake City, UT MSA	—	1,121	—	—	39,539	40,660
All other Utah <sup>(1)</sup>	1,670	2,981	46,140	—	—	50,791
<b>Total Utah</b>	<b>1,670</b>	<b>4,102</b>	<b>46,140</b>	<b>—</b>	<b>39,539</b>	<b>91,451</b>
Portland–Vancouver–Hillsboro, OR–WA MSA	—	43,316	29,728	—	12,704	85,748
Boston, MA MSA	—	—	75,836	—	—	75,836
Providence–Warwick, RI–MA MSA	—	75,173	—	—	—	75,173
<b>Pennsylvania:</b>						
Philadelphia–Camden–Wilmington, PA–NJ–DE– MD MSA	—	57,060	3,120	—	—	60,180
All other Pennsylvania <sup>(1)</sup>	—	11,669	—	—	—	11,669
<b>Total Pennsylvania</b>	<b>—</b>	<b>68,729</b>	<b>3,120</b>	<b>—</b>	<b>—</b>	<b>71,849</b>
<b>Alabama:</b>						
Birmingham–Hoover, AL MSA	77	—	22,105	—	—	22,182
Mobile, AL MSA	5,341	15,192	882	—	663	22,078
All other Alabama <sup>(1)</sup>	12,694	7,213	3,613	439	845	24,804
<b>Total Alabama</b>	<b>18,112</b>	<b>22,405</b>	<b>26,600</b>	<b>439</b>	<b>1,508</b>	<b>69,064</b>
<b>Ohio:</b>						
Cincinnati, OH–KY–IN MSA	—	23,349	—	—	—	23,349
All other Ohio <sup>(1)</sup>	—	19,617	—	—	—	19,617
<b>Total Ohio</b>	<b>—</b>	<b>42,966</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>42,966</b>
Bridgeport, CT MSA	—	31,563	—	—	—	31,563
Oklahoma	760	11,307	4,320	10,480	1,798	28,665
<b>Wisconsin:</b>						
Madison, WI MSA	—	—	—	—	25,454	25,454
All other Wisconsin <sup>(1)</sup>	—	2,146	—	—	—	2,146
<b>Total Wisconsin</b>	<b>—</b>	<b>2,146</b>	<b>—</b>	<b>—</b>	<b>25,454</b>	<b>27,600</b>

### Geographic Distribution of Real Estate Loans (continued)

	Residential 1-4 Family	Non-Farm/ Non- Residential	Construction/ Land Development	Agricultural	Multifamily Residential	Total
	(Dollars in thousands)					
Minnesota:						
Minneapolis–St. Paul–Bloomington, MN–WI MSA	—	25,762	—	—	—	25,762
All other Minnesota <sup>(1)</sup>	—	1,048	—	—	—	1,048
Total Minnesota	—	26,810	—	—	—	26,810
Kentucky:						
Louisville, KY MSA	—	3,322	10,958	—	—	14,280
All other Kentucky <sup>(1)</sup>	173	5,205	6,247	—	—	11,625
Total Kentucky	173	8,527	17,205	—	—	25,905
Trenton City, NJ MSA	—	—	23,730	—	—	23,730
Missouri	335	9,664	4,211	153	—	14,363
All other states <sup>(6)</sup>	257	40,002	10,835	5,382	—	56,476
Total Real Estate Loans	<u>\$ 1,049,460</u>	<u>\$ 4,319,388</u>	<u>\$ 6,562,185</u>	<u>\$ 165,088</u>	<u>\$ 1,116,026</u>	<u>\$ 13,212,147</u>

- (1) These geographic areas include all MSA and non-MSA areas that are not separately reported.
- (2) This geographic area includes the following counties in western Arkansas: Johnson, Logan, Pope and Yell.
- (3) This geographic area includes the following counties in southern Arkansas: Clark, Columbia, Hempstead and Hot Spring.
- (4) This geographic area includes the following counties in northern Arkansas: Baxter, Boone, Marion, Newton, Searcy and Van Buren.
- (5) This geographic area includes the following counties in the North Carolina foothills: Cleveland, Lincoln and Rutherford.
- (6) Includes all states not separately presented above.

The amount and type of non-farm/non-residential loans, as of the dates indicated, and their respective percentage of the total non-farm/non-residential loan portfolio are reflected in the following table.

#### Non-Farm/Non-Residential Loans

	December 31,			
	2018		2017	
	Amount	%	Amount	%
	(Dollars in thousands)			
Office, including medical offices	\$ 1,005,946	23.3%	\$ 686,396	15.3%
Hotels and motels	978,959	22.7	1,236,012	27.6
Retail, including shopping centers and strip centers	560,222	13.0	540,450	12.1
Churches and schools	285,044	6.6	230,180	5.1
Manufacturing and industrial facilities	274,569	6.4	427,710	9.6
Mixed use properties	234,887	5.4	355,279	7.9
Nursing homes and assisted living centers	210,869	4.9	232,292	5.2
Restaurants and bars	162,573	3.8	147,322	3.3
Gasoline stations and convenience stores	100,416	2.3	101,704	2.3
Office warehouse, warehouse and mini-storage	47,513	1.1	44,592	1.0
Hospitals, surgery centers and other medical	41,479	1.0	46,887	1.0
Golf courses, entertainment and recreational facilities	33,450	0.8	32,257	0.7
Other non-farm/non-residential	383,461	8.7	397,795	8.9
Total	<u>\$ 4,319,388</u>	<u>100.0%</u>	<u>\$ 4,478,876</u>	<u>100.0%</u>



The amount and type of construction/land development loans as of the dates indicated, and their respective percentage of the total construction/land development loan portfolio are reflected in the following table.

### Construction/Land Development Loans

	2018		December 31, 2017	
	Amount	%	Amount	%
	(Dollars in thousands)			
Unimproved land	\$ 203,127	3.1%	\$ 214,574	3.2%
Land development and lots:				
1-4 family residential and multifamily	407,502	6.2	423,413	6.4
Non-residential	576,130	8.8	712,479	10.7
Construction:				
1-4 family residential:				
Owner occupied	11,342	0.2	21,715	0.3
Non-owner occupied:				
Pre-sold	2,189,475	33.4	1,800,985	27.1
Speculative	130,310	2.0	163,470	2.5
Multifamily	1,616,408	24.6	1,487,432	22.4
Industrial, commercial and other	1,427,891	21.7	1,823,993	27.4
Total	<u>\$ 6,562,185</u>	<u>100.0%</u>	<u>\$ 6,648,061</u>	<u>100.0%</u>

Many of our construction and development loans provide for the use of interest reserves. When we underwrite construction and development loans, we consider the expected total project costs, including hard costs such as land, site work and construction costs and soft costs such as architectural and engineering fees, closing costs, leasing commissions and construction period interest, among others. For any construction and development loan with interest reserves, we also consider the construction period interest in our underwriting process (otherwise, our underwriting of such loans with and without interest reserves is virtually identical). Based on the total project costs and other factors, we determine the required borrower cash equity contribution and the maximum amount we are willing to loan. In the vast majority of cases, we require that all of the borrower's equity and all other required subordinated elements of the capital structure be fully funded prior to any significant loan advances. This ensures that the borrower's cash equity required to complete the project will be available for such purposes. As a result of this practice, the borrower's cash equity typically goes toward the purchase of the land and early stage hard costs and soft costs. This results in our funding the loan later as the project progresses, and accordingly, we typically fund the majority of the construction period interest through loan advances. Generally, as part of our underwriting process, we require the borrower's cash equity to cover a majority, or all, of the soft costs, including an amount equal to construction period interest, and an appropriate portion of the hard costs. While we advance interest reserves as part of the funding process, we believe that the borrowers in effect have in most cases provided for these sums as part of their initial equity contribution. During the years ended December 31, 2018, 2017 and 2016, there were no situations where additional interest reserves were advanced outside of the terms of the contractual loan agreement to avoid such loan from becoming nonperforming. At December 31, 2018, we had \$10.6 million of construction and development loans with interest reserves that were nonperforming. At December 31, 2017 and 2016, we had no construction and development loans with interest reserves that were nonperforming.

During the years ended December 31, 2018, 2017 and 2016, we recognized approximately \$263 million, \$180 million and \$112 million, respectively, of interest income on construction and development loans from the advance of interest reserves. We advanced construction period interest on construction and development loans totaling approximately \$254 million, \$172 million and \$104 million, respectively, during the years ended December 31, 2018, 2017 and 2016.

The maximum committed balance of all construction and development loans which provide for the use of interest reserves at December 31, 2018 was approximately \$15.71 billion, of which \$6.12 billion was outstanding at December 31, 2018 and \$9.59 billion remained to be advanced. The weighted average LTC on such loans, assuming such loans are ultimately fully advanced, was approximately 49%, which means that the weighted average cash equity contributed on such loans, assuming such loans are ultimately fully advanced, was approximately 51%. The weighted average LTV ratio on such loans, based on the most recent appraisals and assuming such loans are ultimately fully advanced, was approximately 43%.

The following table reflects total loans grouped by remaining maturities at December 31, 2018 by type and by fixed or floating interest rates. This table is based on actual maturities and does not reflect amortizations, projected paydowns or the earliest repricing for floating rate loans. Many loans have principal paydowns scheduled in periods prior to the period in which they mature. In addition many floating rate loans are subject to repricing in periods prior to the period in which they mature. Because income on purchased loans with evidence of credit deterioration on the date of acquisition is recognized by accretion of the discount of estimated cash flows, such loans are not considered to be floating or adjustable rate loans and are reported below as fixed rate loans.

### Loan Maturities

	1 Year or Less	Over 1 Through 5 Years	Over 5 Years	Total
(Dollars in thousands)				
Real estate	\$ 4,402,214	\$ 6,948,664	\$ 1,861,269	\$ 13,212,147
Commercial and industrial	74,059	470,544	278,814	823,417
Consumer	13,584	135,300	2,196,979	2,345,863
Other	230,221	490,377	15,798	736,396
Total	<u>\$ 4,720,078</u>	<u>\$ 8,044,885</u>	<u>\$ 4,352,860</u>	<u>\$ 17,117,823</u>
Fixed rate	\$ 479,707	\$ 1,595,638	\$ 2,721,288	\$ 4,796,633
Floating rate (not at a floor or ceiling rate)	4,213,521	6,065,997	801,123	11,080,641
Floating rate (at floor rate)	10,982	316,489	770,027	1,097,498
Floating rate (at ceiling rate)	15,868	66,761	60,422	143,051
Total	<u>\$ 4,720,078</u>	<u>\$ 8,044,885</u>	<u>\$ 4,352,860</u>	<u>\$ 17,117,823</u>

The following table reflects total loans as of December 31, 2018 grouped by expected amortizations, expected paydowns or the earliest repricing opportunity for floating rate loans. This cash flow or repricing schedule approximates our ability to reprice the outstanding principal of loans either by adjusting rates on existing loans or reinvesting principal cash flow in new loans. For non-purchased loans and purchased loans without evidence of credit deterioration at the date of acquisition, the table below reflects the earliest contractual repricing period. For purchased loans with evidence of credit deterioration at the date of acquisition, the table below reflects estimated cash flows based on the most recent evaluation of each individual loan. Because income on purchased loans with evidence of credit deterioration at the date of acquisition is recognized by accretion of the discount of estimated cash flows, such loans are not considered to be floating or adjustable rate loans and are reported below as fixed rate loans.

### Loan Cash Flows or Repricing

	1 Year or Less	Over 1 Through 2 Years	Over 2 Through 3 Years	Over 3 Through 5 Years	Over 5 Years	Total
(Dollars in thousands)						
Fixed rate	\$ 774,025	\$ 530,826	\$ 520,436	\$ 859,253	\$ 2,112,093	\$ 4,796,633
Floating rate (not at a floor or ceiling rate) <sup>(1)</sup>	10,639,616	84,738	107,894	199,829	48,564	11,080,641
Floating rate (at floor rate) <sup>(1)</sup>	550,697	111,953	149,430	198,628	86,790	1,097,498
Floating rate (at ceiling rate)	142,954	60	37	—	—	143,051
Total	<u>\$ 12,107,292</u>	<u>\$ 727,577</u>	<u>\$ 777,797</u>	<u>\$ 1,257,710</u>	<u>\$ 2,247,447</u>	<u>\$ 17,117,823</u>
Percentage of total	70.7%	4.3%	4.5%	7.3%	13.2%	100.0%
Cumulative percentage of total	70.7%	75.0%	79.5%	86.8%	100.0%	

- (1) We have included a floor rate in many of our floating rate non-purchased loans. As a result of such floor rates, floating rate loans may not immediately reprice in a rising rate environment if the interest rate index and margin on such loans continue to result in a computed interest rate less than the applicable floor rate. The earnings simulation model results included in “Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk” in this Annual Report on Form 10-K includes consideration of the effect of all interest rate floors and ceilings in loans.

At December 31, 2018, most of our floating rate loans are tied to three major benchmark interest rates, the 1-month LIBOR, 3-month LIBOR and Wall Street Journal Prime interest rate. The following table is a summary of our floating rate loan portfolio and contractual interest rate indices.

### Contractual Indices of Floating Rate Loans

Contractual Interest Rate Index	Floating Rate (at floor rate)	Floating Rate (not at a floor or ceiling rate)	Floating Rate (at ceiling rate)	Total Floating Rate
	(Dollars in thousands)			
1-month LIBOR	\$ 271,876	\$ 7,477,217	\$ —	\$ 7,749,093
3-month LIBOR	79,505	593,810	—	673,315
Wall Street Journal Prime	464,829	1,583,690	143,051	2,191,570
Other contractual interest rate indices	281,288	1,425,924	—	1,707,212
Total	<u>\$ 1,097,498</u>	<u>\$ 11,080,641</u>	<u>\$ 143,051</u>	<u>\$ 12,321,190</u>

While changes in these contractual interest rate indices are typically affected by changes in the federal funds target rate, the effect on our floating rate loan portfolio may not be immediate and proportional to changes in the federal funds target rate.

### Purchased Loans

The amount of unpaid principal balance, the valuation discount and the carrying value of purchased loans, as of the dates indicated, are reflected in the following table.

### Purchased Loans

	December 31,	
	2018	2017
	(Dollars in thousands)	
Loans without evidence of credit deterioration at date of acquisition:		
Unpaid principal balance	\$ 1,943,962	\$ 3,181,293
Valuation discount	(27,580)	(47,422)
Carrying value	1,916,382	3,133,871
Loans with evidence of credit deterioration at date of acquisition:		
Unpaid principal balance	157,853	221,143
Valuation discount	(30,203)	(45,922)
Carrying value	127,650	175,221
Total carrying value	<u>\$ 2,044,032</u>	<u>\$ 3,309,092</u>

The following table presents a summary, during the years indicated, of the activity of our purchased loans with evidence of credit deterioration at the date of acquisition.

**Purchased Loan Activity  
With Evidence of Credit Deterioration  
At Date of Acquisition**

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Balance – beginning of year	\$ 175,221	\$ 241,619	\$ 216,786
Accretion	24,459	38,925	29,974
Purchased loans acquired	—	—	132,500
Transfer to foreclosed assets	(1,621)	(2,678)	(4,296)
Net payments received	(69,325)	(98,815)	(131,488)
Loans sold	—	(1,717)	—
Net charge-offs	(1,095)	(918)	(2,152)
Other activity, net	11	(1,195)	295
Balance – end of year	<u>\$ 127,650</u>	<u>\$ 175,221</u>	<u>\$ 241,619</u>

A summary of changes in the accretable differences on purchased loans with evidence of credit deterioration at the date of acquisition is shown below for the periods indicated.

**Accretable Difference on Purchased Loans  
With Evidence of Credit Deterioration  
At Date of Acquisition**

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Accretable difference – beginning of year	\$ 45,182	\$ 65,152	\$ 59,176
Transfers to foreclosed assets	(114)	(300)	(358)
Purchased loans paid off	—	(352)	(6,094)
Cash flow revisions as a result of renewals and/or modifications	15,393	19,607	23,294
Accretable difference acquired	—	—	19,108
Accretion	(24,459)	(38,925)	(29,974)
Accretable difference – end of year	<u>\$ 36,002</u>	<u>\$ 45,182</u>	<u>\$ 65,152</u>

During the years ended December 31, 2018, 2017 and 2016, we recognized accretion income totaling \$43.9 million, \$78.6 million and \$70.5 million, respectively, on our purchased loan portfolio. The valuation discounts on our purchased loan portfolio totaled \$57.8 million at December 31, 2018 and \$93.3 million at December 31, 2017.

**Nonperforming Assets**

Nonperforming assets consist of (1) nonaccrual loans, (2) accruing loans 90 days or more past due, (3) TDRs and (4) real estate or other assets that have been acquired in partial or full satisfaction of loan obligations or upon foreclosure. Purchased loans are not included in nonperforming assets, except for their inclusion in total assets.

The accrual of interest on non-purchased loans and purchased loans without evidence of credit deterioration at the date of acquisition is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. We generally place a loan, excluding purchased loans with evidence of credit deterioration at the date of acquisition, on nonaccrual status when such loan is (i) deemed impaired or (ii) 90 days or more past due, or earlier when doubt exists as to the ultimate collection of payments. We may continue to accrue interest on certain loans contractually past due 90 days or more if such loans are both well secured and in the process of collection. At the time a loan is placed on nonaccrual status, interest previously accrued but uncollected is reversed and charged against interest income. Nonaccrual loans are generally returned to accrual status when payments are less than 90 days past due and we reasonably expect to collect all payments. If a loan is determined to be uncollectible, the portion of the

principal determined to be uncollectible will be charged against the ALL. Loans for which the terms have been modified and for which (i) the borrower is experiencing financial difficulties and (ii) we have granted a concession to the borrower are considered TDRs and are included in impaired loans. Income on nonaccrual loans, including impaired loans, is recognized on a cash basis when and if actually collected. Income on TDRs is recognized on a cash basis until such time as the TDR has performed in accordance with its modified terms for a reasonable period of time (generally at least six months) and is expected to continue to perform. Once such performance and expected performance conditions are met, the TDR is returned to accrual status but continues to be reported as an impaired loan.

The following table presents information, excluding purchased loans, concerning nonperforming assets, including nonaccrual loans, TDRs, and foreclosed assets as of the dates indicated.

### Nonperforming Assets

	December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Nonaccrual loans	\$ 30,884	\$ 12,899	\$ 14,371	\$ 13,194	\$ 21,085
Accruing loans 90 days or more past due	—	—	—	—	—
TDRs	3,878	—	—	—	—
Total nonperforming loans	34,762	12,899	14,371	13,194	21,085
TDRs - accruing	627	—	—	—	—
Foreclosed assets <sup>(1)</sup>	16,171	25,357	43,702	22,870	37,775
Total nonperforming assets	<u>\$ 51,560</u>	<u>\$ 38,256</u>	<u>\$ 58,073</u>	<u>\$ 36,064</u>	<u>\$ 58,860</u>
Nonperforming loans to total loans <sup>(2)</sup>	0.23%	0.10%	0.15%	0.20%	0.53%
Nonperforming assets to total assets <sup>(2)</sup>	0.23	0.18	0.31	0.37	0.87

(1) Repossessed personal properties and real estate acquired through or in lieu of foreclosure, excluding purchased foreclosed assets, are recorded at estimated fair value less estimated cost to sell at the date of repossession or foreclosure. Purchased foreclosed assets are recorded at Day 1 Fair Values. Valuations of these assets are periodically reviewed by management with the carrying value of such assets adjusted through non-interest expense to the then estimated fair value net of estimated selling costs, if lower, until disposition.

(2) Excludes purchased loans, except for their inclusion in total assets.

The increase in nonaccrual loans at December 31, 2018 compared to December 31, 2017 was primarily the result of our charging off two unrelated non-purchased credits. During the third quarter of 2018, we incurred combined charge-offs of \$45.5 million on two credits. These two unrelated projects are in South Carolina and North Carolina, have been in our portfolio since 2007 and 2008, and were previously classified as substandard; however, neither credit was past due or otherwise deemed to be nonperforming or impaired at June 30, 2018. The combined balance of these two credits, after the charge-offs, was \$20.6 million at December 31, 2018. Additionally, both credits were past due, were on nonaccrual status and were deemed impaired at December 31, 2018.

If an adequate current determination of collateral value has not been performed, once a loan is considered impaired, we seek to establish an appropriate value for the collateral. This assessment may include (i) obtaining an updated appraisal, (ii) obtaining one or more broker price opinions or comprehensive market analyses, (iii) internal evaluations or (iv) other methods deemed appropriate considering the size and complexity of the loan and the underlying collateral. On an ongoing basis, we evaluate the underlying collateral on impaired loans and, if needed, due to changes in market or property conditions, the underlying collateral is reassessed and the estimated fair value is revised. The determination of collateral value includes any adjustments considered necessary related to estimated holding period and estimated selling costs.

At December 31, 2018, we had reduced the carrying value of our loans deemed impaired (all of which were included in nonaccrual loans) to the estimated fair value of such loans of \$34.2 million. The adjustment to reduce the carrying value of impaired loans to estimated fair value consisted of \$46.9 million of partial charge-offs and \$1.2 million of specific loan loss allocations. Impaired non-purchased loans at December 31, 2018 included \$0.6 million (none at December 31, 2017) of accruing loans that were determined to be TDRs. These amounts do not include our \$7.1 million of impaired purchased loans at December 31, 2018.

The following table is a summary of the amount and type of foreclosed assets as of the dates indicated.

### Foreclosed Assets

	December 31,	
	2018	2017
(Dollars in thousands)		
Real estate:		
Residential 1-4 family	\$ 823	\$ 1,378
Non-farm/non-residential	4,407	8,040
Construction/land development	10,628	15,493
Agricultural	164	—
Total real estate	16,022	24,911
Commercial and industrial	31	35
Consumer	118	411
Foreclosed assets	<u>\$ 16,171</u>	<u>\$ 25,357</u>

The following table is a summary of activity within foreclosed assets during the periods indicated.

### Activity Within Foreclosed Assets

	Year Ended December 31,		
	2018	2017	2016
(Dollars in thousands)			
Balance – beginning of year	\$ 25,357	\$ 43,702	\$ 22,870
Loans and other assets transferred into foreclosed assets	11,540	17,193	25,103
Sales of foreclosed assets	(17,891)	(32,050)	(26,462)
Writedowns of foreclosed assets	(2,835)	(3,488)	(3,610)
Foreclosed assets acquired in acquisitions	—	—	25,801
Balance – end of year	<u>\$ 16,171</u>	<u>\$ 25,357</u>	<u>\$ 43,702</u>

The following table presents information concerning the geographic location of nonperforming assets, excluding purchased loans, at December 31, 2018. Nonperforming loans are reported in the physical location of the principal collateral. Foreclosed assets are reported in the physical location of the asset. Repossessions are reported at the physical location where the borrower resided or had its principal place of business at the time of repossession.

### Geographic Distribution of Nonperforming Assets

	Nonperforming Loans	Foreclosed Assets and Repossessions	Total Nonperforming Assets
	(Dollars in thousands)		
Arkansas	\$ 9,597	\$ 7,295	\$ 16,892
North Carolina	12,547	875	13,422
South Carolina	10,042	—	10,042
Florida	802	2,821	3,623
Texas	1,440	2,173	3,613
Georgia	503	2,823	3,326
Alabama	110	15	125
All other	348	169	517
Total	<u>\$ 35,389</u>	<u>\$ 16,171</u>	<u>\$ 51,560</u>

As of December 31, 2018, 2017 and 2016, we had identified purchased loans where we had determined it was probable that we would be unable to collect all amounts according to the contractual terms thereof (for purchased loans without evidence of credit deterioration at date of acquisition) or the expected performance of such loans had deteriorated from our performance expectations established in conjunction with the determination of the Day 1 Fair Values or since our most recent review of such portfolio's performance (for purchased loans with evidence of credit deterioration at date of acquisition). As a result, we recorded net charge-offs

totaling \$3.5 million during 2018, \$3.6 million during 2017 and \$2.9 million during 2016 for such loans. We also recorded provision of \$3.5 million during 2018, \$3.6 million during 2017 and \$3.3 million during 2016 for purchased loans. Additionally, we transferred certain of these purchased loans to foreclosed assets. As a result of these actions, we had \$7.8 million of impaired purchased loans at December 31, 2018, \$10.0 million of impaired purchased loans at December 31, 2017 and \$6.5 million of impaired purchased loans at December 31, 2016. We had \$1.6 million of ALL at December 31, 2018, 2017 and 2016 to absorb probable incurred losses in our purchased loan portfolio that had not previously been charged off.

The following table is a summary, as of the dates indicated, of impaired purchased loans.

#### Impaired Purchased Loans

	2018	2017	December 31, 2016	2015	2014
	(Dollars in thousands)				
Impaired purchased loans without evidence of credit deterioration at date of acquisition (rated FV 77)	\$ 2,822	\$ 4,797	\$ 1,243	\$ 771	\$ 748
Impaired purchased loans with evidence of credit deterioration at date of acquisition (rated FV 88)	4,979	5,222	5,273	7,283	13,292
Total impaired purchased loans	<u>\$ 7,801</u>	<u>\$ 10,019</u>	<u>\$ 6,516</u>	<u>\$ 8,054</u>	<u>\$ 14,040</u>
Impaired purchased loans to total purchased loans	0.38%	0.30%	0.13%	0.45%	1.22%

#### Allowance and Provision for Loan Losses

Our ALL was \$102.3 million at December 31, 2018 compared to \$94.1 million at December 31, 2017 and \$76.5 million at December 31, 2016. At December 31, 2018, 2017 and 2016, we allocated \$1.6 million of ALL to our purchased loan portfolio. Excluding purchased loans, our ALL as a percentage of total non-purchased loans was 0.67% at December 31, 2018, compared to 0.73% at December 31, 2017 and 0.78% at December 31, 2016. Excluding purchased loans, our ALL as a percentage of nonperforming loans was 284% at December 31, 2018 compared to 717% at December 31, 2017 and 521% at December 31, 2016. Our practice is to charge off any estimated loss as soon as we are able to identify and reasonably quantify such potential loss.

In recent years, we have focused on loan transactions that include various combinations of (i) marquee properties, (ii) strong and capable sponsors or borrowers, (iii) low leverage, and (iv) defensive loan structure. At the same time, our loan portfolio has expanded throughout the United States and consists of a diversified portfolio in terms of both product type and geographic location. We consider this product type and geographic diversification to be substantial sources of strength in regard to portfolio credit quality. Additionally, we have continued to focus on originating high quality loans at low leverage. At December 31, 2018, our ratios of weighted-average LTC and weighted-average LTV on construction loans with interest reserves, assuming such loans are ultimately fully funded, were approximately 49% and approximately 43%, respectively.

The amount of provision to the ALL is based on our analysis of the adequacy of the ALL utilizing the criteria discussed in the Critical Accounting Policies caption of this MD&A. The provision for loan losses for 2018 was \$64.4 million, including \$60.9 million for non-purchased loans and \$3.5 million for purchased loans, compared to \$28.1 million in 2017, including \$24.5 million for non-purchased loans and \$3.6 million for purchased loans, and \$23.8 million in 2016, including \$20.5 million for non-purchased loans and \$3.3 million for purchased loans. The increase in our provision for loan losses during 2018 was primarily attributable to two credits which we charged off during the third quarter of 2018. These two unrelated credits located in South and North Carolina were previously classified as substandard in prior periods but were performing credits until the third quarter of 2018. The South Carolina credit was originated in 2007 and is secured by a regional mall which has suffered from declining property performance and increasing interest rates. The North Carolina credit was originated in 2008 and is secured by a multi-phase land, residential lot and residential home project in North Carolina, and has suffered from a lack of sales of newly built homes and lots owned by our borrower. As a result, this credit became past due during the third quarter of 2018. During the third quarter of 2018, we obtained updated appraisals on both projects. These updated appraisals and assumptions therein reflected the recent poor performance of each project and resulted in appraised values substantially lower than appraisals obtained in the past two years. As a result of (i) the South Carolina property's declining debt service coverage ratio, (ii) the North Carolina credit becoming past due and (iii) the substantial collateral shortfall from the most recent appraisals, we recorded combined net charge-offs totaling \$45.5 million for these two credits. Because these two credits were previously substandard, we had previous allowance allocations totaling \$19.1 million for both credits. Accordingly, we recorded \$26.4 million of provision expense during the third quarter of 2018. The combined balance of both credits, after the charge-offs, was \$20.6 million at December 31, 2018. Additionally, both credits were past due, were on nonaccrual status and were deemed impaired at December 31, 2018.

In addition to the \$26.4 million of provision for these two credits, we also recorded \$6.3 million of provision during the third quarter of 2018 as a result of the recalibration of our historical charge-off experience. While we believe our ALL at December 31, 2018 and related provision for 2018 were appropriate, changing economic and other conditions may require future adjustments to the ALL or the amount of provision thereto.

The following table is an analysis of the ALL for the periods indicated.

### Analysis of the ALL

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Balance, beginning of period	\$ 94,120	\$ 76,541	\$ 60,854	\$ 52,918	\$ 42,945
Non-purchased loans charged off:					
Real estate:					
Residential 1-4 family	(220)	(340)	(406)	(794)	(577)
Non-farm/non-residential	(20,540)	(881)	(323)	(857)	(1,357)
Construction/land development	(25,584)	(1,020)	(42)	(2,760)	(638)
Agricultural	(97)	(2)	(37)	(27)	(214)
Multifamily residential	—	—	—	(228)	—
Total real estate	(46,441)	(2,243)	(808)	(4,666)	(2,786)
Commercial and industrial	(3,139)	(3,440)	(3,261)	(3,803)	(1,322)
Consumer	(1,449)	(689)	(228)	(148)	(222)
Other	(3,332)	(2,282)	(1,744)	(1,474)	(793)
Total non-purchased loans charged off	(54,361)	(8,654)	(6,041)	(10,091)	(5,123)
Recoveries of non-purchased loans previously charged off:					
Real estate:					
Residential 1-4 family	169	11	52	86	135
Non-farm/non-residential	169	594	10	15	33
Construction/land development	59	86	68	83	11
Agricultural	30	43	—	—	14
Multifamily residential	—	—	14	—	—
Total real estate	427	734	144	184	193
Commercial and industrial	157	171	114	326	857
Consumer	207	166	37	54	80
Other	768	662	533	563	266
Total recoveries	1,559	1,733	828	1,127	1,396
Net charge-offs – non-purchased loans	(52,802)	(6,921)	(5,213)	(8,964)	(3,727)
Purchased loans charged off	(5,647)	(6,119)	(5,675)	(2,982)	(3,288)
Recoveries of purchased loans previously charged off	2,195	2,527	2,783	467	73
Net charge-offs – purchased loans	(3,452)	(3,592)	(2,892)	(2,515)	(3,215)
Net charge-offs – total loans	(56,254)	(10,513)	(8,105)	(11,479)	(6,942)
Provision for loan losses:					
Non-purchased loans	60,946	24,500	20,500	15,700	13,700
Purchased loans	3,452	3,592	3,292	3,715	3,215
Total provision	64,398	28,092	23,792	19,415	16,915
Balance, end of period	\$ 102,264	\$ 94,120	\$ 76,541	\$ 60,854	\$ 52,918
ALL allocated to non-purchased loans	\$ 100,664	\$ 92,520	\$ 74,941	\$ 59,654	\$ 52,918
ALL allocated to purchased loans	1,600	1,600	1,600	1,200	—
Total ALL	\$ 102,264	\$ 94,120	\$ 76,541	\$ 60,854	\$ 52,918



The following is a summary of our net charge-off and various ALL ratios as of and for the periods indicated.

### Net Charge-Off and ALL Ratios

	As of and for the Year Ended December 31,				
	2018	2017	2016	2015	2014
Net charge-offs of non-purchased loans to total average non-purchased loans <sup>(1)</sup>	0.38%	0.06%	0.06%	0.18%	0.12%
Net charge-offs of purchased loans to total average purchased loans	0.13	0.09	0.09	0.14	0.29
Net charge-offs of total loans to total average loans	0.34	0.07	0.07	0.17	0.16
ALL for non-purchased loans to total non-purchased loans <sup>(2)</sup>	0.67	0.73	0.78	0.91	1.33
ALL for purchased loans to total purchased loans	0.08	0.05	0.03	0.07	—
ALL to total loans	0.60	0.59	0.53	0.73	1.03
ALL to nonperforming loans <sup>(2)</sup>	284%	717%	521%	452%	251%

(1) Excludes purchased loans and net charge-offs related to such loans.

(2) Excludes purchased loans and ALL allocated to such loans.

The following table sets forth the sum of the amounts of the ALL and the percentage of non-purchased loans to total non-purchased loans as of the dates indicated.

### Allocation of the ALL

	December 31,									
	2018		2017		2016		2015		2014	
	Allowance	% of Loans <sup>(1)</sup>	Allowance	% of Loans <sup>(1)</sup>	Allowance	% of Loans <sup>(1)</sup>	Allowance	% of Loans <sup>(1)</sup>	Allowance	% of Loans <sup>(1)</sup>
ALL for non-purchased loans:	(Dollars in thousands)									
Real estate:										
Residential 1-4 family	\$ 13,754	4.7%	\$ 12,829	4.9%	\$ 10,225	5.0%	\$ 8,672	5.4%	\$ 5,482	7.1%
Non-farm/non-residential	18,456	21.9	26,855	23.0	21,555	24.8	16,796	30.8	17,190	37.8
Construction/land development	27,103	42.5	27,422	49.4	20,673	49.6	18,176	43.3	15,960	35.5
Agricultural	1,343	1.1	1,093	1.1	2,787	1.0	3,388	1.1	2,558	1.2
Multifamily residential	6,208	7.0	2,395	2.9	2,447	4.5	3,031	6.8	2,147	5.3
Commercial and industrial	9,256	5.1	10,448	4.9	13,043	3.8	6,409	5.8	7,862	10.1
Consumer	20,382	12.8	8,858	7.1	1,945	2.3	707	0.4	818	0.6
Other	4,162	4.9	2,620	6.7	2,266	9.0	2,475	6.4	901	2.4
Total ALL for non-purchased loans	100,664		92,520		74,941		59,654		52,918	
ALL for purchased loans	1,600		1,600		1,600		1,200		—	
Total ALL	<u>\$ 102,264</u>		<u>\$ 94,120</u>		<u>\$ 76,541</u>		<u>\$ 60,854</u>		<u>\$ 52,918</u>	

(1) Excludes purchased loans.

The amounts shown in the previous table are not necessarily indicative of the actual future losses that may occur within particular categories. Prior to December 31, 2015, we had no allocation of our ALL to purchased loans because all losses had been charged off on purchased loans where we had determined it was probable that we would be unable to collect all amounts according to the contractual terms thereof (for purchased loans without evidence of credit deterioration at date of acquisition) or whose performance had deteriorated from our expectations established in conjunction with the determination of the Day 1 Fair Values (for purchased loans with evidence of credit deterioration at date of acquisition).

We maintain an internally classified loan list that, along with the list of nonaccrual loans and the list of impaired loans, among other items, helps us assess the overall quality of the loan portfolio and the adequacy of our ALL. Loans classified as “substandard” have clear and defined weaknesses such as highly leveraged positions, unfavorable financial ratios, uncertain repayment sources or poor financial condition which may jeopardize collectability of the loan. Loans classified as “doubtful” have characteristics similar to substandard loans, but also have an increased risk that a loss may occur or at least a portion of the loan may require a charge-off if liquidated. Although loans classified as substandard do not duplicate loans classified as doubtful, both substandard and doubtful loans may include some that are past due at least 90 days, are on nonaccrual status or have been restructured. Loans classified as “loss” are charged off. At December 31, 2018 substandard loans, excluding purchased loans, not designated as impaired, nonaccrual or 90 days past due, totaled \$10.0 million, compared to \$71.6 million at December 31, 2017 and \$9.8 million at December 31, 2016. No loans were designated as doubtful or loss at December 31, 2018, 2017 or 2016.

Administration of our lending function is the responsibility of the Chief Executive Officer (“CEO”) and Chief Credit Officer (“CCO”). Such officers and lenders perform their lending duties subject to the oversight and policy direction of our board of directors and the Directors’ Loan Committee (“DLC”). Loan authority is granted to the CEO and CCO by the board of directors. The loan authorities of other lending officers are granted by the DLC on the recommendation of appropriate senior officers.

Loans and aggregate loan relationships exceeding \$10 million up to the limits established by our board of directors must be approved by the DLC. The DLC consists of five or more directors and our CCO. At least quarterly the board of directors or the DLC reviews summary reports of past due loans, internally classified and watch list loans, activity in our ALL and various other loan reports. Our lending policies also contain various measures to limit concentration exposures, including customer and CRE exposures for both funded balances and unfunded balances in the aggregate, as well as by property type and geography.

Our compliance and credit review officers are responsible for our compliance and credit review functions. Periodic reviews are scheduled for the purpose of evaluating asset quality and effectiveness of credit administration. The compliance and credit review officers prepare reports that identify deficiencies, establish recommendations for improvement and outline management’s proposed action plan for curing the identified deficiencies. These reports are provided to and reviewed by the Risk Committee of our board of directors.

### **Investment Securities**

Investment portfolio strategies are set by senior management and are subject to the oversight and direction of the Investment Committee, which reports to our board of directors.

At December 31, 2018 and 2017, we classified all of our investment securities portfolio as available for sale. Accordingly, our investment securities are reported at estimated fair value with the unrealized gains and losses, net of related income tax, reported as a separate component of stockholders’ equity and included in other comprehensive income (loss).

The following table presents the amortized cost and estimated fair value of investment securities as of the dates indicated. Our investment in the “CRA qualified investment fund” includes shares held in a mutual fund that qualify under the Community Reinvestment Act of 1977 for community reinvestment purposes.

### Investment Securities

	December 31,			
	2018		2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
Obligations of states and political subdivisions	\$ 615,328	\$ 606,616	\$ 661,446	\$ 664,559
Mortgage-backed securities <sup>(1)</sup>	2,248,065	2,212,546	1,918,171	1,899,024
U.S. Government agency securities	27,538	26,936	29,792	29,233
Corporate obligations	15,188	15,183	—	—
CRA qualified investment fund	1,109	1,059	1,084	1,057
Total	<u>\$ 2,907,228</u>	<u>\$ 2,862,340</u>	<u>\$ 2,610,493</u>	<u>\$ 2,593,873</u>

(1) These mortgage-backed securities were issued by U.S. Government agencies.

Our investment securities portfolio is reported at estimated fair value, which included gross unrealized gains of \$7.1 million and gross unrealized losses of \$52.0 million at December 31, 2018 and gross unrealized gains of \$7.4 million and gross unrealized losses of \$24.0 million at December 31, 2017. We believe that all of the unrealized losses on individual investment securities at December 31, 2018 and 2017 are the result of fluctuations in interest rates and do not reflect deterioration in the credit quality of our investments. Accordingly, we consider these unrealized losses to be temporary in nature. While we periodically evaluate our investment strategy relative to current economic and business conditions, we currently do not have the intent to sell these investment securities with unrealized losses and, more likely than not, would not be required to sell these investment securities before fair value recovers to amortized cost.

The following table presents the unaccreted discount and unamortized premium of our investment securities as of the dates indicated.

### Unaccreted Discount and Unamortized Premium

	Amortized Cost	Unaccreted Discount	Unamortized Premium	Par Value
	(Dollars in thousands)			
<b>December 31, 2018:</b>				
Obligations of states and political subdivisions	\$ 615,328	\$ 1,423	\$ (25,410)	\$ 591,341
Mortgage-backed securities <sup>(1)</sup>	2,248,065	442	(47,488)	2,201,019
U.S. Government agency securities	27,538	—	(538)	27,000
Corporate obligations	15,188	134	—	15,322
CRA qualified investment fund	1,109	—	—	1,109
Total	<u>\$ 2,907,228</u>	<u>\$ 1,999</u>	<u>\$ (73,436)</u>	<u>\$ 2,835,791</u>
<b>December 31, 2017:</b>				
Obligations of states and political subdivisions	\$ 661,446	\$ 1,536	\$ (29,990)	\$ 632,992
Mortgage-backed securities <sup>(1)</sup>	1,918,171	81	(58,290)	1,859,962
U.S. Government agency securities	29,792	1	(793)	29,000
CRA qualified investment fund	1,084	—	—	1,084
Total	<u>\$ 2,610,493</u>	<u>\$ 1,618</u>	<u>\$ (89,073)</u>	<u>\$ 2,523,038</u>

(1) These mortgage-backed securities were issues by U.S. Government agencies.

We recognized premium amortization, net of discount accretion, of \$22.1 million during 2018, \$16.0 million during 2017 and \$6.6 million during 2016. Any premium amortization or discount accretion is considered an adjustment to the yield of our investment securities.

We had essentially no net gains in 2018 from the sale of approximately \$16.9 million of investment securities, compared to net gains of approximately \$4.0 million in 2017 from the sale of approximately \$239 million of investment securities, and essentially no gains in 2016 from the sale of approximately \$0.5 million of investment securities. Investment securities totaling \$518 million in 2018, \$245 million in 2017 and \$182 million in 2016 matured or were called by the issuer. We purchased investment securities totaling \$0.85 billion in 2018, \$1.63 billion in 2017 and \$0.65 billion in 2016.

We invest in securities we believe offer good relative value at the time of purchase, and we will, from time to time, reposition our investment securities portfolio. In making decisions to sell or purchase securities, we consider credit quality, call features, maturity dates, relative yields, corporate tax rates, current market factors, interest rate risk and interest rate environment, current and projected liquidity needs and other relevant factors. During 2017 and 2018, we took steps to add on-balance sheet liquidity and to reposition our investment securities portfolio for a rising interest rate environment and lower tax rates, including efforts to maintain or reduce average maturities, modified duration, and the portion of our portfolio invested in tax-exempt securities.

At December 31, 2018, approximately 96% of our investment securities had an investment grade credit rating (i.e., the equivalent of a rating of BBB- or better) and approximately 4% of our investment securities were not rated. For those securities that were not rated, we have performed our own evaluation of the security and/or the underlying issuer and believe that such security or its issuer has credit characteristics equivalent to those which would warrant an investment grade credit rating.

The following table reflects the expected maturity distribution of our investment securities, at estimated fair value, at December 31, 2018 and weighted-average yields (for tax-exempt obligations on a FTE basis) of such securities. The maturity for all investment securities is shown based on each security's contractual maturity date, except (1) the CRA qualified investment fund, which have no contractual maturity date and are shown in the longest maturity category, (2) mortgage-backed securities, which are allocated among various maturities based on an estimated repayment schedule utilizing Bloomberg median prepayment speeds or other estimates of prepayment speeds and interest rate levels at December 31, 2018, and (3) callable investment securities for which we have received notification of call, which are included in the maturity category in which the call occurs or is expected to occur. Actual maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. The weighted-average yields – FTE are calculated based on the coupon rate and amortized cost for such securities and do not include any projected discount accretion or premium amortization.

#### Expected Maturity Distribution of Investment Securities

	1 Year Or Less	Over 1 Through 5 Years	Over 5 Through 10 Years	Over 10 Years	Total
	(Dollars in thousands)				
Obligations of states and political subdivisions	\$ 13,920	\$ 62,582	\$ 123,011	\$ 407,103	\$ 606,616
Mortgage-backed securities <sup>(1)</sup>	450,081	1,238,080	477,270	47,115	2,212,546
U.S. Government agency securities	4,984	21,952	—	—	26,936
CRA qualified investment fund	—	—	—	1,059	1,059
Corporate obligations	9,973	5,210	—	—	15,183
<b>Total</b>	<b>\$ 478,958</b>	<b>\$ 1,327,824</b>	<b>\$ 600,281</b>	<b>\$ 455,277</b>	<b>\$ 2,862,340</b>
Percentage of total	16.7%	46.4%	21.0%	15.9%	100.0%
Cumulative percentage of total	16.7%	63.1%	84.1%	100.0%	
Weighted-average yield – FTE	2.87%	2.90%	3.24%	4.06%	3.15%

(1) These mortgage-backed securities were issued by U.S. Government Agencies.

#### Goodwill

We review goodwill annually, or more frequently if events or changes in circumstances indicate the carrying value might be impaired. This impairment analysis compares the estimated fair value of our banking operations (the reporting unit) with the Bank's net book value. We had goodwill of \$660.8 million at both December 31, 2018 and 2017. We performed our annual impairment test of goodwill as of September 30, 2018. This test indicated no impairment of our goodwill. Subsequent to our September 30, 2018 annual impairment test, we experienced a decline in market capitalization as a result of a decline in the share price of the Bank's common stock. As a result, we performed an additional goodwill impairment test as of December 31, 2018. The December 31, 2018 impairment test included various valuation considerations including comparable peer data, precedent transaction comparables, overall financial performance, share price of our common stock and other factors. The December 31, 2018 impairment test indicated no impairment of goodwill. Subsequent to the December 31, 2018 impairment test, our common stock experienced an increase in value

such that the Bank's market capitalization exceeds its book value. There can be no assurance that future evaluations of our goodwill will not result in impairment of such goodwill.

## Deposits

Our lending and investing activities are funded primarily by deposits. We continued to grow our existing deposit base to fund growth of our non-purchased loans. Our deposits increased \$0.75 billion in 2018 and \$1.62 billion in 2017. The amount and type of deposits outstanding as of the dates indicated and their respective percentage of total deposits are reflected in the following table.

	December 31,			
	2018		2017	
	(Dollars in thousands)			
Non-interest bearing	\$ 2,748,273	15.3%	\$ 2,726,623	15.9%
Interest bearing:				
Transaction (NOW)	2,359,299	13.2	4,303,108	25.0
Savings and money market	7,323,414	40.8	5,748,014	33.4
Time deposits less than \$100	2,297,101	12.8	1,460,851	8.5
Time deposits of \$100 or more	3,210,328	17.9	2,953,749	17.2
Total deposits	<u>\$17,938,415</u>	<u>100.0%</u>	<u>\$17,192,345</u>	<u>100.0%</u>

At December 31, 2018, we had outstanding brokered deposits of \$2.04 billion, or approximately 11.3% of total deposits, compared to \$1.16 billion, or approximately 6.8% of total deposits at December 31, 2017. We use brokered deposits, subject to certain limitations and requirements, as a source of funding to augment deposits generated from our branch network, which are our principal source of funding. Our board of directors has established policies and procedures with respect to the use of brokered deposits. Such policies and procedures require, among other things, that (i) we limit the amount of brokered deposits as a percentage of total deposits and (ii) our ALCO Committee ("ALCO"), which reports to the board of directors, monitor our use of brokered deposits on a regular basis, including interest rates and the total volume of such deposits in relation to our total deposits. ALCO has typically approved the use of brokered deposits when such deposits are (i) from internally-approved and stable funding sources and (ii) less costly to us than the marginal cost of additional deposits generated from our branch network.

The following table reflects the average balance and average rate paid for each deposit category shown for the years indicated.

## Average Deposit Balances and Rates

	Year Ended December 31,					
	2018		2017		2016	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(Dollars in thousands)					
Non-interest bearing	\$ 2,695,623	—	\$ 2,652,895	—	\$ 2,006,933	—
Interest bearing:						
Transaction (NOW)	3,385,298	1.08%	2,860,591	0.61%	1,829,321	0.29%
Savings and money market	6,597,777	1.25	5,726,813	0.63	4,068,500	0.37
Time deposits less than \$100	1,651,960	1.22	1,560,035	0.73	1,448,166	0.58
Time deposits of \$100 or more	3,183,108	1.50	3,164,843	0.99	2,439,447	0.82
Total deposits	<u>\$17,513,766</u>	1.26	<u>\$15,965,177</u>	0.72	<u>\$11,792,367</u>	0.50

The calculation of the average rate paid on total deposits of 1.26% for 2018, 0.72% for 2017 and 0.50% for 2016 includes interest paid and average balances of all categories of interest bearing deposits. The average rate paid for all deposits, including both interest bearing and non-interest bearing deposits, was 1.07% for 2018, 0.60% for 2017 and 0.41% for 2016.

The following table sets forth, by time remaining to maturity, time deposits of \$100,000 and over as of the date indicated.

### Maturity Distribution of Time Deposits of \$100,000 and Over

	December 31, 2018
	(Dollars in thousands)
3 months or less	\$ 936,273
Over 3 to 6 months	821,632
Over 6 to 12 months	1,033,339
Over 12 months	419,084
Total	<u>\$ 3,210,328</u>

The amount and percentage of our deposits by state of originating office, as of the dates indicated, are reflected in the following table.

### Deposits by State of Originating Office

Deposits Attributable to Offices In	December 31,					
	2018		2017		2016	
	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)					
Arkansas	\$ 6,988,931	39.0%	\$ 5,280,075	30.7%	\$ 6,309,230	40.5%
Georgia	3,783,868	21.1	4,088,723	23.8	3,714,963	23.9
Florida	2,615,278	14.6	2,757,852	16.0	2,015,492	12.9
Texas	1,953,273	10.9	2,158,392	12.6	2,056,956	13.2
New York	1,396,934	7.8	1,765,957	10.3	378,348	2.4
North Carolina	996,838	5.6	927,635	5.4	890,091	5.7
Alabama	125,041	0.7	111,907	0.7	107,458	0.7
South Carolina	78,252	0.3	101,804	0.5	102,340	0.7
Total	<u>\$ 17,938,415</u>	<u>100.0%</u>	<u>\$ 17,192,345</u>	<u>100.0%</u>	<u>\$ 15,574,878</u>	<u>100.0%</u>

### Other Interest Bearing Liabilities

We also rely on other interest bearing liabilities to fund our lending and investing activities. Such liabilities consist of repurchase agreements with customers, other borrowings (primarily FHLB advances and, to a lesser extent, federal funds purchased), subordinated notes and subordinated debentures.

The following table reflects the average balance and average rate paid for each category of other interest bearing liabilities for the years indicated.

### Average Balances and Rates of Other Interest Bearing Liabilities

	Year Ended December 31,					
	2018		2017		2016	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(Dollars in thousands)					
Repurchase agreements with customers	\$ 101,682	0.77%	\$ 75,915	0.17%	\$ 64,044	0.14%
Other borrowings	166,937	1.81	62,988	2.07	46,949	2.49
Subordinated notes	223,089	5.72	222,705	5.67	116,679	5.83
Subordinated debentures	119,076	5.22	118,515	4.24	117,958	3.73
Total other interest bearing liabilities	<u>\$ 610,784</u>	<u>3.73</u>	<u>\$ 480,123</u>	<u>3.97</u>	<u>\$ 345,630</u>	<u>3.60</u>

## Capital Resources and Liquidity

### Capital Resources

*Subordinated Notes.* On June 23, 2016, we completed an underwritten public offering of \$225 million in aggregate principal amount of our 5.50% fixed-to-floating rate subordinated notes due 2026 (the “Notes”). The Notes are unsecured, subordinated debt obligations and mature on July 1, 2026. From and including the date of issuance to, but excluding July 1, 2021, the Notes bear interest at 5.50% per annum. From and including July 1, 2021 to, but excluding the maturity date or earlier redemption, the Notes will bear interest at a floating rate equal to three-month LIBOR as calculated on each applicable date of determination plus a spread of 442.5 basis points; provided, however, that in the event three-month LIBOR is less than zero, then three-month LIBOR shall be deemed to be zero. Debt issuance costs of \$2.7 million are being amortized, using a level-yield methodology over the estimated holding period of seven years, as an increase in interest expense on the Notes.

We may, beginning with the interest payment date of July 1, 2021, and on any interest payment date thereafter, redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to, but excluding the date of redemption. We may also redeem the Notes at any time, including prior to July 1, 2021, at our option, in whole but not in part, if: (i) a change or prospective change in law occurs that could prevent us from deducting interest payable on the Notes for U.S. federal income tax purposes; (ii) a subsequent event occurs that could preclude the Notes from being recognized as Tier 2 capital for regulatory capital purposes; or (iii) we are required to register as an investment company under the Investment Company Act of 1940, as amended; in each case, at a redemption price equal to 100% of the principal amount of the Notes plus any accrued and unpaid interest to but excluding the redemption date. The Notes provide us with additional Tier 2 regulatory capital to support our expected future growth.

*Subordinated Debentures.* We own eight 100%-owned finance subsidiary business trusts—Ozark Capital Statutory Trust II (“Ozark II”), Ozark Capital Statutory Trust III (“Ozark III”), Ozark Capital Statutory Trust IV (“Ozark IV”), Ozark Capital Statutory Trust V (“Ozark V”), Intervest Statutory Trust II (“Intervest II”), Intervest Statutory Trust III (“Intervest III”), Intervest Statutory Trust IV (“Intervest IV”) and Intervest Statutory Trust V (“Intervest V”) (collectively, the “Trusts”). At December 31, 2018, we had the following issues of trust preferred securities and subordinated debentures owed to the Trusts.

	Subordinated Debentures Owed to Trust	Unamortized Discount	Carrying Value of Subordinated Debentures	Trust Preferred Securities of the Trusts	Contractual Interest Rate	Final Maturity Date
	(Dollars in thousands)					
Ozark II	\$ 14,433	\$ —	\$ 14,433	\$ 14,000	5.70%	September 29, 2033
Ozark III	14,434	—	14,434	14,000	5.39	September 25, 2033
Ozark IV	15,464	—	15,464	15,000	4.87	September 28, 2034
Ozark V	20,619	—	20,619	20,000	4.39	December 15, 2036
Intervest II	15,464	(366)	15,098	15,000	5.74	September 17, 2033
Intervest III	15,464	(424)	15,040	15,000	5.58	March 17, 2034
Intervest IV	15,464	(771)	14,693	15,000	5.19	September 20, 2034
Intervest V	10,310	(733)	9,577	10,000	4.44	December 15, 2036
	<u>\$ 121,652</u>	<u>\$ (2,294)</u>	<u>\$ 119,358</u>	<u>\$ 118,000</u>		

Our subordinated debentures and trust preferred securities generally mature 30 years after issuance and may be prepaid at par, subject to regulatory approval. These subordinated debentures and the related trust preferred securities provide us additional regulatory capital to support our expected future growth and expansion. See “Capital Compliance—Regulatory Capital” in this MD&A for a discussion of our trust preferred securities and their inclusion in our regulatory capital.

*Other Sources of Capital.* We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs. As a publicly traded bank, a likely source of additional funds is the capital markets, which can provide us with funds through the public issuance of equity, both common and preferred stock, and the issuance of senior debt and/or subordinated debentures. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. Other than common stock, any issuance of equity or debt by us will require the prior approval of the ASBD, and may be accompanied by time delays associated with obtaining such approval. If market conditions change during any time delays associated with obtaining regulatory approval, we may not be able to issue equity or debt on as favorable of terms as were contemplated at the time of commencement of the process, or at all.

*Common Stockholders' Equity and Reconciliation of Non-GAAP Financial Measures.* We use non-GAAP financial measures, specifically, tangible common stockholders' equity, tangible common stockholders' equity to total tangible assets, tangible book value per common share and return on average tangible common stockholders' equity as important measures of the strength of our capital and our ability to generate earnings on tangible common equity invested by our shareholders. We believe presentation of these non-GAAP financial measures provides useful supplemental information that contributes to a proper understanding of our financial results and capital levels. These non-GAAP disclosures should not be viewed as a substitute for financial results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures are included in the following tables as of and for the years indicated.

**Calculation of Total Tangible Common Stockholders' Equity  
and the Ratio of Total Tangible Common  
Stockholders' Equity to Total Tangible Assets**

	2018	December 31, 2017	2016
	(Dollars in thousands)		
Total common stockholders' equity before noncontrolling interest	\$ 3,770,330	\$ 3,460,728	\$ 2,791,607
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,119)
Core deposit and other intangibles, net of accumulated amortization	(35,672)	(48,251)	(60,831)
Total intangibles	(696,461)	(709,040)	(720,950)
Total tangible common stockholders' equity	<u>\$ 3,073,869</u>	<u>\$ 2,751,688</u>	<u>\$ 2,070,657</u>
Total assets	\$ 22,388,030	\$ 21,275,647	\$ 18,890,142
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,119)
Core deposit and other intangibles, net of accumulated amortization	(35,672)	(48,251)	(60,831)
Total intangibles	(696,461)	(709,040)	(720,950)
Total tangible assets	<u>\$ 21,691,569</u>	<u>\$ 20,566,607</u>	<u>\$ 18,169,192</u>
Ratio of total common stockholders' equity to total assets	<u>16.84%</u>	<u>16.27%</u>	<u>14.78%</u>
Ratio of total tangible common stockholders' equity to total tangible assets	<u>14.17%</u>	<u>13.38%</u>	<u>11.40%</u>

**Calculation of Total Tangible Common  
Stockholders' Equity and Tangible Book  
Value per Common Share**

	2018	2017	December 31, 2016	2015	2014
	(In thousands, except per share amounts)				
Total common stockholders' equity before noncontrolling interest	\$ 3,770,330	\$ 3,460,728	\$ 2,791,607	\$ 1,464,631	\$ 908,390
Less intangible assets:					
Goodwill	(660,789)	(660,789)	(660,119)	(125,442)	(78,669)
Core deposit and other intangibles, net of accumulated amortization	(35,672)	(48,251)	(60,831)	(26,898)	(26,907)
Total intangibles	(696,461)	(709,040)	(720,950)	(152,340)	(105,576)
Total tangible common stockholders' equity	<u>\$ 3,073,869</u>	<u>\$ 2,751,688</u>	<u>\$ 2,070,657</u>	<u>\$ 1,312,291</u>	<u>\$ 802,814</u>
Common shares outstanding	<u>128,611</u>	<u>128,288</u>	<u>121,268</u>	<u>90,612</u>	<u>79,924</u>
Book value per common share	<u>\$ 29.32</u>	<u>\$ 26.98</u>	<u>\$ 23.02</u>	<u>\$ 16.16</u>	<u>\$ 11.37</u>
Tangible book value per common share	<u>\$ 23.90</u>	<u>\$ 21.45</u>	<u>\$ 17.08</u>	<u>\$ 14.48</u>	<u>\$ 10.04</u>



**Calculation of Average Tangible  
Common Stockholders' Equity and  
Return on Average  
Tangible Common Stockholders' Equity**

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Net income available to common stockholders	\$ 417,106	\$ 421,891	\$ 269,979	\$ 182,253	\$ 118,606
Average common stockholders' equity before noncontrolling interest	\$ 3,598,628	\$ 3,127,576	\$ 2,068,328	\$ 1,217,475	\$ 786,430
Less average intangible assets:					
Goodwill	(660,789)	(660,632)	(363,324)	(118,013)	(51,793)
Core deposit and other intangibles, net of accumulated amortization	(42,315)	(54,702)	(43,623)	(28,660)	(21,651)
Total average intangibles	(703,104)	(715,334)	(406,947)	(146,673)	(73,444)
Average tangible common stockholders' equity	<u>\$ 2,895,524</u>	<u>\$ 2,412,242</u>	<u>\$ 1,661,381</u>	<u>\$ 1,070,802</u>	<u>\$ 712,986</u>
Return on average common stockholders' equity	<u>11.59%</u>	<u>13.49%</u>	<u>13.05%</u>	<u>14.97%</u>	<u>15.08%</u>
Return on average tangible common stockholders' equity	<u>14.41%</u>	<u>17.49%</u>	<u>16.25%</u>	<u>17.02%</u>	<u>16.63%</u>

*Common Stock Dividend Policy.* In 2018 we paid dividends of \$0.795 per common share, compared to \$0.71 per common share in 2017 and \$0.63 per common share in 2016. On January 2, 2019, our board of directors approved a dividend of \$0.22 per common share that was paid on January 22, 2019 to shareholders of record on January 15, 2019. The determination of future dividends on our common stock will depend on conditions existing at that time and approval of our board of directors. In addition, our ability to pay dividends to our shareholders is subject to the restrictions set forth in Arkansas law, by our federal regulators, and by certain covenants contained in the indentures governing the trust preferred securities, the subordinated debentures and the subordinated notes. See note 17 to the consolidated financial statements included in "Item 8. Financial Statement and Supplementary Data" of this Annual Report on Form 10-K for a discussion of dividend restrictions.

### Capital Compliance

*Regulatory Capital.* We are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about component risk weightings and other factors.

In recent years, the FDIC and other federal banking regulators revised the risk-based capital requirements applicable to insured depository institutions, including us, to make them consistent with agreements reached by the Basel Committee on Banking Supervision ("Basel III") and certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Basel III Rules"). The Basel III Rules became effective for us on January 1, 2015 (subject to a phase-in period for certain provisions). The Basel III Rules require the maintenance of minimum amounts and ratios of common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets, and of tier 1 capital to adjusted quarterly average assets.

Under the Basel III Rules, common equity tier 1 capital consists of common stock and paid-in capital (net of treasury stock) and retained earnings. Common equity tier 1 capital is reduced by goodwill, certain intangible assets, net of associated deferred tax liabilities, deferred tax assets that arise from tax credit and net operating loss carryforwards, net of any valuation allowance, and certain other items as specified by the Basel III Rules.

Tier 1 capital includes common equity tier 1 capital and certain additional tier 1 items as provided under the Basel III Rules. Our tier 1 capital consists of common equity tier 1 capital and, prior to the third quarter of 2016, \$118 million of trust preferred securities issued by the Trusts. The Basel III Rules include certain provisions that required trust preferred securities be phased out of, or no longer be considered qualifying tier 1 capital for certain institutions depending on the size of the institution as measured by total assets. Pursuant to the Basel III Rules, our trust preferred securities are no longer included in tier 1 capital but continue to be included in total capital.

Basel III Rules allow for insured depository institutions to make a one-time election not to include most elements of accumulated other comprehensive income (loss) in regulatory capital and instead effectively use the existing treatment under the general risk-based capital rules. We made this opt-out election to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of our investments securities portfolio.

Total capital includes tier 1 capital and tier 2 capital. Tier 2 capital includes, among other things, the allowable portion of the ALL, the trust preferred securities and the subordinated notes.

The common equity tier 1 capital, tier 1 capital and total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. The leverage ratio is calculated by dividing tier 1 capital by adjusted quarterly average total assets.

The Basel III Rules limit capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” in addition to the amount necessary to meet minimum risk-based capital requirements for common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets. The capital conservation buffer began phasing in January 1, 2016 at 0.625% of risk-weighted assets, and increases each year until fully implemented at 2.5% on January 1, 2019. When fully phased in on January 1, 2019, the Basel III Rules will require us to maintain (i) a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 7.0% upon full implementation, (ii) a minimum ratio of tier 1 capital to risk-weighted assets of at least 6.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 8.5% upon full implementation, (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 10.5% upon full implementation and (iv) a minimum leverage ratio of 4.0%. Additionally, in order to be considered well-capitalized under the Basel III Rules, we must maintain (i) a ratio of common equity tier 1 capital to risk-weighted assets of at least 6.5%, (ii) a ratio of tier 1 capital to risk-weighted assets of at least 8.0%, (iii) a ratio of total capital to risk-weighted assets of at least 10.0% and (iv) a leverage ratio of at least 5.0%.

The following table presents actual and required capital ratios as of the dates indicated under the Basel III Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2018 and 2017, respectively, based on the phase-in provisions of the Basel III Rules and the minimum required capital levels in 2019 when the Basel III Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Rules. At December 31, 2018 and 2017, our capital levels exceed all minimum capital requirements under the Basel III Rules on a fully phased-in basis. Additionally, our capital levels exceed all capital requirements to be considered well capitalized based upon prompt corrective action regulations, as amended by the Basel III Rules.

	Actual		Minimum Capital Required – Basel III Phase-In Schedule		Minimum Capital Required – Basel III Fully Phased-In		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
(Dollars in thousands)								
<b>December 31, 2018:</b>								
Common equity tier 1 to risk-weighted assets	\$3,091,128	12.56%	\$1,569,242	6.375%	\$1,723,089	7.00%	\$1,600,011	6.50%
Tier 1 capital to risk-weighted assets	3,091,128	12.56	1,938,475	7.875	2,092,322	8.50	1,969,245	8.00
Total capital to risk-weighted assets	3,536,393	14.37	2,430,786	9.875	2,584,633	10.50	2,461,556	10.00
Tier 1 leverage to average assets	3,091,128	14.25	867,549	4.00	867,549	4.00	1,084,436	5.00
<b>December 31, 2017:</b>								
Common equity tier 1 to risk-weighted assets	\$2,753,656	11.17%	\$1,417,572	5.75%	\$1,725,740	7.00%	\$1,602,473	6.50%
Tier 1 capital to risk-weighted assets	2,753,656	11.17	1,787,374	7.25	2,095,542	8.50	1,972,275	8.00
Total capital to risk-weighted assets	3,190,776	12.94	2,280,442	9.25	2,588,610	10.50	2,465,343	10.00
Tier 1 leverage to average assets	2,753,656	13.83	796,595	4.00	796,595	4.00	995,743	5.00

## Liquidity

*General.* Liquidity represents an institution’s ability to provide funds to satisfy demands from depositors, borrowers and other creditors by either converting assets into cash or accessing new or existing sources of incremental funds. Liquidity risk arises from the possibility we may be unable to satisfy current or future funding requirements and needs. ALCO has primary responsibility for oversight of our liquidity, funds management, asset/liability (interest rate risk) position and capital. Our Investment Committee has primary responsibility for oversight of our investment portfolio functions.

The objective of managing liquidity risk is to ensure the cash flow requirements resulting from depositor, borrower and other creditor demands are met, as well as our operating cash needs, and the cost of funding such requirements and needs is reasonable. We maintain an asset/liability and interest rate risk policy and liquidity and funds management policy, including a contingency funding plan that, among other things, include policies and procedures for managing liquidity risk. Generally we rely on deposits, repayments of loans, and cash flows from our investment securities as our primary sources of funds. Our principal deposit sources include consumer, commercial and public funds customers in our markets. We have used these funds, together with other primary funding sources, including wholesale deposit sources such as brokered deposits, FHLB advances, and federal funds purchased, to make loans, acquire investment securities and other assets and to fund continuing operations.

Deposit levels may be affected by a number of factors including rates paid by competitors, general interest rate levels, returns available to customers on alternative investments, general economic and market conditions and other factors. Loan repayments are generally a relatively stable source of funds but are subject to the borrowers' ability to repay the loans, which can be adversely affected by a number of factors including changes in general economic conditions, adverse trends or events affecting business industry groups or specific businesses, declines in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and other factors. Furthermore, loans generally are not readily convertible to cash. Accordingly, we may be required from time to time to rely on secondary sources of liquidity to meet growth in loans and deposit withdrawal demands or otherwise fund operations. Such secondary sources include, among others, secured and unsecured federal funds lines of credit from correspondent banks, FRB borrowings and/or accessing the capital markets.

At December 31, 2018, we had \$11.36 billion in unfunded balances on loans already closed, the vast majority of which is attributable to construction and development loans for which construction has commenced. In most cases the borrower's equity and all other required subordinated elements of the capital structure must be fully funded before we advance funds. Typically we are the last to advance funds and the first to be repaid. In many cases we do not advance funds on loans for many months after closing because the borrower's equity and other funding sources must fund first. This conservative practice for handling construction loans has led to the large unfunded balance of closed loans. As a result, we maintain a detailed 36-month forward funding forecast projecting all loan fundings and loan pay downs and pay offs. Our ability to project monthly net portfolio growth with a substantial degree of accuracy is an important part of our liquidity management process.

At December 31, 2018, we had substantial unused borrowing availability. This availability was primarily comprised of the following four options: (1) \$3.6 billion of available blanket borrowing capacity with the FHLB, (2) \$2.3 billion of investment securities available to pledge for federal funds or other borrowings, (3) \$230 million of available unsecured federal funds borrowing lines and (4) up to \$248 million of available borrowing capacity from borrowing programs of the FRB.

We anticipate we will continue to rely primarily on deposits, repayments of loans and cash flows from our investment securities to provide liquidity, as well as other funding sources as appropriate. Additionally, where necessary, the secondary funding sources described above will be used to augment our primary funding sources.

During 2017 and 2018, we have significantly increased our investment securities portfolio by purchasing highly liquid, short term U.S. Government agency mortgage-backed pass through investment securities. These securities provide substantial on-balance sheet liquidity and carry a 20% risk weighting for regulatory capital purposes.

*Sources and Uses of Funds.* Operating activities provided net cash of \$705 million in 2018, \$384 million in 2017 and \$242 million in 2016. Net cash provided by operating activities is comprised primarily of net income, adjusted for certain non-cash items and for changes in various operating assets and liabilities. The increase in net cash provided by operating activities for 2018 compared to 2017 was primarily due to changes in assets and liabilities, including the collection in 2018 of the majority of our current income taxes receivable balance recorded as of December 31, 2017. The increase in net cash provided by operating activities for 2017 compared to 2016 was primarily due to growth in our net income from \$270 million in 2016 to \$422 million in 2017.

Investing activities used net cash of \$1.53 billion in 2018, \$2.63 billion in 2017 and \$2.28 billion in 2016. The decrease in net cash used by investing activities in 2018 compared to 2017 was primarily the result of a lower level of net purchases in our investment securities portfolio, which used \$316 million in 2018 and used \$1.14 billion in 2017, lower growth in our non-purchased loan portfolio, which used \$2.31 billion in 2018 and used \$2.85 billion in 2017, and less cash provided by payoffs from our purchased loan portfolio, which provided \$1.07 billion in 2018 and provided \$1.42 billion in 2017.

The increase in net cash used by investing activities in 2017 compared to 2016 was primarily the result of increased net purchases in our investment securities portfolio, which used \$1.14 billion in 2017 and used \$469 million in 2016, partially offset by lower growth in our non-purchased loan portfolio, which used \$2.85 billion in 2017 and used \$3.03 billion in 2016, and more cash provided by payoffs in our purchased loan portfolio, which provided \$1.42 billion in 2017 and provided \$1.16 billion in 2016. Additionally, we received \$204 million of net cash in merger and acquisition transactions in 2016 (none in 2017).

Financing activities provided net cash of \$671 million in 2018, \$1.82 billion in 2017 and \$2.82 billion in 2016. The decrease in net cash provided by financing activities for 2018 compared to 2017 was primarily the result of lower growth of deposits needed to fund our lending and investing activities. Deposit growth provided \$746 million in 2018 and provided \$1.62 billion in 2017. Additionally, in 2017 we received net proceeds of \$300 million from the sale of 6.6 million shares of our common stock (none in 2018).

The decrease in net cash provided by financing activities in 2017 compared to 2016 was primarily the result of lower deposit growth which provided \$1.62 billion in 2017 and provided \$3.04 billion in 2016, partially offset by less net cash used to repay FHLB and other borrowings, which used \$20 million in 2017 and used \$386 million in 2016. Additionally, in 2017 we received \$300 million from the sale of 6.6 million shares of our common stock (none in 2016), and in 2016 we received \$222 million from the issuance of our Notes (none in 2017).

*Contractual Obligations.* The following table presents, as of December 31, 2018, significant fixed and determinable contractual obligations to third parties by contractual date with no consideration given to earlier call or prepayment features. Other obligations consist primarily of contractual obligations for capital expenditures, software contracts and various other contractual obligations.

### Contractual Obligations

	1 Year or Less	Over 1 Through 3 Years	Over 3 Through 5 Years	Over 5 Years	Total
	(Dollars in thousands)				
Time deposits <sup>(1)</sup>	\$ 4,828,207	\$ 663,817	\$ 70,704	\$ 1,644	\$ 5,564,372
Deposits without a stated maturity <sup>(2)</sup>	12,431,829	—	—	—	12,431,829
Repurchase agreements with customers <sup>(1)</sup>	20,564	—	—	—	20,564
Other borrowings <sup>(1)</sup>	95,562	1,226	208	—	96,996
Subordinated notes <sup>(1)</sup>	12,397	24,794	24,794	269,194	331,179
Subordinated debentures <sup>(1)</sup>	6,424	12,848	12,848	191,101	223,221
Lease obligations	8,721	14,205	12,706	51,561	87,193
Other obligations	135,665	12,212	6,673	12,047	166,597
<b>Total contractual obligations</b>	<b>\$17,539,369</b>	<b>\$ 729,102</b>	<b>\$ 127,933</b>	<b>\$ 525,547</b>	<b>\$18,921,951</b>

- (1) Includes unpaid interest through the contractual maturity on both fixed and variable rate obligations. The interest included on variable rate obligations is based upon interest rates in effect at December 31, 2018. The contractual amounts to be paid on variable rate obligations are affected by changes in interest rates. Future changes in interest rates could materially affect the contractual amounts to be paid.
- (2) Includes interest accrued and unpaid through December 31, 2018.

*Off-Balance Sheet Commitments.* We are party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments primarily include commitments to extend credit (most of which are in the form of unfunded balances on loans already closed) and standby letters of credit. See note 15 to the consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” of the Annual Report on Form 10-K for further discussion of off-balance sheet commitments. The following table details the amounts and expected maturities of significant off-balance sheet commitments as of December 31, 2018. Commitments to extend credit do not necessarily represent future cash requirements as these commitments may expire without being drawn.

### Off-Balance Sheet Commitments

	1 Year or Less	Over 1 Through 3 Years	Over 3 Through 5 Years	Over 5 Years	Total
	(Dollars in thousands)				
Commitments to extend credit	\$ 1,207,240	\$ 8,097,626	\$ 1,841,903	\$ 218,206	\$11,364,975
Standby letters of credit	18,991	1,016	1,370	—	21,377
<b>Total commitments</b>	<b>\$ 1,226,231</b>	<b>\$ 8,098,642</b>	<b>\$ 1,843,273</b>	<b>\$ 218,206</b>	<b>\$11,386,352</b>

## Growth and Expansion

*De Novo Growth.* In 2018, we (i) relocated our RESG team in Dallas, Texas to a nearby larger facility, (ii) opened loan production offices in Raleigh, North Carolina and Tyler, Texas, (iii) closed RESG loan production offices in Austin and Houston, Texas and consolidated the business handled by those offices into our Dallas, Texas RESG office, (iv) closed a loan production office in Little Rock, Arkansas and (v) closed a retail branch location in Clearwater, Florida. In 2019, we expect to (i) open loan production offices in Alpharetta, Georgia and Irvine, California for our Indirect RV & Marine lending team and in Greenville, North Carolina for our Community Banking agricultural lending team, (ii) replace an existing leased facility with a bank-owned facility in Winston-Salem, North Carolina, (iii) replace a loan production office with a bank-owned facility in East Point, Georgia, (iv) convert a loan production office in Tyler, Texas to a retail banking office, and (v) open five retail banking offices, including two in Texas, two in Florida and one in Tennessee. In 2020, among other things, we expect to complete construction on our new corporate headquarters in Little Rock, Arkansas.

We intend to continue our growth and *de novo* branching strategy in future years through the opening of additional branches and loan production offices as our needs and resources permit. Opening new offices is subject to local banking market conditions, availability of suitable sites, hiring qualified personnel, obtaining regulatory and other approvals and many other conditions and contingencies that we cannot predict with certainty. We may increase or decrease our expected number of new office openings as a result of a variety of factors including our financial results, changes in economic or competitive conditions, strategic opportunities or other factors.

During 2018, we spent \$87 million on capital expenditures for premises and equipment. Our capital expenditures for 2019 are expected to be in the range of \$120 million to \$140 million, including progress payments on construction projects expected to be completed in 2019 and 2020, furniture and equipment costs and acquisition of sites for future development. Actual expenditures may vary significantly from those expected, depending on the number and cost of additional branch offices acquired or constructed and sites acquired for future development, progress or delays encountered on ongoing and new construction projects, delays in obtaining or inability to obtain required approvals, potential premises and equipment expenditures associated with acquisitions, if any, and other factors.

*Future Growth Strategy.* We expect to continue growing through our *de novo* branching strategy. Future *de novo* branches are expected to be focused in states where we currently have banking offices and in larger markets and MSAs across the United States where we currently do not have offices and believe we can generate significant growth from one to three strategically located offices in each such market. When we resume making acquisitions, we expect to seek acquisitions that are immediately accretive to book value and tangible book value, and are accretive to diluted earnings per share in the first 12 months following acquisition.

## Recently Issued Accounting Standards

See note 1 to the consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K for a discussion of certain recently issued accounting pronouncements.

### **Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

*The disclosures set forth in this item are qualified by “Part I, Item 1A. Risk Factors” and the section captioned “Forward-Looking Information” and other cautionary statements set forth elsewhere in this Annual Report on Form 10-K.*

#### **Interest Rate Risk**

Interest rate risk results from timing differences in the repricing of assets and liabilities or from changes in relationships between interest rate indices. Interest rate risk management is the responsibility of our ALCO. ALCO reports to the board of directors.

ALCO regularly reviews our exposure to changes in interest rates. Among the factors considered are changes in the mix of interest earning assets and interest bearing liabilities, interest rate spreads and repricing periods. ALCO uses an earnings simulation model to analyze our interest rate risk and interest rate sensitivity.

This earnings simulation modeling process projects a baseline net interest income (assuming no changes in interest rate levels) and estimates changes to that baseline net interest income resulting from changes in interest rate levels. We rely primarily on the results of this model in evaluating our interest rate risk. This model incorporates a number of additional factors including: (1) the expected exercise of call features on various assets and liabilities, (2) the expected rates at which various rate sensitive assets and rate sensitive liabilities will reprice, (3) the expected growth in various interest earning assets and interest bearing liabilities and the expected interest rates on new assets and liabilities, (4) the expected relative movements in different interest rate indexes which are used as the basis for pricing or repricing various assets and liabilities, (5) existing and expected contractual ceiling and floor rates on various assets and liabilities, (6) expected changes in administered rates on interest bearing transaction, savings, money market and time deposit accounts and the expected impact of competition on the pricing or repricing of such accounts, (7) the timing and amount of cash flows expected to be received on investment securities and purchased loans, (8) the need, if any, for additional capital and/or debt to support continued growth and (9) other relevant factors. Inclusion of these factors in the model is intended to more accurately project our expected changes in net interest income resulting from interest rate changes. We typically model our change in net interest income assuming interest rates go up 100 bps, up 200 bps, up 300 bps, up 400 bps, up 500 bps, down 100 bps, down 200 bps, down 300 bps, down 400 bps and down 500 bps. Based on current conditions, we believe that modeling our change in net interest income assuming interest rates go down 300 bps, down 400 bps and down 500 bps is not meaningful. For purposes of this model, we have assumed that the change in interest rates phases in over a 12-month period. While we believe this model provides a reasonably accurate projection of our interest rate risk, the model includes a number of assumptions and predictions which may or may not be correct and may impact the model results. These assumptions and predictions include inputs to compute baseline net interest income, growth rates, expected changes in administered rates on interest bearing deposit accounts, competition and a variety of other factors that are difficult to accurately predict. Accordingly, there can be no assurance the earnings simulation model will accurately reflect future results.

The following table presents the earnings simulation model's projected impact of a change in interest rates on the projected baseline net interest income for the 12-month period commencing January 1, 2019. This change in interest rates assumes parallel shifts in the yield curve and does not take into account changes in the slope of the yield curve.

#### Earnings Simulation Model Results

Change in Interest Rates (in bps)	% Change in Projected Baseline Net Interest Income
+500	12.7%
+400	10.3
+300	7.8
+200	5.2
+100	2.6
-100	(3.0)
-200	(6.0)
-300	Not meaningful
-400	Not meaningful
-500	Not meaningful

In the event of a shift in interest rates, we may take certain actions intended to mitigate the negative impact to net interest income or to maximize the positive impact to net interest income. These actions may include, but are not limited to, restructuring of interest earning assets and interest bearing liabilities, seeking alternative funding sources or investment opportunities and modifying the pricing or terms of loans and deposits.

#### Impact of Inflation and Changing Prices

The consolidated financial statements and related notes presented in "Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K have been prepared in accordance with GAAP. This requires the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike industrial companies, the vast majority of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

## **Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

### **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Bank OZK

#### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Bank OZK and its subsidiaries (the “Bank”) as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders’ equity and cash flows for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Bank’s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

#### ***Basis for Opinions***

The Bank’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Report of Management on the Bank’s Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Bank’s consolidated financial statements and on the Bank’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Bank in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

#### ***Definition and Limitations of Internal Control over Financial Reporting***

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PricewaterhouseCoopers LLP  
Little Rock, Arkansas  
February 27, 2019

We have served as the Bank’s auditor since 2016.



**BANK OZK**  
**CONSOLIDATED BALANCE SHEETS**

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	(Dollars in thousands, except per share amounts)	
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 290,672	\$ 440,388
Investment securities – available for sale (“AFS”)	2,862,340	2,593,873
Federal Home Loan Bank of Dallas (“FHLB”) and other banker's bank stocks	25,941	28,923
Non-purchased loans	15,073,791	12,733,937
Purchased loans	2,044,032	3,309,092
Allowance for loan losses	(102,264)	(94,120)
Net loans	17,015,559	15,948,909
Premises and equipment, net	567,189	519,811
Foreclosed assets	16,171	25,357
Accrued interest receivable	81,968	64,608
Bank owned life insurance (“BOLI”)	721,238	658,147
Goodwill and intangible assets, net	696,461	709,040
Other, net	110,491	286,591
Total assets	<u>\$ 22,388,030</u>	<u>\$ 21,275,647</u>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Deposits:		
Demand non-interest bearing	\$ 2,748,273	\$ 2,726,623
Savings and interest bearing transaction	9,682,713	10,051,122
Time	5,507,429	4,414,600
Total deposits	17,938,415	17,192,345
Repurchase agreements with customers	20,564	69,331
Other borrowings	96,692	22,320
Subordinated notes	223,281	222,899
Subordinated debentures	119,358	118,800
Accrued interest payable and other liabilities	216,355	186,164
Total liabilities	18,614,665	17,811,859
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; \$0.01 par value; 100,000,000 shares authorized; no shares issued or outstanding at December 31, 2018 or 2017	—	—
Common stock; \$0.01 par value; 300,000,000 shares authorized; 128,611,049 and 128,287,550 shares issued and outstanding at December 31, 2018 and 2017, respectively	1,286	1,283
Additional paid-in capital	2,237,948	2,221,844
Retained earnings	1,565,201	1,250,313
Accumulated other comprehensive loss	(34,105)	(12,712)
Total stockholders' equity before noncontrolling interest	3,770,330	3,460,728
Noncontrolling interest	3,035	3,060
Total stockholders' equity	3,773,365	3,463,788
Total liabilities and stockholders' equity	<u>\$ 22,388,030</u>	<u>\$ 21,275,647</u>

See accompanying notes to the Consolidated Financial Statements.

**BANK OZK**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands, except per share amounts)		
<b>Interest income:</b>			
Non-purchased loans	\$ 858,102	\$ 607,548	\$ 410,884
Purchased loans	173,465	276,499	222,350
<b>Investment securities:</b>			
Taxable	50,021	25,460	11,373
Tax-exempt	16,193	22,430	17,582
Deposits with banks and federal funds sold	3,039	656	366
Total interest income	1,100,820	932,593	662,555
<b>Interest expense:</b>			
Deposits	186,617	96,083	48,593
Repurchase agreements with customers	785	132	89
Other borrowings	3,017	1,305	1,169
Subordinated notes	12,757	12,620	6,801
Subordinated debentures	6,211	5,024	4,398
Total interest expense	209,387	115,164	61,050
Net interest income	891,433	817,429	601,505
Provision for loan losses	64,398	28,092	23,792
Net interest income after provision for loan losses	827,035	789,337	577,713
<b>Non-interest income:</b>			
Service charges on deposit accounts	39,544	42,853	38,461
Mortgage lending income	538	6,399	8,054
Trust income	6,935	6,691	6,268
BOLI income	23,911	18,677	14,808
Other income from purchased loans	7,784	13,456	17,278
Loan service, maintenance and other fees	20,354	15,696	6,836
Net gains on investment securities	17	4,033	4
Gains on sales of other assets	2,219	5,553	4,156
Other	6,473	10,500	6,534
Total non-interest income	107,775	123,858	102,399
<b>Non-interest expense:</b>			
Salaries and employee benefits	170,478	152,194	122,832
Net occupancy and equipment	56,362	53,198	42,524
Other operating expenses	153,912	127,280	90,398
Total non-interest expense	380,752	332,672	255,754
Income before taxes	554,058	580,523	424,358
Provision for income taxes	136,977	158,586	154,278
Net income	417,081	421,937	270,080
Earnings attributable to noncontrolling interest	25	(46)	(101)
Net income available to common stockholders	\$ 417,106	\$ 421,891	\$ 269,979
Basic earnings per common share	\$ 3.24	\$ 3.36	\$ 2.59
Diluted earnings per common share	\$ 3.24	\$ 3.35	\$ 2.58

See accompanying notes to the Consolidated Financial Statements.

**BANK OZK**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Net income	\$ 417,081	\$ 421,937	\$ 270,080
Other comprehensive income (loss):			
Unrealized gains and losses on investment securities AFS	(27,080)	27,291	(52,736)
Tax effect of unrealized gains and losses on investment securities AFS	5,687	(8,134)	18,860
Reclassification of gains on investment securities AFS included in net income	—	(4,033)	(4)
Tax effect of reclassification of gains on investment securities AFS included in net income	—	1,492	1
Total other comprehensive income (loss)	(21,393)	16,616	(33,879)
Total comprehensive income	<u>\$ 395,688</u>	<u>\$ 438,553</u>	<u>\$ 236,201</u>

See accompanying notes to the Consolidated Financial Statements.

**BANK OZK**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interest	Total
(Dollars in thousands, except per share amounts)							
Balances – December 31, 2015	\$ 906	\$ 755,995	\$ 706,628	\$ 7,959	\$ (6,857)	\$ 3,163	\$ 1,467,794
Net income	—	—	270,080	—	—	—	270,080
Earnings attributable to noncontrolling interest	—	—	(101)	—	—	101	—
Total other comprehensive loss	—	—	—	(33,879)	—	—	(33,879)
Common stock dividends paid, \$0.63 per share	—	—	(62,173)	—	—	—	(62,173)
Issuance of 315,600 shares of common stock for exercise of stock options	3	6,159	—	—	—	—	6,162
Issuance of 218,761 shares of unvested restricted common stock	2	(6,859)	—	—	6,857	—	—
Excess tax benefit on stock-based compensation	—	3,576	—	—	—	—	3,576
Stock-based compensation expense	—	10,754	—	—	—	—	10,754
Forfeiture of 21,139 shares of unvested restricted common stock	—	—	—	—	—	—	—
Issuance of 12,415 shares of common stock to non-employee directors	—	—	—	—	—	—	—
Repurchase and cancellation of 91,314 shares of common stock	—	(3,304)	—	—	—	—	(3,304)
Issuance of 20,983,815 shares of common stock for acquisition of Community & Southern Holdings, Inc., net of issuance costs of \$395	209	787,337	—	—	—	—	787,546
Issuance of 9,370,587 shares of common stock, net of shares redeemed for certain loans, for acquisition of C1 Financial, Inc., net of issuance costs of \$82	93	348,222	—	—	—	—	348,315
Balances – December 31, 2016	<u>\$ 1,213</u>	<u>\$ 1,901,880</u>	<u>\$ 914,434</u>	<u>\$ (25,920)</u>	<u>\$ —</u>	<u>\$ 3,264</u>	<u>\$ 2,794,871</u>

**BANK OZK**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)**

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
	(Dollars in thousands, except per share amounts)					
Balances – December 31, 2016	\$ 1,213	\$ 1,901,880	\$ 914,434	\$ (25,920)	\$ 3,264	\$ 2,794,871
Cumulative effect of change in accounting principles	—	1,133	2,720	(3,408)	—	445
Balances – January 1, 2017, as adjusted	1,213	1,903,013	917,154	(29,328)	3,264	2,795,316
Net income	—	—	421,937	—	—	421,937
Earnings attributable to noncontrolling interest	—	—	(46)	—	46	—
Total other comprehensive income	—	—	—	16,616	—	16,616
Common stock dividends paid, \$0.71 per share	—	—	(88,732)	—	—	(88,732)
Dividend paid to noncontrolling interest	—	—	—	—	(250)	(250)
Issuance of 283,535 shares of common stock for exercise of stock options	3	6,846	—	—	—	6,849
Issuance of 238,794 shares of unvested restricted common stock	2	(2)	—	—	—	—
Stock-based compensation expense	—	12,329	—	—	—	12,329
Forfeiture of 116,876 shares of unvested restricted common stock	(1)	1	—	—	—	—
Issuance of 14,476 shares of common stock to non-employee directors	—	—	—	—	—	—
Issuance of 6,600,000 shares of common stock, net of issuance costs of \$247	66	299,657	—	—	—	299,723
Balances – December 31, 2017	<u>\$ 1,283</u>	<u>\$ 2,221,844</u>	<u>\$ 1,250,313</u>	<u>\$ (12,712)</u>	<u>\$ 3,060</u>	<u>\$ 3,463,788</u>

**BANK OZK**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Noncontrolling Interest</u>	<u>Total</u>
	(Dollars in thousands, except per share amounts)					
Balances – December 31, 2017	\$ 1,283	\$ 2,221,844	\$ 1,250,313	\$ (12,712)	\$ 3,060	\$ 3,463,788
Net income	—	—	417,081	—	—	417,081
Earnings attributable to noncontrolling interest	—	—	25	—	(25)	—
Total other comprehensive loss	—	—	—	(21,393)	—	(21,393)
Common stock dividends paid, \$0.795 per share	—	—	(102,218)	—	—	(102,218)
Issuance of 223,840 shares of common stock for exercise of stock options	2	5,740	—	—	—	5,742
Issuance of 220,326 shares of unvested restricted common stock	2	(2)	—	—	—	—
Repurchase and cancellation of 71,750 shares of common stock	(1)	(3,769)	—	—	—	(3,770)
Stock-based compensation expense	—	14,135	—	—	—	14,135
Forfeiture of 48,917 shares of unvested restricted common stock	—	—	—	—	—	—
Balances – December 31, 2018	<u>\$ 1,286</u>	<u>\$ 2,237,948</u>	<u>\$ 1,565,201</u>	<u>\$ (34,105)</u>	<u>\$ 3,035</u>	<u>\$ 3,773,365</u>

See accompanying notes to the Consolidated Financial Statements.

**BANK OZK**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	\$ 417,081	\$ 421,937	\$ 270,080
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	21,920	20,550	15,236
Amortization	13,520	13,520	9,796
Earnings attributable to noncontrolling interest	25	(46)	(101)
Provision for loan losses	64,398	28,092	23,792
Provision for losses on foreclosed and other assets	3,220	3,488	3,610
Writedown of signage due to strategic rebranding	4,915	—	—
Net amortization of investment securities AFS	22,076	15,972	6,562
Net gains on investment securities AFS	(17)	(4,033)	(4)
Originations of mortgage loans held for sale	—	(207,166)	(273,863)
Proceeds from sales of mortgage loans held for sale	8,313	219,261	263,825
Accretion of purchased loans	(43,870)	(78,639)	(70,467)
Gains on sales of other assets	(2,219)	(5,553)	(4,156)
Income tax benefit from revaluation of deferred tax assets and liabilities	—	(49,812)	—
Deferred income tax expense	33,057	248,449	12,703
Increase in cash surrender value of BOLI	(20,700)	(18,246)	(13,999)
BOLI death benefits in excess of cash surrender value	(3,211)	(431)	(809)
Excess tax benefit on stock-based compensation	—	—	(3,576)
Stock-based compensation expense	14,135	12,329	10,754
Changes in assets and liabilities:			
Accrued interest receivable	(17,360)	(12,689)	(14,064)
Income taxes receivable and other assets, net	186,683	(221,634)	14,615
Accrued interest payable and other liabilities	3,348	(869)	(8,006)
Net cash provided by operating activities	<u>705,314</u>	<u>384,480</u>	<u>241,928</u>

**BANK OZK**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Cash flows from investing activities:			
Proceeds from sales of investment securities AFS	\$ 16,914	\$ 243,282	\$ 537
Proceeds from maturities/calls/paydowns of investment securities AFS	517,679	244,943	182,337
Purchases of investment securities AFS	(850,405)	(1,628,089)	(652,106)
Net increase of non-purchased loans	(2,178,639)	(2,851,239)	(3,033,145)
Net payments received on purchased loans	1,072,735	1,421,951	1,161,051
Purchases of premises and equipment	(86,752)	(38,864)	(45,171)
Proceeds from sales of other assets	30,970	40,939	41,013
Purchases of BOLI	(45,000)	(60,000)	(145,000)
Proceeds from BOLI death benefits	5,820	1,475	2,116
Cash (invested in) received from unconsolidated investments and noncontrolling interest	(9,781)	(4,795)	428
Net cash received in merger and acquisition transactions	—	—	203,695
Net cash used by investing activities	(1,526,459)	(2,630,397)	(2,284,245)
Cash flows from financing activities:			
Net increase in deposits	746,070	1,617,467	3,038,009
Repayment of fixed-rate callable FHLB advances	(20,000)	(20,000)	—
Net proceeds from (repayments of) other borrowings	94,373	417	(386,206)
Net (decrease) increase in repurchase agreements with customers	(48,767)	4,221	(690)
Proceeds from exercise of stock options	5,741	6,849	6,162
Proceeds from issuance of common stock	—	299,723	—
Proceeds from issuance of subordinated notes	—	—	222,315
Excess tax benefit on stock-based compensation	—	—	3,576
Repurchase and cancellation of shares of common stock	(3,770)	—	(3,304)
Cash dividends paid on common stock	(102,218)	(88,732)	(62,173)
Net cash provided by financing activities	671,429	1,819,945	2,817,689
Net (decrease) increase in cash and cash equivalents	(149,716)	(425,972)	775,372
Cash and cash equivalents – beginning of year	440,388	866,360	90,988
Cash and cash equivalents – end of year	\$ 290,672	\$ 440,388	\$ 866,360

See accompanying notes to the Consolidated Financial Statements.



**Bank OZK**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018, 2017 and 2016**

## **1. Organization and Regulation**

On June 26, 2017, as the result of an internal restructuring designed to eliminate its bank holding company structure, Bank of the Ozarks, Inc., an Arkansas corporation, merged with and into its wholly-owned subsidiary, Bank of the Ozarks (the “Bank”), with the Bank continuing as the surviving corporation (the “Reorganization”). Unless the context otherwise requires, references in this Annual Report on Form 10-K to “Company,” “we,” “us” and “our” for periods prior to June 26, 2017, refer to Bank of the Ozarks, Inc., which was the parent holding company and the registrant prior to the Reorganization, and, for periods after the Reorganization, to the Bank, in each case including its consolidated subsidiaries. On July 16, 2018, the Bank changed its corporate name to Bank OZK. The name change had no effect on the rights or interest of the Bank’s shareholders. Shares of the Bank’s common stock are listed on the Nasdaq Global Select Market under the symbol “OZK.”

The Bank is headquartered in Little Rock, Arkansas and provides a wide range of retail and commercial banking services. At December 31, 2018 the Bank conducted operations through 251 offices, including offices in Arkansas, Georgia, Florida, North Carolina, Texas, Alabama, South Carolina, California, New York and Mississippi. The Bank owns eight 100%-owned finance subsidiary business trusts - Ozark Capital Statutory Trust II (“Ozark II”), Ozark Capital Statutory Trust III (“Ozark III”), Ozark Capital Statutory Trust IV (“Ozark IV”), Ozark Capital Statutory Trust V (“Ozark V”), Intervest Statutory Trust II (“Intervest II”), Intervest Statutory Trust III (“Intervest III”), Intervest Statutory Trust IV (“Intervest IV”) and Intervest Statutory Trust V (“Intervest V”) (collectively, the “Trusts”). In addition, the Bank owns a subsidiary that holds its investment securities, a subsidiary engaged in the development of real estate, a subsidiary that holds an ownership interest in a private aircraft and various other entities that hold loans, foreclosed assets or tax credits or engage in other activities.

The Bank is an Arkansas state banking corporation and is subject to regulation by the Arkansas State Bank Department. Because the Bank is an insured depository institution that is not a member bank of the Board of Governors of the Federal Reserve System (“FRB”), its primary federal regulator is the Federal Deposit Insurance Corporation (“FDIC”).

Basis of presentation, use of estimates, principles of consolidation and changes in accounting policy – The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates, assumptions and judgments that affect the amounts reported in these consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

These consolidated financial statements include the accounts of the Bank, the investment subsidiary, the real estate subsidiary and the aircraft subsidiary. In addition, subsidiaries in which the Bank has majority voting interest (principally defined as owning a voting or economic interest greater than 50%) or where the Bank exercises control over the operating and financial policies of the subsidiary through an operating agreement or other means are consolidated. Investments in companies in which the Bank has significant influence over voting and financing decisions (principally defined as owning a voting or economic interest of 20% to 50%) and investments in limited partnerships and limited liability companies where the Bank does not exercise control over the operating and financial policies are generally accounted for by the equity method of accounting. Investments in companies in which the Bank has limited or no influence over voting and financing decisions (principally defined as owning a voting or economic interest less than 20%) and investments in limited partnerships and limited liability companies in which the Bank’s interest is so minor such that it has virtually no influence over operating and financial policies are generally accounted for by the cost method of accounting. Significant intercompany transactions and amounts have been eliminated in consolidation.

The voting interest approach is not applicable for entities that are not controlled through voting interests or in which the equity investors do not bear the residual economic risk. In such instances, management makes a determination, based on its review of applicable GAAP, on when the assets, liabilities and activities of a variable interest entity (“VIE”) should be included in the Bank’s consolidated financial statements. GAAP requires a VIE to be consolidated by a company if that company has a controlling financial interest with both (1) the power to direct the activities of the entity that most significantly affects the entity’s economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity. A company that has a controlling financial interest is considered the primary beneficiary and consolidates the VIE. The Bank has determined that the 100%-owned finance subsidiary Trusts are VIEs, but that the Bank is not the primary beneficiary of the Trusts. Accordingly, the Bank does not consolidate the activities of the Trusts into its financial statements, but instead reports its ownership interests in the Trusts as other assets and reports the subordinated debentures issued to the Trusts as a liability in the consolidated balance sheets. The distributions on the subordinated debentures are reported as interest expense in the accompanying consolidated statements of income.

On January 1, 2017, the Bank adopted Accounting Standards Update (“ASU”) 2016-09, “Improvements to Employee Share-Based Payment Accounting.” In accordance with the provisions of ASU 2016-09, the Bank elected to account for forfeitures of stock-based compensation awards as they occur. Prior to the adoption of ASU 2016-09, the Bank estimated forfeiture rates and the impact that such estimated forfeitures would have on stock-based awards that were expected to vest. The Bank believes this forfeiture policy election is a more efficient method of accounting for forfeitures. The adoption of ASU 2016-09 resulted in a cumulative adjustment to increase total stockholders’ equity at January 1, 2017 by approximately \$0.4 million.

In February 2018, the Financial Accounting Standards Board (“FASB”) issued ASU 2018-02 “Reclassification of Tax Effects from Other Comprehensive Income” which permits entities to reclassify tax effects stranded in accumulated other comprehensive income (loss) as a result of the Tax Cuts and Jobs Act (the “Tax Act”) that was enacted on December 22, 2017. ASU 2018-02 is effective for interim and annual periods beginning after December 15, 2018; however, early adoption was permitted. The Bank adopted the provisions of ASU 2018-02 effective as of the beginning of 2017 as a cumulative effect adjustment by reclassifying \$3.4 million from accumulated other comprehensive income (loss) to retained earnings. The adoption of ASU 2018-02 during 2017 allowed the Bank to align the tax effects included in accumulated other comprehensive income (loss) with the revised federal tax rates included in the Tax Act.

Cash and cash equivalents – For cash flow purposes, cash and cash equivalents include cash on hand, amounts due from banks and interest earning deposits with banks.

Investment securities – Management determines the appropriate classification of investment securities at the time of purchase and reevaluates such designation as of each balance sheet date. At December 31, 2018 and 2017, the Bank has classified all of its investment securities as available for sale (“AFS”).

Investment securities AFS are reported at estimated fair value, with the unrealized gains and losses determined on a specific identification basis. Such unrealized gains and losses, net of tax, are reported as a separate component of stockholders’ equity, included in other comprehensive income (loss) and are adjusted for changes in unrealized gains and losses, net of tax, reported in accumulated other comprehensive income (loss), on a specific identification basis. The Bank utilizes independent third parties as its principal pricing sources for determining fair value of investment securities which are measured on a recurring basis. As a result, the Bank considers estimates of fair values from at least two independent pricing sources for the majority of its individual securities in its investment portfolio. For investment securities traded in an active market, fair values are based on quoted market prices if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities, broker quotes or comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities that are not traded or that are traded in a market that is not active, fair value is determined using unobservable inputs. Additionally, the valuation of investment securities acquired may include certain unobservable inputs. All fair value estimates received by the Bank for its investment securities are reviewed on a quarterly basis.

At December 31, 2018 and 2017, the Bank owned stock in the Federal Home Loan Bank of Dallas (“FHLB”) and First National Banker’s Bankshares, Inc., which do not have readily determinable fair values and are carried at cost.

Declines in the fair value of investment securities below their amortized cost are reviewed at least quarterly by the Bank for other-than-temporary impairment. Factors considered during such review include, among other things, the nature and cause of the unrealized loss, the severity and duration of the unrealized loss and the credit quality, financial condition and near term prospects of the issuer. The Bank also assesses whether it has the intent to sell the investment security or more likely than not would be required to sell the investment security before any anticipated recovery in fair value. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through the income statement. For securities that do not meet the aforementioned criteria, the amount of impairment is split into (i) other-than-temporary impairment related to credit loss, which must be recognized in the income statement, and (ii) other-than-temporary impairment related to other factors, which is recognized in other comprehensive income (loss). The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

The fair values of the Bank’s investment securities traded in both active and inactive markets can be volatile and may be influenced by a number of factors including market interest rates, prepayment speeds, discount rates, credit quality of the issuer, general market conditions including market liquidity conditions and other factors. Factors and conditions are constantly changing and fair values could be subject to material variations that may significantly affect the Bank’s financial condition, results of operations and liquidity.

Interest and dividends on investment securities, including the amortization of premiums and accretion of discounts through maturity, or in the case of mortgage-backed securities, over the estimated life of the security, are included in interest income. Realized

gains or losses on the sale of investment securities are recognized on the specific identification method at the time of sale and are included in non-interest income. Purchases and sales of investment securities are recorded on a trade-date basis.

Non-purchased loans – Non-purchased loans include all loans except loans acquired in previous acquisitions. Non-purchased loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance adjusted for any charge-offs and accretion or amortization of deferred fees or costs. Interest on non-purchased loans is recognized on an accrual basis and is calculated using the simple interest method on daily balances of the principal amount outstanding. Loan origination fees and costs are generally deferred and recognized over the life of the loan as an adjustment to yield on the related loan. Minimum interest, yield maintenance income and prepayment penalties are recorded as adjustments to yield on the related loan when such items are earned. Loan service, maintenance and various other fees that are not considered yield adjustments are recorded as non-interest income when such items are earned and collection appears likely.

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the financial statements when they are funded. Related fees are generally recognized when collected.

Purchased loans – Purchased loans consist of all loans acquired in previous acquisitions. Purchased loans are initially recorded at fair value on the date of purchase. Purchased loans that contain evidence of credit deterioration on the date of purchase are carried at the net present value of expected future cash flows. All other purchased loans are recorded at their initial fair value, adjusted for subsequent advances, pay downs, amortization or accretion of any premium or discount on purchase, charge-offs and any other adjustment to carrying value.

As provided for under GAAP, management has up to 12 months following the date of an acquisition to finalize the fair values of acquired assets and assumed liabilities. Once management has finalized the fair values of acquired assets and assumed liabilities within this 12-month period, management considers such values to be the day 1 fair values (“Day 1 Fair Values”).

At the time of acquisition, management individually evaluates a substantial portion of loans acquired in the transaction. For those purchased loans without evidence of credit deterioration at the date of acquisition, Day 1 Fair Value is determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected, as adjusted for an estimate of future credit losses and prepayments, and then a market-based discount rate is applied to those cash flows. For loans individually evaluated, a grade is assigned to each loan at the date of acquisition based on the Bank’s internal grading system for purchased loans. To the extent that any purchased loan is not specifically reviewed, such loan is assumed to have characteristics similar to the assigned rating of the acquired institution’s risk rating adjusted for any estimated differences between the Bank’s rating methodology and the acquired bank’s rating methodology. The grade for each purchased loan without evidence of credit deterioration is reviewed subsequent to the date of acquisition any time a loan is renewed or extended or at any time information becomes available to the Bank that provides material insight regarding the loan’s performance, the status of the borrower or the quality or value of the underlying collateral. To the extent that current information indicates it is probable that the Bank will collect all amounts according to the contractual terms thereof, such loan is not considered impaired and is not individually considered in the determination of the required allowance for loan losses (“ALL”). To the extent that current information indicates it is probable that the Bank will not be able to collect all amounts according to the contractual terms thereof, such loan is rated FV77, is included in certain of the Bank’s credit quality metrics, is considered impaired and is considered in the determination of the required level of ALL.

In determining the Day 1 Fair Values of purchased loans without evidence of credit deterioration at the date of acquisition, management includes (i) no carryover of any previously recorded ALL and (ii) an adjustment of the unpaid principal balance to reflect an appropriate market rate of interest, given the risk profile and grade assigned to each loan. This adjustment is accreted or amortized into earnings as a yield adjustment, using the effective yield method, over the remaining life of each loan.

Purchased loans that contain evidence of credit deterioration on the date of purchase are individually evaluated by management to determine the Day 1 Fair Value of each loan. This evaluation includes no carryover of any previously recorded ALL. In determining the Day 1 Fair Value of purchased loans with evidence of credit deterioration at the date of acquisition, management considers a number of factors including, among other things, the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value and quality of the underlying collateral, estimated holding periods, and net present value of cash flows expected to be received.

In determining the Day 1 Fair Values of purchased loans with evidence of credit deterioration at the date of acquisition, management calculates a non-accretable difference (the credit component of such purchased loans) and an accretable difference (the yield component of such purchased loans). The non-accretable difference is the difference between the contractually required payments and the cash flows expected to be collected in accordance with management’s determination of the Day 1 Fair Values. Subsequent increases in expected cash flows will result in an adjustment to accretable yield, which will have a positive impact on

interest income. Subsequent decreases in expected cash flows will generally result in a provision for loan losses. Subsequent increases in expected cash flows following any previous decrease will result in a reversal of the provision for loan losses to the extent of prior charges and then an adjustment to accretable yield.

The accretable difference on purchased loans with evidence of credit deterioration at the date of acquisition is the difference between the expected cash flows and the net present value of such expected cash flows. Such difference is accreted into earnings using the effective yield method over the term of the loans.

Management separately monitors purchased loans with evidence of credit deterioration on the date of acquisition and periodically reviews such loans contained within this portfolio against the factors and assumptions used in determining the Day 1 Fair Values. A loan is reviewed (i) any time it is renewed or extended, (ii) at any other time additional information becomes available to the Bank that provides material additional insight regarding the loan's performance, the status of the borrower, or the quality or value of the underlying collateral, or (iii) in conjunction with the annual review of projected cash flows of each acquired portfolio. Management separately reviews the performance of the portfolio of purchased loans with evidence of credit deterioration at the date of acquisition on an annual basis, or more frequently to the extent that material information becomes available regarding the performance of an individual loan, to make determinations of the constituent loans' performance and to consider whether there has been any significant change in performance since management's initial expectations established in conjunction with the determination of the Day 1 Fair Values or since management's most recent review of such portfolio's performance. To the extent that a loan is performing in accordance with or exceeding management's performance expectation established in conjunction with the determination of the Day 1 Fair Values, such loan is rated FV66, is not included in any credit quality ratios, is not considered to be an impaired loan, and is not considered in the determination of the required ALL. For any loan that is exceeding management's performance expectation established in conjunction with the determination of Day 1 Fair Values, the accretable yield on such loan is adjusted to reflect such increased performance. To the extent that a loan's performance has deteriorated from management's expectation established in conjunction with the determination of the Day 1 Fair Values, such loan is rated FV88, is included in certain of the Bank's credit quality metrics, is considered an impaired loan, and is considered in the determination of the required level of ALL; however, in accordance with GAAP, the Bank continues to accrete into earnings income on such loans. Any improvement in the expected performance of such loan would result in a reversal of the provision for loan losses to the extent of prior charges and then an adjustment to accretable yield.

Allowance for loan losses ("ALL") – The ALL is established through a provision for such losses charged against income. All or portions of loans deemed to be uncollectible are charged against the ALL when management believes that collectability of all or some portion of outstanding principal is unlikely. Subsequent recoveries, if any, of loans previously charged off are credited to the ALL.

The ALL is maintained at a level management believes will be adequate to absorb probable incurred losses in the loan portfolio. Provision to and the adequacy of the ALL are based on evaluations of the loan portfolio utilizing objective and subjective criteria. The objective criteria primarily include an internal grading system and specific allowances. In addition to the objective criteria, the Bank subjectively assesses the adequacy of the ALL and the need for additions thereto, with consideration given to the nature and mix of the portfolio, national, regional and local business and economic conditions that may affect borrowers' ability to pay, concentrations of credit, changes in the experience, ability and depth of lending management and other relevant staff, changes in the nature and volume of the portfolio and in the terms of the loans, overall portfolio quality and other relevant factors. Changes in these criteria or the availability of new information could require adjustment of the ALL in future periods. While a specific allowance has been calculated for impaired loans, no portion of the Bank's ALL is restricted to any individual loan or group of loans, and the entire ALL is available to absorb losses from any and all loans.

The Bank's internal grading system assigns grades to all non-purchased loans, except residential 1-4 family loans (including consumer construction loans on 1-4 family properties), consumer loans, indirect loans and certain other loans, with each grade being assigned an allowance allocation percentage. The grade for each graded individual loan is determined by the account officer and other senior lending officers at the time the loan is made and changed from time to time to reflect an ongoing assessment of loan risk. Grades are reviewed on specific loans from time to time by senior management and as part of the Bank's internal credit review process. The risk elements considered by management in its determination of the appropriate grade for individual loans include the following, among others: (1) for non-farm/non-residential, multifamily residential, and agricultural real estate loans, the debt service coverage ratio (income from the property in excess of operating expenses compared to loan repayment requirements), interest rate stress tolerance (the project's ability to withstand increases in applicable interest rates), operating results of the owner in the case of owner-occupied properties, the loan-to-value ("LTV") ratio, the age, condition, value, nature, quality and marketability of the collateral and the specific risks and volatility of income, property value and operating results typical of properties of that type; (2) for construction and land development loans, the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or ability to lease property constructed for lease, the quality and nature of contracts for presale or preleasing, if any, experience and ability of the developer, loan-to-cost ("LTC") and LTV ratios, interest rate stress tolerance (the project's ability to withstand increases in applicable interest rates), permanent refinancing exit rate stress tolerance (the effect of

increases in applicable interest rates on exiting the loan via permanent loan refinancing), sales exit capitalization rate stress tolerance (the effect of increases in capitalization rates on exiting the loan via a sale of the property) and sales exit margin ratio (the percentage of individual units (e.g. lots or condos) sold that are needed to repay the loan); (3) for commercial and industrial loans, the operating results of the commercial, industrial or professional enterprise, the borrower's business, professional and financial ability and expertise, the specific risks and volatility of income and operating results typical for businesses in the applicable industry, the age, condition, value, nature, quality and marketability of collateral and, for certain loans, the marketability of such loans in any secondary market; and (4) for non-real estate agricultural loans, the operating results, experience and ability of the borrower, historical and expected market conditions and the age, condition, value, nature, quality and marketability of collateral. In addition, for each category the Bank considers secondary sources of income and the financial strength of the borrower or lessee and any guarantors.

Residential 1-4 family, consumer loans and certain other loans are assigned an allowance allocation percentage based on past due status. For indirect loans, each individual loan is assigned a risk level based on the borrower's individual credit score. Each risk level is assigned a probability of default ("PD") based on the borrower's credit score and an expected loss given default ("LGD") based on the underlying collateral securing the loan. The PD factor is based on composite third-party information for similar loans and borrowers that have previously defaulted.

Allowance allocation percentages for the various risk grades and past due categories for residential 1-4 family, consumer loans and certain other loans are determined by management and are adjusted periodically. In determining these allowance allocation percentages, management considers, among other factors, historical loss percentages over various time periods and a variety of subjective criteria.

For purchased loans, management segregates this portfolio into loans that contain evidence of credit deterioration at the date of acquisition and loans that do not contain evidence of credit deterioration at the date of acquisition. Purchased loans with evidence of credit deterioration at the date of acquisition are regularly monitored and are periodically reviewed by management. To the extent that a loan's performance has deteriorated from management's expectation established in conjunction with the determination of the Day 1 Fair Values, such loan is considered in the determination of the required level of ALL. To the extent that a revised loss estimate exceeds the loss estimate established in the determination of Day 1 Fair Values, such determination will result in an allowance allocation or a partial or full charge-off.

All other purchased loans are graded by management at the time of purchase. The grade on these purchased loans is reviewed regularly as part of the ongoing assessment of such loans. To the extent that current information indicates it is probable that the Bank will not be able to collect all amounts according to the contractual terms thereof, such loan is considered in the determination of the required level of ALL and may result in an allowance allocation or a partial or full charge-off.

At both December 31, 2018 and 2017, the Bank established an ALL totaling \$1.6 million for its purchased loan portfolio. Such ALL was based on the Bank's historical charge-off analysis of its purchased loan portfolio and reflects management's estimate of probable incurred losses in the purchased loan portfolio that had not previously been charged off or had not otherwise been considered in establishing the Day 1 Fair Values.

The accrual of interest on non-purchased loans and purchased loans without evidence of credit deterioration at the date of acquisition is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. The Bank generally places a loan, excluding purchased loans with evidence of credit deterioration at the date of acquisition, on nonaccrual status when such loan is (i) deemed impaired or (ii) 90 days or more past due, or earlier when doubt exists as to the ultimate collection of payments. The Bank may continue to accrue interest on certain loans contractually past due 90 days or more if such loans are both well secured and in the process of collection. At the time a loan is placed on nonaccrual status, interest previously accrued but uncollected is reversed and charged against interest income. Nonaccrual loans are generally returned to accrual status when payments are less than 90 days past due and the Bank reasonably expects to collect all payments. If a loan is determined to be uncollectible, the portion of the principal determined to be uncollectible will be charged against the ALL. Loans for which the terms have been modified and for which (i) the borrower is experiencing financial difficulties and (ii) a concession has been granted to the borrower by the Bank are considered troubled debt restructurings ("TDRs") and are included in impaired loans. Income on nonaccrual loans, including impaired loans, is recognized on a cash basis when and if actually collected. Income on TDRs is recognized on a cash basis until such time as the TDR has performed in accordance with its modified terms for a reasonable period of time (generally at least six months) and is expected to continue to perform. Once such performance and expected performance conditions are met, the TDR is returned to accrual status but continues to be reported as an impaired loan.

All loans deemed to be impaired are evaluated individually. The Bank considers a loan, excluding purchased loans with evidence of credit deterioration at the date of acquisition, to be impaired when based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms thereof. The Bank considers a purchased loan with evidence of credit deterioration at the date of acquisition to be impaired once a decrease in expected cash flows or other

deterioration in the loan's expected performance, subsequent to the determination of the Day 1 Fair Values, results in an allowance allocation, a partial or full charge-off or a provision for loan losses. Most of the Bank's nonaccrual loans, excluding purchased loans with evidence of credit deterioration at the date of acquisition, and all TDRs are considered impaired. The majority of the Bank's impaired loans are dependent upon collateral for repayment. For such loans, impairment is measured by comparing collateral value and anticipated cash payments, if any, net of holding and selling costs, to the current investment in the loan. For all other impaired loans, the Bank compares estimated discounted cash flows to the current investment in the loan. To the extent that the Bank's current investment in a particular loan exceeds its estimated net collateral value or its estimated discounted cash flows, the impaired amount is charged off as a reduction of the ALL. The Bank's practice is to charge off any estimated loss as soon as management is able to identify and reasonably quantify such potential loss.

The Bank may also include specific ALL allocations for qualitative factors.

Changes in the criteria used in this evaluation or the availability of new information could cause the ALL to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require adjustments to the ALL based on their judgment and estimates.

Premises and equipment – Premises and equipment are reported at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets. Depreciable lives for the major classes of assets are generally 20 to 45 years for buildings and 3 to 25 years for furniture, fixtures, equipment and certain building improvements. Leasehold improvements are amortized over the shorter of the asset's estimated useful life or the term of the lease. Accelerated depreciation methods are used for income tax purposes. Maintenance and repair charges are expensed as incurred.

Foreclosed assets – Repossessed personal properties and real estate acquired through or in lieu of foreclosure, excluding purchased foreclosed assets, are initially recorded at fair value less estimated cost to sell at the date of repossession or foreclosure. Purchased foreclosed assets are initially recorded at Day 1 Fair Values. In estimating such Day 1 Fair Values, management considers a number of factors including, among others, appraised value, estimated selling price, estimated holding periods and net present value of cash flows expected to be received.

Valuations of all foreclosed assets are periodically reviewed by management with the carrying value of such assets adjusted through non-interest expense to the then estimated fair value, generally based on third party appraisals, broker price opinions or other valuations of the property, net of estimated selling costs, if lower, until disposition. Gains and losses from the sale of such repossessions and real estate acquired through or in lieu of foreclosure are recorded in non-interest income and expenses to maintain the properties are included in non-interest expense.

Income taxes – The Bank utilizes the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based upon the difference between the values of the assets and liabilities as reflected in the financial statements and their related tax basis using enacted tax rates in effect for the year or years in which the differences are expected to be recovered or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

As a result of recording, at fair value, acquired assets and assumed liabilities pursuant to business combinations, differences in amounts reported for financial statement purposes and their related basis for federal and state income tax purposes are created. Such differences are recorded as deferred tax assets and liabilities using enacted tax rates in effect for the year or years in which the differences are expected to be recovered or settled. Business combination transactions may result in the acquisition of net operating loss carryforwards and other assets with built-in losses, the realization of which are subject to limitations pursuant to section 382 ("section 382 limitation") of the Internal Revenue Code ("IRC"). In determining the section 382 limitation associated with a business combination, management must make a number of estimates and assumptions regarding the ability to utilize acquired net operating loss carryforwards and the expected timing of future recoveries or settlements of acquired assets with built-in losses. To the extent that information available as of the date of acquisition results in a determination by management that some portion of acquired net operating loss carryforwards cannot be utilized or assets with built-in losses are expected to be settled or recovered in future periods in which the ability to realize the benefits will be subject to section 382 limitation, a deferred tax asset valuation allowance is established for the estimated amount of the deferred tax assets subject to the section 382 limitation. To the extent that information becomes available that results in a change in management's estimates and assumptions, an increase or decrease of the deferred tax asset valuation allowance will be recorded as an adjustment to deferred income tax expense (benefit).

The Bank recognizes a tax position as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that has

a greater than 50% likelihood of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Bank files consolidated tax returns. The Bank and the other consolidated entities provide for income taxes on a separate return basis and remit to the Bank amounts determined to be currently payable. The Bank recognizes interest related to income tax matters as interest income or expense, and penalties related to income tax matters are recognized as non-interest expense. The Bank is no longer subject to income tax examinations by U.S. federal tax authorities for years prior to 2015.

Bank owned life insurance (“BOLI”) – BOLI consists of life insurance purchased by the Bank on (i) a qualifying group of officers with the Bank designated as owner and beneficiary of the policies and (ii) one of the Bank’s executive officers with the Bank designated as owner and both the Bank and the executive officer designated as beneficiaries of the policies. The earnings on BOLI policies help to offset a portion of employee benefit costs or to offset a portion of the costs of a supplemental executive retirement plan for one of the Bank’s executive officers. BOLI is carried at the policies’ realizable cash surrender values with changes in cash surrender values and death benefits received in excess of cash surrender values reported in non-interest income.

Intangible assets – Intangible assets consist of goodwill, bank charter costs, core deposit and intellectual property intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The Bank had goodwill of \$660.8 million at both December 31, 2018 and 2017. The Bank performed its annual impairment test of goodwill as of September 30, 2018. This test indicated no impairment of the Bank’s goodwill. Subsequent to the Bank’s September 30, 2018 annual impairment test, the Bank experienced a decline in market capitalization as a result of a decline in the share price of the Bank’s common stock. As a result, the Bank performed an additional goodwill impairment test as of December 31, 2018. The December 31, 2018 impairment test included various valuation considerations including comparable peer data, precedent transaction comparables, overall Bank financial performance, share price of the Bank’s common stock and other factors. The December 31, 2018 impairment test indicated no impairment of goodwill. Subsequent to the December 31, 2018 impairment test, the Bank’s common stock experienced an increase in value such that the Bank’s market capitalization exceeds its book value.

Bank charter costs represent costs paid to acquire a Texas bank charter and are being amortized over 20 years. Bank charter costs totaled \$239,000 at both December 31, 2018 and 2017, less accumulated amortization of \$181,000 and \$169,000 at December 31, 2018 and 2017, respectively.

Core deposit intangibles represent premiums paid for deposits acquired via acquisition and are being amortized over three to seven years. Core deposit intangibles totaled \$77.5 million at both December 31, 2018 and 2017, less accumulated amortization of \$42.3 million and \$30.3 million at December 31, 2018 and 2017, respectively.

Intellectual property intangibles represents amounts allocated to acquired intellectual property and are being amortized over three years. Intellectual property intangibles totaled \$1.9 million at both December 31, 2018 and 2017, less accumulated amortization of \$1.5 million and \$0.9 million at December 31, 2018 and 2017, respectively.

The aggregate amount of amortization expense for the Bank’s core deposit, bank charter and intellectual property intangibles is expected to be \$11.9 million in 2019, \$9.1 million in 2020, \$6.4 million in 2021, \$5.5 million in 2022 and \$2.8 million in 2023.

Stock-based compensation – The Bank has a non-qualified employee stock option plan, a non-employee director stock plan and an employee restricted stock plan. These plans are described more fully in Note 14. The Bank measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and, in the case of certain long-term incentive agreements, based on the expected performance achievement levels over the term of the agreements. Such cost is recognized over the vesting period of the award.

Earnings per common share – Earnings per common share are computed using the two-class method. Basic earnings per common share are computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the applicable period. Diluted earnings per common share are computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding after consideration of the dilutive effect, if any, of the Bank’s common stock options using the treasury stock method and, beginning in 2019, the Bank’s non-vested performance stock units under its long-term incentive agreements. The Bank has determined that its outstanding non-vested restricted stock awards granted under its restricted stock plan and the nonemployee director stock plan are participating securities. The calculations of basic and diluted earnings per share are included in Note 22.

Segment disclosures – The Bank operates in only one segment – community banking. Accordingly, there is no requirement to report segment information in the Bank’s consolidated financial statements. No single external customer comprises more than 10% of

the Bank's revenues. Interest income on loans where the underlying collateral is located outside the United States was not material during 2018, 2017 or 2016.

Recent accounting pronouncements – In May 2014, FASB issued ASU 2014-09, “*Revenue from Contracts with Customers.*” ASU 2014-09 provides guidance that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Bank adopted the provisions of ASU 2014-09 beginning January 1, 2018. The adoption of ASU 2014-09 did not have a material effect on the Bank's financial position, results of operations, or its financial statement disclosures.

The majority of the Bank's revenue, which consists primarily of revenue generated from non-purchased and purchased loans and investment securities, is excluded from the provision of ASU 2014-09. However, revenue generated from service charges on deposit accounts falls within the scope of ASU 2014-09. Service charges on deposit accounts typically represent fees for monthly account maintenance and transaction activity. This revenue is generally recognized when the performance obligation has been achieved or transaction completed and payment is generally received when the performance obligation has been satisfied.

In February 2016, FASB issued ASU 2016-02, “*Leases (Topic 842).*” ASU 2016-02 requires lessees to recognize a right-of-use asset and a lease liability on their balance sheet. The right-of-use asset and related lease liability will be initially measured at the present value of the remaining lease payments; however, if the original term of the lease is less than twelve months and the lease does not contain a purchase option that is reasonably certain to be exercised, the lessee may elect to not apply the recognition provisions of ASU 2016-02 but rather, elect to recognize the lease payments in net income on a straight line basis over the lease term. ASU 2016-02 is effective for interim periods and fiscal years beginning after December 15, 2018. In July 2018, the FASB issued ASU 2018-11, “*Leases (Topic 842) Targeted Impairments*” which provides additional transition options including allowing entities to not apply the new lease standard to the comparative periods presented in their financial statements in the year of adoption. The Bank will adopt ASU 2016-02 beginning January 1, 2019 and does not expect to restate previous periods. As a result of adopting the provisions of ASU 2016-02, the Bank expects to record approximately \$62 million of leased assets and related lease liabilities on its balance sheet. The Bank expects to elect certain transition relief provisions whereby it does not expect to reassess (i) whether any expired or existing contract is a lease or contains a lease, (ii) the lease classification of any expired or existing leases and (iii) initial direct costs for any existing leases.

In June 2016, FASB issued ASU 2016-13 “*Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*” which significantly revises the guidance related to impairment of financial instruments. The new guidance replaces the current incurred loss model that is utilized in estimating the ALL with a model that requires management to estimate credit losses expected to occur over the life of the financial instrument and to recognize those estimated losses at origination. This revised model is what FASB describes as the current expected credit loss (“CECL”) model, and FASB believes the CECL model will result in more timely recognition of credit losses since the CECL model incorporates expected credit losses versus incurred credit losses. The scope of ASU 2016-13 includes loans, including purchased loans with credit deterioration, available-for-sale debt instruments, lease receivables, loan commitments and financial guarantees that are not accounted for at fair value. ASU 2016-13 requires entities to utilize a cumulative-effect adjustment to be recognized in retained earnings at adoption. ASU 2016-13 is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted for interim and annual periods beginning after December 15, 2018. The Bank engaged outside third parties to assist with data analysis, model development and implementation. In addition, the Bank has formed a cross-functional advisory council comprised of individuals from credit, corporate finance, risk management and others. While much of the Bank's data analysis has been completed, and it has initiated model acquisition, development and implementation, the Bank is currently unable to quantify the effect that ASU 2016-13 will have on its financial position, results of operations, and its financial statement disclosures.

In August 2016, the FASB issued ASU 2016-15 “*Statement of Cash Flows (Topic 230)*” to clarify guidance on how certain transactions are classified within the statement of cash flows. The standard addresses a number of cash flow presentation items including a) debt prepayment and extinguishment, b) contingent consideration payments made after a business combination, c) proceeds from the settlement of insurance claims, corporate owned life insurance policies and BOLI policies, d) distributions received from equity method investees, e) classification of beneficial interest received in a securitization transaction and cash receipts from beneficial interest in securitized trade receivables and f) separately identifiable cash flows and application of the predominance principle. The Bank adopted the provisions of ASU 2016-15 beginning January 1, 2018. The adoption of ASU 2016-15 did not have a material effect on the Bank's statements of cash flows or its financial statement disclosures.

In January 2017, FASB issued ASU 2017-01 “*Business Combinations (Topic 805), Clarifying the Definition of a Business*” that changes the definition of a business when evaluating whether transactions should be accounted for as the acquisition of assets or the acquisition of a business. ASU 2017-01 requires an entity to evaluate if substantially all of the fair value of the assets acquired are concentrated in a single asset or a group of similar identifiable assets; if so, the acquired assets or group of identifiable assets is not considered a business. In addition, the guidance requires that to be considered a business, the acquired assets must include an input



and a substantive process that together significantly contribute to the ability to create output. Under the new guidance, ASU 2017-01 removes the evaluation of whether a market participant could replace any of the missing elements. The Bank adopted the provisions of ASU 2017-01 beginning January 1, 2018 and will apply the provisions of ASU 2017-01 to future business combination transactions as applicable.

In January 2017, FASB issued ASU 2017-04 “*Intangibles-Goodwill and Other (Topic 350)*” which amends the requirement that entities compare the implied fair value of goodwill with its carrying amount as part of step two of the goodwill impairment test. As a result, entities should perform their annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment if the carrying amount exceeds the reporting unit’s fair value. ASU 2017-04 is effective for annual periods beginning after December 15, 2019. The Bank currently expects the adoption of ASU 2017-04 will not have a significant effect on its annual goodwill impairment test or its financial position or results of operations.

In March 2017, FASB issued ASU 2017-08 “*Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20)*” which amends the accounting for the amortization of premiums for certain purchased callable debt securities by shortening the amortization period to the earliest call date. ASU 2017-08 is effective for interim and annual periods beginning after December 15, 2019. The Bank is evaluating the effect that ASU 2017-08 may have, if any, on its financial position or results of operations.

In May 2017, FASB issued ASU 2017-09 “*Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting*” which clarifies the accounting for modifications related to share-based payment awards. ASU 2017-09 requires modification accounting only if the fair value, vesting conditions or the classification of the award changes due to a change in the award’s terms of conditions. The Bank adopted the provisions of ASU 2017-09 beginning January 1, 2018 and will apply the provisions of ASU 2017-09 to future modifications, if any, of its share-based payment awards.

In August 2018, FASB issued ASU 2018-13 “*Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.*” ASU 2018-13 modifies various disclosure requirements on fair value measurements in Topic 820. These modifications include, but are not limited to, the removal of the requirement to disclose the reasons for and amounts of transfers between Level 1 and Level 2 assets and liabilities, and certain other disclosures that are no longer considered cost beneficial. In addition, ASU 2018-13 requires additional disclosures related to certain Level 3 unobservable inputs as well as disclosures related to changes in unrealized gains and losses for Level 3 assets and liabilities. ASU 2018-13 is effective for interim and annual periods beginning after December 15, 2019. The Bank is evaluating the effect that ASU-2018-13 may have, if any, on its financial position or results of operations and its financial statement disclosures.

In August 2018, FASB issued ASU 2018-15 “*Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.*” ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these amendments. ASU 2018-15 is effective for interim and annual periods beginning after December 15, 2019. The Bank is evaluating the affect that ASU 2018-15 may have, if any, on its financial position or results of operations.

Reclassifications – Certain reclassifications of prior years’ amounts have been made to conform with the 2018 financial statements presentation. These reclassifications had no impact on prior years’ net income, as previously reported.

## 2. Investment Securities

The following table is a summary, as of the dates indicated, of the amortized cost and estimated fair values of investment securities, all of which are classified as AFS. The Bank's investment in the "CRA qualified investment fund" includes shares held in a mutual fund that qualify under the Community Reinvestment Act of 1977 for community reinvestment purposes.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
<b>December 31, 2018:</b>				
Obligations of states and political subdivisions	\$ 615,328	\$ 3,435	\$ (12,147)	\$ 606,616
Mortgage-backed securities <sup>(1)</sup>	2,248,065	3,656	(39,175)	2,212,546
U.S. Government agency securities	27,538	—	(602)	26,936
Corporate obligations	15,188	22	(27)	15,183
CRA qualified investment fund	1,109	—	(50)	1,059
Total investment securities AFS	<u>\$ 2,907,228</u>	<u>\$ 7,113</u>	<u>\$ (52,001)</u>	<u>\$ 2,862,340</u>
<b>December 31, 2017:</b>				
Obligations of states and political subdivisions	\$ 661,446	\$ 6,471	\$ (3,358)	\$ 664,559
Mortgage-backed securities <sup>(1)</sup>	1,918,171	968	(20,115)	1,899,024
U.S. Government agency securities	29,792	—	(559)	29,233
CRA qualified investment fund	1,084	—	(27)	1,057
Total investment securities AFS	<u>\$ 2,610,493</u>	<u>\$ 7,439</u>	<u>\$ (24,059)</u>	<u>\$ 2,593,873</u>

(1) These mortgage-backed securities were issued by U.S. Government agencies.

The following table shows gross unrealized losses and estimated fair value of investment securities AFS, aggregated by investment category and length of time that individual investment securities have been in a continuous unrealized loss position, as of the dates indicated.

	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
<b>December 31, 2018:</b>						
Obligations of states and political subdivisions	\$ 198,351	\$ 3,255	\$ 249,761	\$ 8,892	\$ 448,112	\$ 12,147
Mortgage-backed securities <sup>(1)</sup>	242,951	2,004	1,440,618	37,171	1,683,569	39,175
U.S. Government agency securities	1,085	15	25,852	587	26,937	602
Corporate obligations	9,973	27	—	—	9,973	27
CRA qualified investment fund	—	—	1,059	50	1,059	50
Total temporarily impaired investment securities	<u>\$ 452,360</u>	<u>\$ 5,301</u>	<u>\$ 1,717,290</u>	<u>\$ 46,700</u>	<u>\$ 2,169,650</u>	<u>\$ 52,001</u>
<b>December 31, 2017:</b>						
Obligations of states and political subdivisions	\$ 44,261	\$ 328	\$ 230,137	\$ 3,030	\$ 274,398	\$ 3,358
Mortgage-backed securities <sup>(1)</sup>	1,545,138	13,067	289,781	7,048	1,834,919	20,115
U.S. Government agency securities	4,711	31	21,400	528	26,111	559
CRA qualified investment fund	—	—	1,057	27	1,057	27
Total temporarily impaired investment securities	<u>\$ 1,594,110</u>	<u>\$ 13,426</u>	<u>\$ 542,375</u>	<u>\$ 10,633</u>	<u>\$ 2,136,485</u>	<u>\$ 24,059</u>

(1) These mortgage-backed securities were issued by U.S. Government agencies.

At December 31, 2018 and 2017, management determined the unrealized losses were the result of fluctuations in interest rates and did not reflect deteriorations of the credit quality of the investments. Accordingly, management believes that all of its unrealized losses on investment securities are temporary in nature. The Bank does not have the intent to sell these investment securities and more likely than not, would not be required to sell these investment securities before fair value recovers to amortized cost.

The following table is a maturity distribution of investment securities AFS as of December 31, 2018.

	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
Due in one year or less	\$ 485,463	\$ 478,958
Due after one year to five years	1,346,953	1,327,824
Due after five years to ten years	607,311	600,281
Due after ten years	467,501	455,277
Total	<u>\$ 2,907,228</u>	<u>\$ 2,862,340</u>

For purposes of this maturity distribution, all investment securities are shown based on their contractual maturity date, except (i) the CRA qualified investment fund which has no contractual maturity date is shown in the longest maturity category, (ii) mortgage-backed securities are allocated among various maturities or repayment categories based on an estimated repayment schedule utilizing Bloomberg median prepayment speeds or other estimates of prepayment speeds and interest rate levels at the measurement date and (iii) callable investment securities for which the Bank has received notification of call are included in the maturity category in which the calls occurs or is expected to occur. Expected maturities may differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

The following table is a summary of sales activities of the Bank's investment securities AFS during the years indicated.

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Sales proceeds	\$ 16,914	\$ 243,282	\$ 537
Gross realized gains	\$ 17	\$ 4,836	\$ 4
Gross realized losses	—	(803)	—
Net gains on investment securities	<u>\$ 17</u>	<u>\$ 4,033</u>	<u>\$ 4</u>

Investment securities with carrying values of \$797 million and \$1.19 billion at December 31, 2018 and 2017, respectively, were pledged to secure public funds and trust deposits and for other purposes required or permitted by law.

At December 31, 2018 and 2017, the Bank had no holdings of investment securities of any one issuer, other than U.S. Government agency residential mortgage-backed securities issued by the Federal National Mortgage Association, in an amount greater than 10% of total common stockholders' equity.

### 3. Loans

#### Total Loans

The following table is a summary of the total loan portfolio by principal category as of the dates indicated.

	December 31,			
	2018		2017	
	(Dollars in thousands)			
Real estate:				
Residential 1-4 family	\$ 1,049,460	6.1%	\$ 1,174,427	7.3%
Non-farm/non-residential	4,319,388	25.2	4,478,876	27.9
Construction/land development	6,562,185	38.4	6,648,061	41.5
Agricultural	165,088	1.0	150,003	0.9
Multifamily residential	1,116,026	6.5	508,514	3.2
Total real estate	<u>13,212,147</u>	<u>77.2</u>	<u>12,959,881</u>	<u>80.8</u>
Commercial and industrial	823,417	4.8	738,225	4.6
Consumer	2,345,863	13.7	1,472,593	9.2
Other	736,396	4.3	872,330	5.4
Total loans	<u>\$ 17,117,823</u>	<u>100.0%</u>	<u>\$ 16,043,029</u>	<u>100.0%</u>

### Non-Purchased Loans

The following table is a summary of the non-purchased loan portfolio by principal category as of the dates indicated.

	December 31,			
	2018		2017	
	(Dollars in thousands)			
<b>Real estate:</b>				
Residential 1-4 family	\$ 703,197	4.7%	\$ 619,481	4.9%
Non-farm/non-residential	3,306,994	21.9	2,929,867	23.0
Construction/land development	6,411,631	42.5	6,284,733	49.4
Agricultural	161,780	1.1	134,786	1.1
Multifamily residential	1,050,987	7.0	369,329	2.9
Total real estate	<u>11,634,589</u>	<u>77.2</u>	<u>10,338,196</u>	<u>81.3</u>
Commercial and industrial	772,470	5.1	629,295	4.9
Consumer	1,935,592	12.8	899,647	7.1
Other	731,140	4.9	866,799	6.7
Total non-purchased loans	<u>\$ 15,073,791</u>	<u>100.0%</u>	<u>\$ 12,733,937</u>	<u>100.0%</u>

The above table includes deferred costs, net of deferred fees, that totaled \$19.4 million at December 31, 2018 and deferred fees, net of deferred costs, that totaled \$44.0 million at December 31, 2017.

Non-purchased loans on which the accrual of interest has been discontinued totaled \$34.8 million and \$12.9 million at December 31, 2018 and 2017, respectively. Interest income collected and recognized during 2018, 2017 and 2016 for nonaccrual loans at December 31, 2018, 2017 and 2016 was \$2.2 million, \$0.3 million and \$0.4 million, respectively. Under the original terms, these loans would have reported \$4.3 million, \$0.9 million and \$0.8 million of interest income during 2018, 2017 and 2016, respectively.

### Purchased Loans

The following table is a summary, as of the dates indicated, of the purchased loan portfolio by principal category and purchased loans (i) without evidence of credit deterioration at the date of acquisition and (ii) with evidence of credit deterioration at the date of acquisition.

	December 31,			
	2018		2017	
	(Dollars in thousands)			
<b>Real estate:</b>				
Residential 1-4 family	\$ 346,263	16.9%	\$ 554,946	16.8%
Non-farm/non-residential	1,012,394	49.5	1,549,009	46.8
Construction/land development	150,554	7.4	363,328	11.0
Agricultural	3,308	0.2	15,217	0.4
Multifamily residential	65,039	3.2	139,185	4.2
Total real estate	<u>1,577,558</u>	<u>77.2</u>	<u>2,621,685</u>	<u>79.2</u>
Commercial and industrial	50,947	2.5	108,930	3.3
Consumer	410,271	20.1	572,946	17.3
Other	5,256	0.2	5,531	0.2
Total purchased loans	<u>\$ 2,044,032</u>	<u>100.0%</u>	<u>\$ 3,309,092</u>	<u>100.0%</u>
Purchased loans without evidence of credit deterioration at date of acquisition	\$ 1,916,382	93.8%	\$ 3,133,871	94.7%
Purchased loans with evidence of credit deterioration at date of acquisition	127,650	6.2	175,221	5.3
Total purchased loans	<u>\$ 2,044,032</u>	<u>100.0%</u>	<u>\$ 3,309,092</u>	<u>100.0%</u>

Purchased loans on which the accrual of interest has been discontinued totaled \$21.4 million and \$22.3 million at December 31, 2018 and 2017, respectively. Interest income collected and recognized during 2018, 2017 and 2016 for nonaccrual purchased loans at December 31, 2018, 2017 and 2016 was \$1.5 million, \$1.5 million and \$0.7 million, respectively. Under the original terms, these loans would have reported \$2.7 million, \$2.7 million and \$1.3 million of interest income during 2018, 2017 and 2016, respectively.

The following table presents a summary, during the years indicated, of the activity of the Bank's purchased loans with evidence of credit deterioration at the date of acquisition.

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Balance – beginning of year	\$ 175,221	\$ 241,619	\$ 216,786
Accretion	24,459	38,925	29,974
Purchased loans acquired	—	—	132,500
Transfer to foreclosed assets	(1,621)	(2,678)	(4,296)
Net payments received	(69,325)	(98,815)	(131,488)
Loans sold	—	(1,717)	—
Net charge-offs	(1,095)	(918)	(2,152)
Other activity, net	11	(1,195)	295
Balance – end of year	<u>\$ 127,650</u>	<u>\$ 175,221</u>	<u>\$ 241,619</u>

The following table presents a summary, during the years indicated, of changes in the accretable difference on purchased loans with evidence of credit deterioration at the date of acquisition.

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Accretable difference – beginning of year	\$ 45,182	\$ 65,152	\$ 59,176
Accretion	(24,459)	(38,925)	(29,974)
Accretable difference acquired	—	—	19,108
Adjustments to accretable difference due to:			
Loans transferred to foreclosed assets	(114)	(300)	(358)
Loans paid off	—	(352)	(6,094)
Cash flow revisions as a result of renewals and/or modifications	15,393	19,607	23,294
Accretable difference – end of year	<u>\$ 36,002</u>	<u>\$ 45,182</u>	<u>\$ 65,152</u>

#### 4. Allowance for Loan Losses (“ALL”) and Credit Quality Indicators

##### Allowance for Loan Losses

The following table is a summary of activity within the ALL during the years indicated.

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Balance – beginning of year	\$ 94,120	\$ 76,541	\$ 60,854
Non-purchased loans charged off	(54,361)	(8,654)	(6,041)
Recoveries of non-purchased loans previously charged off	1,559	1,733	828
Net charge-offs – non-purchased loans	(52,802)	(6,921)	(5,213)
Purchased loans charged off	(5,647)	(6,119)	(5,675)
Recoveries of purchased loans previously charged off	2,195	2,527	2,783
Net charge-offs – purchased loans	(3,452)	(3,592)	(2,892)
Net charge-offs – total loans	(56,254)	(10,513)	(8,105)
Provision for loan losses:			
Non-purchased loans	60,946	24,500	20,500
Purchased loans	3,452	3,592	3,292
Total provision	64,398	28,092	23,792
Balance – end of year	<u>\$ 102,264</u>	<u>\$ 94,120</u>	<u>\$ 76,541</u>
ALL Allocated to non-purchased loans	\$ 100,664	\$ 92,520	\$ 74,941
ALL Allocated to purchased loans	1,600	1,600	1,600
Total ALL	<u>\$ 102,264</u>	<u>\$ 94,120</u>	<u>\$ 76,541</u>

During the third quarter of 2018, the Bank incurred charge-offs totaling \$45.5 million on two unrelated non-purchased credits. These two credits were previously classified as substandard and had combined allowance allocations of \$19.1 million. As a result of such charge-offs, the Bank recorded provision expense of \$26.4 million. At December 31, 2018, both credits, which had an aggregate balance, after the charge-offs, of \$20.6 million, were on nonaccrual status and were deemed impaired.

The following table is a summary of the Bank's ALL for the years indicated.

	<u>Beginning Balance</u>	<u>Charge-offs</u>	<u>Recoveries</u>	<u>Provision</u>	<u>Ending Balance</u>
	(Dollars in thousands)				
<b>Year ended December 31, 2018:</b>					
Real estate:					
Residential 1-4 family	\$ 12,829	\$ (220)	\$ 169	\$ 976	\$ 13,754
Non-farm/non-residential	26,855	(20,540)	169	11,972	18,456
Construction/land development	27,422	(25,584)	59	25,206	27,103
Agricultural	1,093	(97)	30	317	1,343
Multifamily residential	2,395	—	—	3,813	6,208
Commercial and industrial	10,448	(3,139)	157	1,790	9,256
Consumer	8,858	(1,449)	207	12,766	20,382
Other	2,620	(3,332)	768	4,106	4,162
Purchased loans	1,600	(5,647)	2,195	3,452	1,600
Total	<u>\$ 94,120</u>	<u>\$ (60,008)</u>	<u>\$ 3,754</u>	<u>\$ 64,398</u>	<u>\$ 102,264</u>
<b>Year ended December 31, 2017:</b>					
Real estate:					
Residential 1-4 family	\$ 10,225	\$ (340)	\$ 11	\$ 2,933	\$ 12,829
Non-farm/non-residential	21,555	(881)	594	5,587	26,855
Construction/land development	20,673	(1,020)	86	7,683	27,422
Agricultural	2,787	(2)	43	(1,735)	1,093
Multifamily residential	2,447	—	—	(52)	2,395
Commercial and industrial	13,043	(3,440)	171	674	10,448
Consumer	1,945	(689)	166	7,436	8,858
Other	2,266	(2,282)	662	1,974	2,620
Purchased loans	1,600	(6,119)	2,527	3,592	1,600
Total	<u>\$ 76,541</u>	<u>\$ (14,773)</u>	<u>\$ 4,260</u>	<u>\$ 28,092</u>	<u>\$ 94,120</u>
<b>Year ended December 31, 2016:</b>					
Real estate:					
Residential 1-4 family	\$ 8,672	\$ (406)	\$ 52	\$ 1,907	\$ 10,225
Non-farm/non-residential	16,796	(323)	10	5,072	21,555
Construction/land development	18,176	(42)	68	2,471	20,673
Agricultural	3,388	(37)	—	(564)	2,787
Multifamily residential	3,031	—	14	(598)	2,447
Commercial and industrial	6,409	(3,261)	114	9,781	13,043
Consumer	707	(228)	37	1,429	1,945
Other	2,475	(1,744)	533	1,002	2,266
Purchased loans	1,200	(5,675)	2,783	3,292	1,600
Total	<u>\$ 60,854</u>	<u>\$ (11,716)</u>	<u>\$ 3,611</u>	<u>\$ 23,792</u>	<u>\$ 76,541</u>

The following table is a summary of the Bank's ALL and recorded investment in non-purchased loans, as of the dates indicated.

	ALL			Non-Purchased Loans		
	ALL for Individually Evaluated Impaired Loans	ALL for All Other Loans	Total ALL <sup>(1)</sup>	Individually Evaluated Impaired Loans	All Other Loans	Total Loans
(Dollars in thousands)						
<b>December 31, 2018:</b>						
Real estate:						
Residential 1-4 family	\$ 716	\$ 13,038	\$ 13,754	\$ 6,006	\$ 697,191	\$ 703,197
Non-farm/non-residential	24	18,432	18,456	13,648	3,293,346	3,306,994
Construction/land development	60	27,043	27,103	11,409	6,400,222	6,411,631
Agricultural	—	1,343	1,343	848	160,932	161,780
Multifamily residential	81	6,127	6,208	637	1,050,350	1,050,987
Commercial and industrial	263	8,993	9,256	2,453	770,017	772,470
Consumer	57	20,325	20,382	354	1,935,238	1,935,592
Other	—	4,162	4,162	34	731,106	731,140
Total	<u>\$ 1,201</u>	<u>\$ 99,463</u>	<u>\$ 100,664</u>	<u>\$ 35,389</u>	<u>\$15,038,402</u>	<u>\$15,073,791</u>
<b>December 31, 2017:</b>						
Real estate:						
Residential 1-4 family	\$ 520	\$ 12,309	\$ 12,829	\$ 4,483	\$ 614,998	\$ 619,481
Non-farm/non-residential	116	26,739	26,855	3,000	2,926,867	2,929,867
Construction/land development	101	27,321	27,422	2,155	6,282,578	6,284,733
Agricultural	—	1,093	1,093	1,178	133,608	134,786
Multifamily residential	—	2,395	2,395	—	369,329	369,329
Commercial and industrial	222	10,226	10,448	1,448	627,847	629,295
Consumer	91	8,767	8,858	528	899,119	899,647
Other	26	2,594	2,620	176	866,623	866,799
Total	<u>\$ 1,076</u>	<u>\$ 91,444</u>	<u>\$ 92,520</u>	<u>\$ 12,968</u>	<u>\$12,720,969</u>	<u>\$12,733,937</u>

(1) Excludes \$1.6 million of ALL allocated to the Bank's purchased loans at both December 31, 2018 and 2017.



The following table is a summary of impaired loans, excluding purchased loans, as of and for the years indicated.

	Principal Balance	Net Charge-offs to Date	Principal Balance, Net of Charge-offs	Specific ALL	Weighted Average Carrying Value
	(Dollars in thousands)				
<b>As of and for the year ended December 31, 2018:</b>					
Impaired loans for which there is a related ALL:					
Real estate:					
Residential 1-4 family	\$ 5,138	\$ —	\$ 5,138	\$ 716	\$ 3,972
Non-farm/non-residential	970	—	970	24	757
Construction/land development	401	—	401	60	576
Agricultural	—	—	—	—	14
Multifamily residential	538	—	538	81	134
Commercial and industrial	1,345	—	1,345	263	985
Consumer	353	—	353	57	309
Other	—	—	—	—	35
Total impaired loans with a related ALL	8,745	—	8,745	1,201	6,782
Impaired loans for which there is not a related ALL:					
Real estate:					
Residential 1-4 family	1,192	(324)	868	—	930
Non-farm/non-residential	33,425	(20,747)	12,678	—	6,878
Construction/land development	36,559	(25,551)	11,008	—	5,015
Agricultural	883	(35)	848	—	1,058
Multifamily residential	232	(133)	99	—	40
Commercial and industrial	1,208	(100)	1,108	—	695
Consumer	7	(6)	1	—	60
Other	40	(6)	34	—	34
Total impaired loans without a related ALL	73,546	(46,902)	26,644	—	14,710
Total impaired loans	<u>\$ 82,291</u>	<u>\$ (46,902)</u>	<u>\$ 35,389</u>	<u>\$ 1,201</u>	<u>\$ 21,367</u>
<b>As of and for the year ended December 31, 2017:</b>					
Impaired loans for which there is a related ALL:					
Real estate:					
Residential 1-4 family	\$ 3,223	\$ —	\$ 3,223	\$ 520	\$ 2,361
Non-farm/non-residential	996	—	996	116	1,229
Construction/land development	806	—	806	101	2,350
Agricultural	—	—	—	—	595
Multifamily residential	—	—	—	—	176
Commercial and industrial	737	—	737	222	854
Consumer	328	—	328	91	208
Other	176	—	176	26	113
Total impaired loans with a related ALL	6,266	—	6,266	1,076	7,886
Impaired loans for which there is not a related ALL:					
Real estate:					
Residential 1-4 family	1,935	(675)	1,260	—	988
Non-farm/non-residential	3,072	(1,068)	2,004	—	1,639
Construction/land development	2,349	(1,000)	1,349	—	554
Agricultural	1,207	(29)	1,178	—	616
Multifamily residential	133	(133)	—	—	20
Commercial and industrial	792	(81)	711	—	367
Consumer	261	(61)	200	—	46
Other	—	—	—	—	10
Total impaired loans without a related ALL	9,749	(3,047)	6,702	—	4,240
Total impaired loans	<u>\$ 16,015</u>	<u>\$ (3,047)</u>	<u>\$ 12,968</u>	<u>\$ 1,076</u>	<u>\$ 12,126</u>

Management has determined that certain of the Bank's impaired loans do not require any specific allowance at December 31, 2018 and 2017 because (i) management's analysis of such individual loans resulted in no impairment or (ii) all identified impairment on such loans has previously been charged off.

Interest income on impaired loans is recognized on a cash basis when and if actually collected. Total interest income recognized on impaired loans for the years ended December 31, 2018, 2017 and 2016 was not material.

### ***Credit Quality Indicators***

#### ***Non-Purchased Loans***

The following table is a summary of credit quality indicators for the Bank's non-purchased loans as of the dates indicated.

	<u>Satisfactory</u>	<u>Moderate</u>	<u>Watch</u>	<u>Substandard</u>	<u>Total</u>
	(Dollars in thousands)				
<b>December 31, 2018:</b>					
Real estate:					
Residential 1-4 family <sup>(1)</sup>	\$ 691,019	\$ —	\$ 6,831	\$ 5,347	\$ 703,197
Non-farm/non-residential	2,422,985	805,483	61,480	17,046	3,306,994
Construction/land development	5,888,359	456,265	54,980	12,027	6,411,631
Agricultural	31,883	121,903	6,116	1,878	161,780
Multifamily residential	951,082	96,465	1,811	1,629	1,050,987
Commercial and industrial	326,951	436,832	3,823	4,864	772,470
Consumer <sup>(1)</sup>	1,934,567	—	873	152	1,935,592
Other <sup>(1)</sup>	692,828	38,198	26	88	731,140
Total	<u>\$12,939,674</u>	<u>\$ 1,955,146</u>	<u>\$ 135,940</u>	<u>\$ 43,031</u>	<u>\$15,073,791</u>
<b>December 31, 2017:</b>					
Real estate:					
Residential 1-4 family <sup>(1)</sup>	\$ 609,271	\$ —	\$ 5,810	\$ 4,400	\$ 619,481
Non-farm/non-residential	2,312,610	523,570	56,005	37,682	2,929,867
Construction/land development	5,743,616	497,267	7,957	35,893	6,284,733
Agricultural	34,129	92,436	5,958	2,263	134,786
Multifamily residential	296,063	69,714	2,532	1,020	369,329
Commercial and industrial	222,920	397,868	5,893	2,614	629,295
Consumer <sup>(1)</sup>	881,070	12,233	5,580	764	899,647
Other <sup>(1)</sup>	857,552	8,779	54	414	866,799
Total	<u>\$10,957,231</u>	<u>\$ 1,601,867</u>	<u>\$ 89,789</u>	<u>\$ 85,050</u>	<u>\$12,733,937</u>

- (1) The Bank does not risk rate its residential 1-4 family loans (including consumer construction loans on 1-4 family properties), its consumer loans, and certain "other" loans. However, for purposes of the above table, the Bank considers such loans to be (i) satisfactory – if they are performing and less than 30 days past due, (ii) watch – if they are performing and 30 to 89 days past due or (iii) substandard – if they are nonperforming or 90 days or more past due.

The following categories of credit quality indicators are used by the Bank.

**Satisfactory** – Loans in this category are considered to be a satisfactory credit risk and are generally considered to be collectible in full.

**Moderate** – Loans in this category are considered to be a marginally satisfactory credit risk and are generally considered to be collectible in full.

**Watch** – Loans in this category are presently protected from apparent loss; however, weaknesses exist which could cause future impairment of repayment of principal or interest.

**Substandard** – Loans in this category are characterized by deterioration in quality exhibited by a number of weaknesses requiring corrective action and posing risk of some loss.

The following table is an aging analysis of past due non-purchased loans as of the dates indicated.

	30-89 Days Past Due <sup>(1)</sup>	90 Days or More <sup>(2)</sup>	Total Past Due	Current <sup>(3)</sup>	Total
	(Dollars in thousands)				
<b>December 31, 2018:</b>					
Real estate:					
Residential 1-4 family	\$ 7,720	\$ 3,209	\$ 10,929	\$ 692,268	\$ 703,197
Non-farm/non-residential	3,127	11,574	14,701	3,292,293	3,306,994
Construction/land development	621	11,409	12,030	6,399,601	6,411,631
Agricultural	122	27	149	161,631	161,780
Multifamily residential	538	99	637	1,050,350	1,050,987
Commercial and industrial	1,453	1,718	3,171	769,299	772,470
Consumer	916	109	1,025	1,934,567	1,935,592
Other	—	35	35	731,105	731,140
Total	<u>\$ 14,497</u>	<u>\$ 28,180</u>	<u>\$ 42,677</u>	<u>\$15,031,114</u>	<u>\$15,073,791</u>
<b>December 31, 2017:</b>					
Real estate:					
Residential 1-4 family	\$ 5,906	\$ 3,891	\$ 9,797	\$ 609,684	\$ 619,481
Non-farm/non-residential	2,028	2,225	4,253	2,925,614	2,929,867
Construction/land development	224	1,135	1,359	6,283,374	6,284,733
Agricultural	203	249	452	134,334	134,786
Multifamily residential	—	—	—	369,329	369,329
Commercial and industrial	1,922	332	2,254	627,041	629,295
Consumer	193	339	532	899,115	899,647
Other	190	176	366	866,433	866,799
Total	<u>\$ 10,666</u>	<u>\$ 8,347</u>	<u>\$ 19,013</u>	<u>\$12,714,924</u>	<u>\$12,733,937</u>

- (1) Includes \$2.2 million and \$0.5 million of loans on nonaccrual status at December 31, 2018 and 2017, respectively.  
(2) All loans greater than 90 days past due were on nonaccrual status at December 31, 2018 and 2017.  
(3) Includes \$4.4 million and \$4.1 million of loans on nonaccrual status at December 31, 2018 and 2017, respectively.

## Purchased Loans

The following table is a summary of credit quality indicators for the Bank's purchased loans as of the dates indicated.

	Purchased Loans Without Evidence of Credit Deterioration at Date of Acquisition					Purchased Loans With Evidence of Credit Deterioration at Date of Acquisition		Total Purchased Loans
	FV 33	FV 44	FV 55	FV 36	FV 77	FV 66	FV 88	
	(Dollars in thousands)							
<b>December 31, 2018:</b>								
Real estate:								
Residential 1-4 family	\$ 49,105	\$ 181,169	\$ 47,573	\$30,511	\$ 489	\$ 35,525	\$ 1,891	\$ 346,263
Non-farm/non-residential	117,578	641,182	174,063	1,450	1,759	73,342	3,020	1,012,394
Construction/land development	37,630	101,478	6,373	650	280	4,122	21	150,554
Agricultural	96	1,092	665	48	—	1,407	—	3,308
Multifamily residential	13,898	46,120	2,785	524	—	1,712	—	65,039
Commercial and industrial	8,393	32,542	3,374	220	18	6,353	47	50,947
Consumer	184,635	193,390	31,408	443	276	119	—	410,271
Other	3,893	1,061	211	—	—	91	—	5,256
Total	<u>\$415,228</u>	<u>\$1,198,034</u>	<u>\$266,452</u>	<u>\$33,846</u>	<u>\$ 2,822</u>	<u>\$122,671</u>	<u>\$ 4,979</u>	<u>\$2,044,032</u>
<b>December 31, 2017:</b>								
Real estate:								
Residential 1-4 family	\$ 70,915	\$ 266,020	\$118,074	\$44,070	\$ 481	\$ 52,759	\$ 2,627	\$ 554,946
Non-farm/non-residential	195,075	998,475	260,495	2,039	3,795	87,069	2,061	1,549,009
Construction/land development	31,820	268,451	50,689	1,429	404	10,522	13	363,328
Agricultural	6,710	3,122	2,251	180	—	2,547	407	15,217
Multifamily residential	15,705	103,166	9,783	579	—	9,952	—	139,185
Commercial and industrial	11,321	83,177	6,777	568	68	6,905	114	108,930
Consumer	244,202	276,781	50,740	1,040	49	134	—	572,946
Other	4,095	1,211	109	5	—	111	—	5,531
Total	<u>\$579,843</u>	<u>\$2,000,403</u>	<u>\$498,918</u>	<u>\$49,910</u>	<u>\$ 4,797</u>	<u>\$169,999</u>	<u>\$ 5,222</u>	<u>\$3,309,092</u>

The following grades are used for purchased loans without evidence of credit deterioration at the date of acquisition.

FV 33 – Loans in this category are considered to be satisfactory with minimal credit risk and are generally considered collectible.

FV 44 – Loans in this category are considered to be marginally satisfactory with moderate credit risk and are generally considered collectible.

FV 55 – Loans in this category exhibit weakness and are considered to have elevated credit risk and elevated risk of repayment.

FV 36 – Loans in this category were not individually reviewed at the date of purchase and are assumed to have characteristics similar to the characteristics of the acquired portfolio.

FV 77 – Loans in this category have deteriorated since the date of purchase and are considered impaired.

The following grades are used for purchased loans with evidence of credit deterioration at the date of acquisition.

FV 66 – Loans in this category are performing in accordance with or exceeding management's performance expectations established in conjunction with the Day 1 Fair Values.

FV 88 – Loans in this category have deteriorated from management's performance expectations established in conjunction with the determination of Day 1 Fair Values and are considered impaired.

The following table is an aging analysis of past due purchased loans as of the dates indicated.

	30-89 Days Past Due	90 Days or More	Total Past Due	Current	Total Purchased Loans
	(Dollars in thousands)				
<b>December 31, 2018:</b>					
Real estate:					
Residential 1-4 family	\$ 8,950	\$ 2,818	\$ 11,768	\$ 334,495	\$ 346,263
Non-farm/non-residential	17,243	14,015	31,258	981,136	1,012,394
Construction/land development	346	1,179	1,525	149,029	150,554
Agriculture	—	204	204	3,104	3,308
Multifamily residential	—	—	—	65,039	65,039
Commercial and industrial	527	785	1,312	49,635	50,947
Consumer	2,828	644	3,472	406,799	410,271
Other	—	—	—	5,256	5,256
Total	<u>\$ 29,894</u>	<u>\$ 19,645</u>	<u>\$ 49,539</u>	<u>\$ 1,994,493</u>	<u>\$ 2,044,032</u>
Purchased loans without evidence of credit deterioration at date of acquisition	\$ 25,304	\$ 10,165	\$ 35,469	\$ 1,880,913	\$ 1,916,382
Purchased loans with evidence of credit deterioration at date of acquisition	4,590	9,480	14,070	113,580	127,650
Total	<u>\$ 29,894</u>	<u>\$ 19,645</u>	<u>\$ 49,539</u>	<u>\$ 1,994,493</u>	<u>\$ 2,044,032</u>
<b>December 31, 2017:</b>					
Real estate:					
Residential 1-4 family	\$ 8,260	\$ 7,833	\$ 16,093	\$ 538,853	\$ 554,946
Non-farm/non-residential	9,589	15,796	25,385	1,523,624	1,549,009
Construction/land development	1,594	840	2,434	360,894	363,328
Agriculture	192	461	653	14,564	15,217
Multifamily residential	76	—	76	139,109	139,185
Commercial and industrial	878	748	1,626	107,304	108,930
Consumer	3,926	933	4,859	568,087	572,946
Other	—	—	—	5,531	5,531
Total	<u>\$ 24,515</u>	<u>\$ 26,611</u>	<u>\$ 51,126</u>	<u>\$ 3,257,966</u>	<u>\$ 3,309,092</u>
Purchased loans without evidence of credit deterioration at date of acquisition	\$ 18,374	\$ 12,798	\$ 31,172	\$ 3,102,699	\$ 3,133,871
Purchased loans with evidence of credit deterioration at date of acquisition	6,141	13,813	19,954	155,267	175,221
Total	<u>\$ 24,515</u>	<u>\$ 26,611</u>	<u>\$ 51,126</u>	<u>\$ 3,257,966</u>	<u>\$ 3,309,092</u>

## 5. Foreclosed Assets

The following table is a summary, as of the dates indicated, of the amount and type of foreclosed assets.

	December 31,	
	2018	2017
	(Dollars in thousands)	
Real estate:		
Residential 1-4 family	\$ 823	\$ 1,378
Non-farm/non-residential	4,407	8,040
Construction/land development	10,628	15,493
Agricultural	164	—
Total real estate	16,022	24,911
Commercial and industrial	31	35
Consumer	118	411
Total foreclosed assets	<u>\$ 16,171</u>	<u>\$ 25,357</u>

The following table is a summary, during the years indicated, of activity within foreclosed assets.

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Balance – beginning of year	\$ 25,357	\$ 43,702	\$ 22,870
Loans and other assets transferred into foreclosed assets	11,540	17,193	25,103
Sales of foreclosed assets	(17,891)	(32,050)	(26,462)
Writedowns of foreclosed assets	(2,835)	(3,488)	(3,610)
Foreclosed assets acquired in acquisitions	—	—	25,801
Balance – end of year	<u>\$ 16,171</u>	<u>\$ 25,357</u>	<u>\$ 43,702</u>

## 6. Premises and Equipment

The following table is a summary of premises and equipment as of the dates indicated.

	December 31,	
	2018	2017
	(Dollars in thousands)	
Land	\$ 147,199	\$ 139,849
Construction in process	48,289	2,251
Buildings and improvements	354,133	356,547
Leasehold improvements	16,825	15,776
Equipment	117,561	108,598
Gross premises and equipment	684,007	623,021
Accumulated depreciation	(116,818)	(103,210)
Premises and equipment, net	<u>\$ 567,189</u>	<u>\$ 519,811</u>

The Bank wrote off approximately \$4.9 million of signage during 2018 (none in 2017 or 2016) as a result of its name change and related strategic rebranding. The Bank capitalized interest on construction projects totaling \$0.6 million, \$0.2 million and \$0.1 million during 2018, 2017 and 2016, respectively. Included in occupancy expense is rent of \$8.6 million, \$8.7 million and \$7.2 million incurred under noncancelable operating leases in 2018, 2017 and 2016, respectively, for leases of real estate, buildings and premises. These leases contain certain renewal and purchase options according to the terms of the agreements. Future amounts due under these noncancelable leases at December 31, 2018 are as follows: \$8.9 million in 2019, \$7.8 million in 2020, \$6.7 million in 2021, \$6.4 million in 2022, \$6.3 million in 2023 and \$53.6 million thereafter. Rental income recognized for leases of buildings and premises under operating leases was \$3.0 million during 2018, \$2.8 million during 2017 and \$2.2 million during 2016.

## 7. Deposits

The following table is a summary of the scheduled maturities of time deposits as of the dates indicated.

	December 31,	
	2018	2017
	(Dollars in thousands)	
Up to one year	\$ 4,778,460	\$ 3,595,254
Over one to two years	502,966	509,851
Over two to three years	90,344	196,400
Over three to four years	78,761	62,601
Over four to five years	46,750	42,934
Thereafter	10,148	7,560
Total time deposits	\$ 5,507,429	\$ 4,414,600

The aggregate amount of time deposits with a minimum denomination of \$250,000 was \$1.40 billion and \$1.03 billion at December 31, 2018 and 2017, respectively.

## 8. Repurchase Agreements With Customers

At December 31, 2018 and 2017, securities sold under agreements to repurchase (“repurchase agreements”) totaled \$20.6 million and \$69.3 million, respectively. Securities utilized as collateral for repurchase agreements are primarily U.S. Government agency mortgage-backed securities and are maintained by the Bank’s safekeeping agents. These securities are reviewed by the Bank on a daily basis, and the Bank may be required to provide additional collateral due to changes in the fair market value of these securities. The terms of the Bank’s repurchase agreements are continuous but may be cancelled at any time by the Bank or the customer.

## 9. Borrowings

Short-term borrowings with original maturities less than one year include FHLB advances and federal funds purchased. The following table is a summary of information relating to these short-term borrowings as of the dates indicated.

	December 31,	
	2018	2017
	(Dollars in thousands)	
Average annual balance	\$ 164,925	\$ 22,968
December 31 balance	95,000	—
Maximum month-end balance during year	550,000	50,000
Interest rate:		
Weighted-average – year	2.19%	1.83%
Weighted-average – December 31	2.70%	—

At December 31, 2018, the Bank had fixed rate FHLB advances with original maturities exceeding one year of \$1.7 million. These fixed rate advances bear interest at rates ranging from 1.09% to 4.54% at December 31, 2018, are collateralized by a blanket lien on a substantial portion of the Bank’s real estate loans and are subject to prepayment penalties if repaid prior to maturity date. At December 31, 2018, the Bank had \$3.6 billion of unused FHLB borrowing availability.

## 10. Subordinated Notes

On June 23, 2016, the Bank completed an underwritten public offering of \$225 million in aggregate principal amount of its 5.50% Fixed-to-Floating Rate Subordinated Notes due 2026 (the “Notes”) for net proceeds of \$222.3 million after underwriting discounts and offering expenses. The Notes are unsecured, subordinated debt obligations of the Bank and mature on July 1, 2026. From and including the date of issuance to, but excluding July 1, 2021, the Notes bear interest at 5.50% per annum. From and including July 1, 2021 to, but excluding the maturity date or earlier redemption, the Notes will bear interest at a floating rate equal to three-month London Interbank Offered Rate (“LIBOR”) as calculated on each applicable date of determination plus a spread of 442.5 basis points; provided, however, that in the event three-month LIBOR is less than zero, then three-month LIBOR shall be deemed to

be zero. Debt issuance costs of \$2.7 million are being amortized, using a level-yield methodology over the estimated holding period of seven years, as an increase in interest expense on the Notes.

The Bank may, beginning with the interest payment date of July 1, 2021, and on any interest payment date thereafter, redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to but excluding the date of redemption. The Bank may also redeem the Notes at any time, including prior to July 1, 2021, at the Bank's option, in whole but not in part, if: (i) a change or prospective change in law occurs that could prevent the Bank from deducting interest payable on the Notes for U.S. federal income tax purposes; (ii) a subsequent event occurs that could preclude the Notes from being recognized as Tier 2 capital for regulatory capital purposes; or (iii) the Bank is required to register as an investment bank under the Investment Company Act of 1940, as amended; in each case, at a redemption price equal to 100% of the principal amount of the Notes plus any accrued and unpaid interest to but excluding the redemption date.

## 11. Subordinated Debentures

At December 31, 2018, the Bank had the following issues of trust preferred securities outstanding and subordinated debentures owed to the Trusts.

	Subordinated Debentures Owed to Trust	Unamortized Discount	Carrying Value of Subordinated Debentures	Trust Preferred Securities of the Trust	Interest Rate	Final Maturity Date
(Dollars in thousands)						
Ozark II	\$ 14,433	\$ —	\$ 14,433	\$ 14,000	5.70%	September 29, 2033
Ozark III	14,434	—	14,434	14,000	5.39	September 25, 2033
Ozark IV	15,464	—	15,464	15,000	4.87	September 28, 2034
Ozark V	20,619	—	20,619	20,000	4.39	December 15, 2036
Intervest II	15,464	(366)	15,098	15,000	5.74	September 17, 2033
Intervest III	15,464	(424)	15,040	15,000	5.58	March 17, 2034
Intervest IV	15,464	(771)	14,693	15,000	5.19	September 20, 2034
Intervest V	10,310	(733)	9,577	10,000	4.44	December 15, 2036
Total	<u>\$ 121,652</u>	<u>\$ (2,294)</u>	<u>\$ 119,358</u>	<u>\$ 118,000</u>		

On September 25, 2003, Ozark III sold to investors in a private placement offering \$14 million of adjustable rate trust preferred securities, and on September 29, 2003, Ozark II sold to investors in a private placement offering \$14 million of adjustable rate trust preferred securities (collectively, "2003 Securities"). The 2003 Securities bear interest, adjustable quarterly, at 90-day LIBOR plus 2.95% for Ozark III and 90-day LIBOR plus 2.90% for Ozark II. The aggregate proceeds of \$28 million from the 2003 Securities were used to purchase an equal principal amount of adjustable rate subordinated debentures of the Bank that bear interest, adjustable quarterly, at 90-day LIBOR plus 2.95% for Ozark III and 90-day LIBOR plus 2.90% for Ozark II (collectively, "2003 Debentures").

On September 28, 2004, Ozark IV sold to investors in a private placement offering \$15 million of adjustable rate trust preferred securities ("2004 Securities"). The 2004 Securities bear interest, adjustable quarterly, at 90-day LIBOR plus 2.22%. The \$15 million proceeds from the 2004 Securities were used to purchase an equal principal amount of adjustable rate subordinated debentures of the Bank that bear interest, adjustable quarterly, at 90-day LIBOR plus 2.22% ("2004 Debentures").

On September 29, 2006, Ozark V sold to investors in a private placement offering \$20 million of adjustable rate trust preferred securities ("2006 Securities"). The 2006 Securities bear interest, adjustable quarterly, at 90-day LIBOR plus 1.60%. The \$20 million proceeds from the 2006 Securities were used to purchase an equal principal amount of adjustable rate subordinated debentures of the Bank that bear interest, adjustable quarterly, at 90-day LIBOR plus 1.60% ("2006 Debentures").

In addition to the issuance of these adjustable rate securities, Ozark II and Ozark III collectively sold \$0.9 million, Ozark IV sold \$0.4 million and Ozark V sold \$0.6 million of trust common equity to the Bank. The proceeds from the sales of the trust common equity were used, respectively, to purchase \$0.9 million of 2003 Debentures, \$0.4 million of 2004 Debentures and \$0.6 million of 2006 Debentures issued by the Bank.

On February 10, 2015, in conjunction with the acquisition of Intervest Bancshares Corporation ("Intervest"), the Bank acquired Intervest II, Intervest III, Intervest IV and Intervest V with outstanding subordinated debentures totaling \$56.7 million and related trust preferred securities totaling \$55.0 million. On the date of such acquisition, the Bank recorded the assumed subordinated debentures at estimated fair value of \$52.2 million, based on an independent third party valuation, to reflect a current market interest rate for



comparable obligations. The fair value adjustment of \$4.5 million is being amortized, using a level-yield methodology over the estimated holding period of approximately eight years, as an increase in interest expense of the subordinated debentures. In addition to subordinated debentures, the Bank also acquired \$1.7 million of trust common equity.

The trust preferred securities issued by Intervest II and the related subordinated debentures bear interest, adjustable quarterly, at 90-day LIBOR plus 2.95%. The trust preferred securities issued by Intervest III and the related subordinated debentures bear interest, adjustable quarterly, at 90-day LIBOR plus 2.79%. The trust preferred securities issued by Intervest IV and the related subordinated debentures bear interest, adjustable quarterly, at 90-day LIBOR plus 2.40%. The trust preferred securities issued by Intervest V and the related subordinated debentures bear interest, adjustable quarterly, at 90-day LIBOR plus 1.65%.

At December 31, 2018, the Bank had an aggregate of \$121.7 million of subordinated debentures outstanding (with an aggregate carrying value of \$119.4 million) and had an asset of \$3.7 million representing its investment in the common equity issued by the Trusts. The sole assets of the Trusts are the adjustable rate debentures and the liabilities of the Trusts are the trust preferred securities. At both December 31, 2018 and 2017, the Trusts had aggregate common equity of \$3.7 million and did not have any restricted net assets. The Bank has, through various contractual arrangements or by operation of law, fully and unconditionally guaranteed all obligations of the Trusts with respect to the trust preferred securities. Additionally, there are no restrictions on the ability of the Trusts to transfer funds to the Bank in the form of cash dividends, loans or advances. The Bank has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years. These trust preferred securities generally mature at or near the 30th anniversary date of each issuance. However, the trust preferred securities and related subordinated debentures may be prepaid at par, subject to regulatory approval.

## 12. Income Taxes

The following table is a summary of the components of the provision (benefit) for income taxes for the years indicated.

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
<b>Current:</b>			
Federal	\$ 75,889	\$ (32,788)	\$ 115,879
State	28,031	(7,263)	25,696
Total current	<u>103,920</u>	<u>(40,051)</u>	<u>141,575</u>
<b>Deferred:</b>			
Federal	21,931	156,460	11,773
State	11,126	42,177	930
Total deferred	<u>33,057</u>	<u>198,637</u>	<u>12,703</u>
Provision for income taxes	<u>\$ 136,977</u>	<u>\$ 158,586</u>	<u>\$ 154,278</u>

The following table is a summary of the reconciliation between the statutory federal income tax rate and effective income tax rate for the years indicated.

	Year Ended December 31,		
	2018	2017	2016
Statutory federal income tax rate	21.0%	35.0%	35.0%
<b>Increase (decrease) in taxes resulting from:</b>			
State income taxes, net of federal benefit	5.6	4.1	3.9
Effect of tax-exempt interest income	(0.7)	(1.4)	(1.5)
Effect of BOLI and other tax-exempt income	(0.9)	(1.1)	(1.2)
Deferred tax adjustment related to reduction of statutory federal income tax rate	—	(8.6)	—
Other, net	(0.3)	(0.7)	0.2
Effective income tax rate	<u>24.7%</u>	<u>27.3%</u>	<u>36.4%</u>

On December 22, 2017, the Tax Act was enacted, which, among other changes, reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018 and changed or limited certain tax deductions. As a result of the Tax Act, the Bank's deferred tax assets and liabilities were revalued and resulted in a one-time income tax benefit of approximately \$49.8 million during

the fourth quarter of 2017. Such benefit was deemed provisional at December 31, 2017. During 2018, the Bank made no adjustment to this one-time income tax benefit and, as of December 31, 2018, no longer considers such amount to be provisional.

In accordance with ASU 2016-09, income tax benefits from the exercise of stock options and vesting of common stock under the Bank's restricted stock and incentive plan in the amount of \$2.0 million and \$2.1 million were recorded as income tax expense in 2018 and 2017, respectively. Benefits of \$3.6 million in 2016 were recorded as an increase to additional paid-in capital.

At December 31, 2018 and 2017, current income taxes receivable of \$33.6 million and \$224.9 million, respectively, were included in other assets.

The following table is a summary, as of the dates indicated, of the types of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts that give rise to deferred income tax assets and liabilities and their approximate tax effects.

	December 31,	
	2018	2017
	(Dollars in thousands)	
Deferred tax assets:		
Stock-based compensation	\$ 8,795	\$ 6,883
Deferred compensation	2,201	1,915
Foreclosed assets	1,334	1,953
Net operating loss and tax credit carryforwards	17,110	20,894
Investment securities AFS	8,619	1,496
Other, net	4,821	2,880
Total gross deferred tax assets	42,880	36,021
Less valuation allowance	(265)	(265)
Deferred tax asset, net of valuation allowance	42,615	35,756
Deferred tax liabilities:		
Differences in amounts reflected in the financial statements and income tax basis for loans	88,529	63,765
Accelerated depreciation on premises and equipment	32,929	30,684
Deferred loan costs	43,255	35,297
Acquired intangible assets	4,900	6,826
Total gross deferred tax liabilities	169,613	136,572
Net deferred tax liabilities	\$ (126,998)	\$ (100,816)

Federal net operating loss carryforwards were acquired in certain of the Bank's acquisitions. Such federal net operating loss carryforwards acquired totaled \$80.9 million, of which \$57.9 million remained to be utilized as of December 31, 2018 and will expire at various dates beginning in 2029 to 2034.

State net operating loss carryforwards totaling \$66.7 million were generated in 2017 as a result of the Bank's change in the tax method of accounting for its loan portfolio and loan origination fees, all of which were utilized in 2018. Additionally, the Bank acquired \$116.2 million of state net operating loss carryforwards in certain of its acquisitions. State net operating loss carryforwards totaling \$43.0 million remained to be utilized as of December 31, 2018 and will expire at various dates beginning in 2023 to 2037.

At December 31, 2018 and 2017, the Bank had a deferred tax valuation allowance of \$0.3 million to reflect its assessment that the realization of the benefits from the recovery of certain acquired net operating loss carryforwards are expected to be subject to section 382 limitations of the IRC.

### 13. Employee Benefit Plans

The Bank maintains a qualified retirement plan (the "401(k) Plan") with a salary deferral feature designed to qualify under Section 401 of the IRC. The 401(k) Plan permits employees of the Bank to defer a portion of their compensation in accordance with the provisions of Section 401(k) of the IRC. The Bank's 401(k) Plan qualifies as a Safe-Harbor Cost or Deferred Arrangement ("Safe-Harbor CODA"). As a result, (i) certain key employees are eligible to make salary deferrals into the 401(k) Plan, (ii) the 401(k) Plan is not subject to any provisions of the average deferral percentage test described in IRC section 401(k)(3) or the average contribution percentage test described in IRC section 401(m)(2), (iii) the basic matching contribution is (a) 100% of the amount of the employee's deferrals that do not exceed 3% of the employee's compensation for the year plus (b) 50% of the amount of the employee's elective

deferrals that exceed 3% but do not exceed 5% of the employee’s compensation for the year, and (iv) all employer matching contributions made under the provisions of the Safe-Harbor CODA are non-forfeitable. Certain other statutory limitations with respect to the Bank’s contribution under the 401(k) Plan also apply.

Contributions to the 401(k) Plan are invested in accordance with participant elections among certain investment options. Distributions from participant accounts are not permitted before age 65, except in the event of death, permanent disability, or termination of employment. The Bank made matching cash contributions to the 401(k) Plan during 2018, 2017 and 2016 of \$4.9 million, \$4.6 million and \$3.6 million, respectively. The 401(k) Plan also provides for participant loans, subject to certain provision and limitations.

The Bank also maintains the Bank OZK Deferred Compensation Plan (the “Plan”), which is an unfunded deferred compensation arrangement for the group of employees designated as key employees, including certain of the Bank’s executive officers. Under the terms of the Plan, eligible participants may elect to defer a portion of their compensation. Such deferred compensation is distributable in lump sum or specified installments upon separation from service with the Bank or upon other specified events as defined in the Plan. The Bank does not make any contribution to the Plan for the benefit of each participant or otherwise. Amounts deferred under the Plan are invested in certain approved investments (excluding securities of the Bank or its affiliates). At December 31, 2018 and 2017, respectively, the Bank had Plan assets, along with an equal amount of liabilities, totaling \$6.2 million and \$5.6 million, recorded on the accompanying consolidated balance sheet.

The Bank has a Supplemental Executive Retirement Plan (“SERP”) and certain other benefit arrangements for its Chairman and Chief Executive Officer. Pursuant to the SERP, this officer is entitled to receive 180 equal monthly payments of \$32,197, or \$386,360 annually, commencing at the later of obtaining age 70 or separation from service. If employment continues past age 70, such benefit will commence at an increased amount upon separation from service, and if separation from service occurs prior to age 70, such benefit will be at a reduced amount. The costs of such benefits, assuming a retirement date at age 70, will be fully accrued by the Bank at such retirement date. During 2018, 2017 and 2016, respectively, the Bank accrued \$0.3 million, \$0.3 million and \$0.2 million for the future benefits payable under the SERP. The SERP is an unfunded plan and is considered a general contractual obligation of the Bank.

#### 14. Stock-Based Compensation

The Bank has a nonqualified stock option plan for certain key employees and officers of the Bank. This plan provides for the granting of nonqualified options to purchase shares of common stock in the Bank. No option may be granted under this plan for less than the fair market value of the common stock, defined by the plan as the average of the highest reported asked price and the lowest reported bid price, on the date of the grant. The benefits or amounts received by or allocated to any particular officer or employee of the Bank under this plan are determined in the sole discretion of the Bank’s board of directors or its personnel and compensation committee. All employee options outstanding at December 31, 2018 were issued with a vesting period of three years and expire seven years after issuance. All shares issued in connection with options exercised under the employee nonqualified stock option plan were in the form of newly issued shares. At December 31, 2018, there were 653,927 shares available for future grants under this plan.

The Bank previously had a nonqualified stock option plan for non-employee directors. No options were granted under this plan during 2018. All options previously granted under this plan were exercisable immediately and expire ten years after issuance.

The following table summarizes stock option activity for both the employee and non-employee director stock option plans for the year indicated.

	Options	Weighted-Average Exercise Price/Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding – January 1, 2018	1,686,756	\$ 42.86		
Granted	573,143	51.07		
Exercised	(223,840)	25.64		
Forfeited	(158,936)	51.60		
Outstanding – December 31, 2018	<u>1,877,123</u>	<u>46.68</u>	<u>4.6</u>	<u>\$ 767 (1)</u>
Fully vested and exercisable at December 31, 2018	<u>872,006</u>	<u>\$ 41.27</u>	<u>3.4</u>	<u>\$ 767 (1)</u>

(1) Based on closing price of \$22.83 per share on December 31, 2018.

Intrinsic value for stock options is defined as the amount by which the current market price of the underlying stock exceeds the exercise price. For those stock options where the exercise price exceeds the current market price of the underlying stock, the intrinsic value is zero. The total intrinsic value of options exercised during 2018, 2017 and 2016 was \$5.6 million, \$7.0 million and \$7.6 million, respectively.

Options to purchase 573,143 shares, 603,614 shares and 18,683 shares, respectively, were granted during 2018, 2017 and 2016 with a weighted-average grant date fair value of \$12.52, \$15.49 and \$11.52, respectively. The fair value for each option grant is estimated on the date of grant using the Black-Scholes option pricing model.

The following table is a summary of the weighted-average assumptions used in the Black-Scholes option pricing model for the years indicated.

	Year Ended December 31,		
	2018	2017	2016
Risk-free interest rate	2.42%	1.93%	1.27%
Expected dividend yield	1.59%	1.40%	1.66%
Expected stock volatility	28.5%	35.6%	36.4%
Expected life (years)	5.0	5.0	5.0

The Bank uses the U.S. Treasury yield curve in effect at the time of the grant to determine the risk-free interest rate. The expected dividend yield is estimated using the current annual dividend level and recent stock price of the Bank's common stock at the date of grant. Expected stock volatility is based on historical volatilities of the Bank's common stock. The expected life of the options is calculated based on the "simplified" method as provided for under Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 110.

The total fair value of options to purchase shares of the Bank's common stock that vested during 2018, 2017 and 2016 was \$6.3 million, \$2.9 million and \$2.2 million, respectively. Stock-based compensation expense for stock options included in non-interest expense was \$5.6 million, \$4.9 million and \$4.1 million for 2018, 2017 and 2016, respectively. Total unrecognized compensation cost related to non-vested stock option grants was \$7.0 million at December 31, 2018 and is expected to be recognized over a weighted-average period of 1.7 years.

The Bank has a restricted stock and incentive plan (the "Employee Plan") that permits issuance of up to 2,400,000 shares of restricted stock, restricted stock units or performance awards. All officers and employees of the Bank are eligible to receive awards under the Employee Plan. The benefits or amounts received by or allocated to any particular officer or employee of the Bank under the Employee Plan are determined in the sole discretion of the Bank's board of directors or its personnel and compensation committee. Shares of common stock issued under the Employee Plan may be shares of original issuance or shares held in treasury that have been reacquired by the Bank. The Bank issued 202,692 shares of restricted common stock under the Employee Plan during 2018. At December 31, 2018 there were 903,010 shares available for future grants under this plan. The vesting period for all restricted stock awards granted under the plan shall be not less than three years from the date of grant, subject to limited exceptions.

The Bank has a Non-Employee Director Stock Plan (the "Director Plan") that provides for stock awards to eligible non-employee directors. Effective May 7, 2018, the Director Plan was amended and restated to change the annual director grant to include a one-year vesting period. Pursuant to the Director Plan, as amended and restated, each non-employee director of the Bank receives a grant for shares of restricted common stock on the day of his or her election, re-election or appointment as director of the Bank. The maximum number of shares of restricted common stock to be awarded per recipient per year is \$100,000 worth of shares of restricted common stock. The Bank issued 17,634 shares, or \$50,000 worth of shares per recipient rounded down to the nearest whole share (and pro rated where applicable), of restricted common stock with a one-year vesting period (pro rated where applicable) under the Director Plan during 2018. At December 31, 2018, there were 47,818 shares available for future grants under the Director Plan.

The following table summarizes non-vested restricted stock activity related to the Employee and Director Plans for the year indicated.

	Shares
Outstanding – January 1, 2018	552,415
Granted	220,326
Forfeited	(48,917)
Earned and issued	(179,825)
Outstanding – December 31, 2018	543,999
Weighted-average grant date fair value	\$ 49.52

Restricted stock awards of 220,326 shares, 238,794 shares and 218,761 shares, respectively, were granted during 2018, 2017 and 2016 with a weighted-average grant date fair value of \$50.51, \$52.09 and \$45.66, respectively. The fair value of the restricted stock awards is amortized to compensation expense over the vesting period and is based on the market price of the Bank's common stock at the date of grant multiplied by the number of shares granted. Stock-based compensation expense for restricted stock included in non-interest expense was \$8.5 million, \$6.6 million and \$6.2 million for 2018, 2017 and 2016, respectively. Unrecognized compensation expense for nonvested restricted stock awards was \$10.0 million at December 31, 2018 and is expected to be recognized over a weighted-average period of 1.7 years.

On January 23, 2019 the Bank's personnel and compensation committee approved the issuance of (i) options to purchase 280,558 shares of the Bank's common stock with an exercise price of \$31.66 that vest on January 23, 2022 and (ii) restricted stock awards for 383,874 shares of restricted common stock that vest on January 23, 2022. Total compensation expense for the stock options and the restricted stock awards is expected to be approximately \$14.3 million and is expected to be recognized ratably over the three-year vesting period.

Also, on January 23, 2019, the Bank's personnel and compensation committee, as provided for under the Employee Plan, awarded certain long-term incentive agreements ("LTIA") for its executive officers. Under the LTIA, such executive officers were granted performance-based restricted stock units (PSUs) with each PSU representing the right to receive one share of common stock at a future date. The LTIA's contain both performance and market conditions. The PSUs will be earned and vest depending on the Bank's relative performance with respect to total shareholder return ("TSR"), return on average common equity ("ROAE") and return on average assets ("ROAA"), over a three-year period, compared to the companies that comprise the KBW Regional Banking Index ("KRX") at January 1, 2019 (for the TSR component) and compared to the Bank's 2018 executive compensation peer group (for the ROAE and ROAA component) over the same three-year period. Measurement is determined on a percentile basis relative to the KRX or the Bank's peer group. For each metric, if the Bank's performance over the performance period is: (i) at or below the 25<sup>th</sup> percentile compared to the applicable peer group, no PSUs for that metric would be earned; (ii) at threshold performance (26<sup>th</sup> percentile), 4% of the target would be earned; (iii) at target performance (50<sup>th</sup> percentile), 100% of the target would be earned; (iv) at the 75<sup>th</sup> percentile, 150% of the target would be earned; and (v) at maximum performance (95<sup>th</sup> percentile), 200% of the target would be earned. Achievement of results between levels previously described will result in award payouts determined based on a linear interpolation between payout levels. In the event the Bank's TSR over the performance period is negative, no more than 100% of the target PSUs for the relative TSR component will be earned, and the value of a PSU earned at the end of the performance period for the relative TSR component cannot exceed six times (6x) the grant date stock price. The PSUs contain a three-year vesting period followed by a one-year post-vest hold period and are eligible to accrue dividend equivalents that are subject to the same vesting criteria as the underlying PSUs.

## 15. Commitments and Contingencies

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments primarily include standby letters of credit and commitments to extend credit.

Outstanding standby letters of credit are contingent commitments issued by the Bank generally to guarantee the performance of a customer in third party borrowing arrangements. The maximum amount of future payments the Bank could be required to make under these letters of credit at December 31, 2018 and 2017 is \$21.4 million and \$20.7 million, respectively. The Bank holds collateral to support letters of credit when deemed necessary. Collateralized commitments at December 31, 2018 and 2017 totaled \$19.5 million and \$19.3 million, respectively.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank has the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses, may require payment of a fee and may expire without being drawn upon. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. The type of collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and other real or personal property.

At December 31, 2018, the Bank had outstanding commitments totaling \$11.36 billion to extend credit, consisting primarily of loans closed but not yet funded. These commitments may or may not fund in whole or part prior to maturity; however, such funding is subject to a number of factors, including, among others, economic conditions, real estate market conditions and competitive factors. The following table shows, as of the date indicated, the contractual maturities of such outstanding commitments.

<u>Maturity</u>	<u>Contractual Maturities at December 31, 2018</u> (Dollars in thousands)
2019	\$ 1,207,240
2020	3,787,253
2021	4,310,373
2022	1,765,687
2023	76,216
Thereafter	218,206
Total	<u>\$ 11,364,975</u>

The Bank is a party as both plaintiff and defendant to various claims arising in the ordinary course of business, including administrative and/or legal proceedings that may include employment-related claims as well as claims of lender liability, breach of contract, and other similar lending-related claims encountered on a routine basis. While the ultimate resolution of these ordinary course claims and proceedings cannot be determined at this time, management believes that such claims and proceedings, individually or in the aggregate, will not have a material adverse effect on the Bank's financial condition or results of operations.

## 16. Related Party Transactions

The Bank has, in the ordinary course of business, lending transactions with certain of its officers, directors, director nominees and their related and affiliated parties ("related parties"). The following table is a summary of activity of loans to related parties for the periods indicated.

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(Dollars in thousands)		
Balance – beginning of year	\$ 1,024	\$ 731	\$ 1,528
New loans and advances	382	2,070	10,583
Repayments	(484)	(1,777)	(11,380)
Balance – end of year	<u>\$ 922</u>	<u>\$ 1,024</u>	<u>\$ 731</u>

The Bank had outstanding commitments to extend credit to related parties totaling \$1.7 million and \$1.5 million at December 31, 2018 and 2017, respectively.

## 17. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about component risk weightings and other factors.

In recent years, the FDIC and other federal banking regulators revised the risk-based capital requirements applicable to insured depository institutions, including the Bank, to make them consistent with agreements reached by the Basel Committee on Banking Supervision ("Basel III") and certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Basel III Rules"). The Basel III Rules became effective for the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). The Basel III Rules require the maintenance of minimum amounts and ratios of common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets, and of tier 1 capital to adjusted quarterly average assets.

Under the Basel III Rules, common equity tier 1 capital consists of common stock and paid-in capital (net of treasury stock) and retained earnings. Common equity tier 1 capital is reduced by goodwill, certain intangible assets, net of associated deferred tax liabilities, deferred tax assets that arise from tax credit and net operating loss carryforwards, net of any valuation allowance, and certain other items as specified by the Basel III Rules.

Tier 1 capital includes common equity tier 1 capital and certain additional tier 1 items as provided under the Basel III Rules. The tier 1 capital for the Bank consists of common equity tier 1 capital and, prior to the third quarter of 2016, \$118 million of trust preferred securities issued by the Trusts. The Basel III Rules include certain provisions that require trust preferred securities be phased out of, or no longer be considered, qualifying tier 1 capital for certain institutions depending on the size of the institution as measured by total assets. Pursuant to the Basel III Rules, the Bank's trust preferred securities are no longer included in tier 1 capital, but continue to be included in total capital.

Basel III Rules allow for insured depository institutions to make a one-time election not to include most elements of accumulated other comprehensive income (loss) in regulatory capital and instead effectively use the existing treatment under the general risk-based capital rules. The Bank made this opt-out election to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of its investment securities portfolio.

Total capital includes tier 1 capital and tier 2 capital. Tier 2 capital includes, among other things, the allowable portion of the ALL, and, for the Bank, the trust preferred securities and the subordinated notes.

The common equity tier 1 capital, tier 1 capital and total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. The leverage ratio is calculated by dividing tier 1 capital by adjusted quarterly average total assets.

The Basel III Rules limit capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" in addition to the amount necessary to meet minimum risk-based capital requirements for common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets. The capital conservation buffer began phasing in January 1, 2016 at 0.625% of risk-weighted assets, and increases each year until fully implemented at 2.5% on January 1, 2019. In January 2019, when fully phased in, the Basel III Rules will require the Bank to maintain (i) a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 7.0%, upon full implementation, (ii) a minimum ratio of tier 1 capital to risk-weighted assets of at least 6.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 8.5%, upon full implementation, (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 10.5% upon full implementation, and (iv) a minimum leverage ratio of 4.0%. Additionally, in order to be considered well-capitalized under the Basel III Rules, the Bank must maintain (i) a ratio of common equity tier 1 capital to risk-weighted assets of at least 6.5%, (ii) a ratio of tier 1 capital to risk-weighted assets of at least 8.0%, (iii) a ratio of total capital to risk-weighted assets of at least 10.0% and (iv) a leverage ratio of at least 5.0%.

The following table presents actual and required capital ratios as of the dates indicated under the Basel III Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2018 and 2017, respectively, based on the phase-in provisions of the Basel III Rules and the minimum required capital levels in 2019 when the Basel III Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Rules.

	<u>Actual</u>		<u>Minimum Capital Required – Basel III Phase-In Schedule</u>		<u>Minimum Capital Required – Basel III Fully Phased-In</u>		<u>Required to be Considered Well Capitalized</u>	
	<u>Capital Amount</u>	<u>Ratio</u>	<u>Capital Amount</u>	<u>Ratio</u>	<u>Capital Amount</u>	<u>Ratio</u>	<u>Capital Amount</u>	<u>Ratio</u>
(Dollars in thousands)								
<b>December 31, 2018:</b>								
Common equity tier 1 to risk-weighted assets	\$3,091,128	12.56%	\$1,569,242	6.375%	\$1,723,089	7.00%	\$1,600,011	6.50%
Tier 1 capital to risk-weighted assets	3,091,128	12.56	1,938,475	7.875	2,092,322	8.50	1,969,245	8.00
Total capital to risk-weighted assets	3,536,393	14.37	2,430,786	9.875	2,584,633	10.50	2,461,556	10.00
Tier 1 leverage to average assets	3,091,128	14.25	867,549	4.00	867,549	4.00	1,084,436	5.00
<b>December 31, 2017:</b>								
Common equity tier 1 to risk-weighted assets	\$2,753,656	11.06%	\$1,431,833	5.75%	\$1,743,101	7.00%	\$1,618,594	6.50%
Tier 1 capital to risk-weighted assets	2,753,656	11.06	1,805,355	7.25	2,116,623	8.50	1,992,116	8.00
Total capital to risk-weighted assets	3,190,776	12.81	2,303,384	9.25	2,614,612	10.50	2,490,145	10.00
Tier 1 leverage to average assets	2,753,656	13.83	796,595	4.00	796,595	4.00	995,743	5.00

As of December 31, 2018 and 2017, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

The state bank commissioner's approval is required before the Bank can declare and pay any dividend of 75% or more of the net profits of the Bank after all taxes for the current year plus 75% of the retained net profits for the immediately preceding year. At December 31, 2018 and 2017, respectively, approximately \$453 million and \$359 million were available for payment of dividends by the Bank without the approval of regulatory authorities. Additionally, the Bank's ability to pay dividends may be restricted by certain covenants in the indentures governing its trust preferred securities, its subordinated debentures and its subordinated notes.

Under federal banking regulation, the Bank is also limited as to the amount it may loan to its affiliates, and such loans must be collateralized by specific types of collateral. The maximum amount available for loans from the Bank to its affiliates is limited to 10% of the Bank's capital and surplus or approximately \$377 million and \$346 million at December 31, 2018 and 2017, respectively.

## 18. Fair Value Measurements

The Bank measures certain of its assets and liabilities on a fair value basis using various valuation techniques and assumptions, depending on the nature of the asset or liability. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, fair value is used either annually or on a non-recurring basis to evaluate certain assets and liabilities for impairment or for disclosure purposes. At December 31, 2018 and 2017, the Bank had no liabilities that were accounted for at fair value.

The Bank applies the following fair value hierarchy.

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable.

Level 3 – Instruments whose inputs are unobservable.



The following table sets forth the Bank's assets, as of the dates indicated, that are accounted for at fair value.

	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
<b>December 31, 2018:</b>				
Investment securities AFS:				
Mortgage-backed securities <sup>(1)</sup>	\$ —	\$ 2,212,546	\$ —	\$ 2,212,546
Obligations of state and political subdivisions	—	591,380	15,236	606,616
U.S. Government agency securities	—	26,936	—	26,936
Corporate obligations	—	15,183	—	15,183
CRA qualified investment fund	1,059	—	—	1,059
Total investment securities AFS	1,059	2,846,045	15,236	2,862,340
Impaired non-purchased loans	—	—	34,188	34,188
Impaired purchased loans	—	—	7,801	7,801
Foreclosed assets	—	—	16,171	16,171
Total assets at fair value	\$ 1,059	\$ 2,846,045	\$ 73,396	\$ 2,920,500
<b>December 31, 2017:</b>				
Investment securities AFS:				
Mortgage-backed securities <sup>(1)</sup>	\$ —	\$ 1,899,024	\$ —	\$ 1,899,024
Obligations of state and political subdivisions	—	648,134	16,425	664,559
U.S. Government agency securities	—	29,233	—	29,233
CRA qualified investment fund	1,057	—	—	1,057
Total investment securities AFS	1,057	2,576,391	16,425	2,593,873
Impaired non-purchased loans	—	—	11,892	11,892
Impaired purchased loans	—	—	10,019	10,019
Foreclosed assets	—	—	25,357	25,357
Total assets at fair value	\$ 1,057	\$ 2,576,391	\$ 63,693	\$ 2,641,141

(1) These mortgage-backed securities were issued by U.S. Government agencies.

The following table presents information related to Level 3 non-recurring fair value measurements as of the date indicated.

Description	Fair Value at December 31, 2018	Technique	Unobservable Inputs
(Dollars in thousands)			
Impaired non-purchased loans	\$ 34,188	Third party appraisal <sup>(1)</sup> or discounted cash flows	1. Management discount based on underlying collateral characteristics and market conditions 2. Life of Loan
Impaired purchased loans	\$ 7,801	Third party appraisal <sup>(1)</sup> and/or discounted cash flows	1. Management discount based on underlying collateral characteristics and market conditions 2. Life of Loan
Foreclosed assets	\$ 16,171	Third party appraisal, <sup>(1)</sup> broker price opinions and/or discounted cash flows	1. Management discount based on asset characteristics and market conditions 2. Discount rate 3. Holding period

(1) The Bank utilizes valuation techniques consistent with the market, cost, and income approaches, or a combination thereof in determining fair value.

The following methods and assumptions are used to estimate the fair value of the Bank's assets that are accounted for at fair value.

Investment securities – The Bank utilizes independent third parties as its principal sources for determining fair value of investment securities which are measured on a recurring basis. As a result, the Bank considers estimates of fair values from at least two independent pricing sources for the majority of its individual securities within its investment portfolio. For investment securities traded in an active market, the fair values are obtained from independent pricing services and are based on quoted market prices if available. If quoted market prices are not available, fair values are based on market prices for comparable securities, broker quotes or comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs. All fair value estimates of the Bank's investment securities are reviewed on a quarterly basis.

The Bank has determined that certain of its investment securities had a limited to non-existent trading market at December 31, 2018 and 2017. As a result, the Bank considers these investments as Level 3 in the fair value hierarchy. Specifically the fair values of certain obligations of state and political subdivisions consisting of certain unrated private placement bonds (the "private placement bonds") in the amount of \$15.2 million and \$16.4 million at December 31, 2018 and 2017, respectively, were calculated using Level 3 hierarchy inputs and assumptions as the trading market for such securities was determined to be "not active." This determination was based on the limited number of trades or, in certain cases, the existence of no reported trades for the private placement bonds. The private placement bonds are generally prepayable at par value at the option of the issuer. As a result, management believes the private placement bonds should be valued at the lower of (i) the matrix pricing provided by the Bank's third party pricing services for comparable unrated municipal securities or (ii) par value. At December 31, 2018 and 2017, the third party pricing matrices valued the Bank's total portfolio of private placement bonds at approximately \$15.2 million and \$16.4 million, respectively, which was approximately the same as the par value of the private placement bonds. Accordingly, at December 31, 2018 and 2017 the Bank reported the private placement bonds at \$15.2 million and \$16.4 million, respectively.

Impaired non-purchased loans – Fair values are measured on a non-recurring basis based on the underlying collateral value of the impaired loan, reduced for holding and selling costs, or the estimated discounted cash flows for such loan. The Bank has reduced the carrying value of its impaired non-purchased loans to the estimated fair value of \$34.2 million and \$11.9 million, respectively, for such loans at December 31, 2018 and 2017. These adjustments to reduce the carrying value of impaired non-purchased loans to estimated fair value at December 31, 2018 and 2017 consisted of \$46.9 million and \$3.0 million, respectively, of partial or full charge-offs and \$1.2 million and \$1.1 million, respectively, of specific loan loss allocations. Impaired loans at December 31, 2018 included \$0.6 million (none at December 31, 2017) of accruing loans that were determined to be TDRs.

Impaired purchased loans – Impaired purchased loans are measured at fair value on a non-recurring basis. At December 31, 2018 and 2017, the Bank had identified purchased loans where management had determined it was probable that the Bank would be unable to collect all amounts according to the contractual terms thereof (for purchased loans without evidence of credit deterioration at date of acquisition) or the expected performance of such loans had deteriorated from management's performance expectations established in conjunction with the determination of the Day 1 Fair Values or since management's most recent review of such portfolio's performance (for purchased loans with evidence of credit deterioration at date of acquisition). As a result the Bank recorded net charge-offs, totaling \$3.5 million during 2018 and \$3.6 million during 2017 for such loans. The Bank recorded \$3.5 million during 2018 and \$3.6 million during 2017 of provision for purchased loans. Additionally, the Bank transferred certain of these purchased loans to foreclosed assets. As a result of these actions, the Bank had \$7.8 million of impaired purchased loans at December 31, 2018 and \$10.0 million of impaired purchased loans at December 31, 2017.

Foreclosed assets – Repossessed personal properties and real estate acquired through or in lieu of foreclosure, excluding purchased foreclosed assets, are initially recorded at fair value less estimated cost to sell at the date of repossession or foreclosure. Purchased foreclosed assets are initially recorded at Day 1 Fair Values. In estimating such Day 1 Fair Values, management considered a number of factors including, among others, appraised value, estimated selling price, estimated holding periods and net present value of cash flows expected to be received.

Valuations of all foreclosed assets are periodically reviewed by management with the carrying value of such assets adjusted through non-interest expense to the then estimated fair value, generally based on third party appraisals, broker price opinions or other valuations of the property, net of estimated selling costs, if lower, until disposition.

The following table presents additional information for the periods indicated about assets measured at fair value on a recurring basis and for which the Bank has utilized Level 3 inputs to determine fair value.

	<b>Investment Securities AFS</b>
	(Dollars in thousands)
Balances – December 31, 2016	\$ 17,379
Total realized gains included in earnings	1,197
Total unrealized gains/(losses) included in other comprehensive income	65
Paydowns and maturities	(1,019)
Sales	(1,197)
Transfers in and/or out of Level 3	—
Balances – December 31, 2017	16,425
Total realized gains included in earnings	—
Total unrealized gains/(losses) included in other comprehensive loss	(131)
Paydowns and maturities	(1,058)
Sales	—
Transfers in and/or out of Level 3	—
Balances – December 31, 2018	<u>\$ 15,236</u>

## 19. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments.

Cash and due from banks – For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment securities – The Bank utilizes independent third parties as its principal sources for determining fair value of investment securities which are measured on a recurring basis. As a result, the Bank receives estimates of fair values from at least two independent pricing sources for the majority of its individual securities within its investment portfolio. For investment securities traded in an active market, the fair values are obtained from independent pricing services and are based on quoted market prices if available. If quoted market prices are not available, fair values are based on market prices for comparable securities, broker quotes, comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs. All fair value estimates of the Bank's investment securities are reviewed on a quarterly basis.

Loans – The fair value of loans, including purchased loans, is estimated by discounting the future cash flows using the current rate at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposit liabilities – The fair value of demand deposits, savings accounts, money market deposits and other transaction accounts is the amount payable on demand at the reporting date. The fair value of fixed maturity time deposits is estimated using the rate currently available for deposits of similar remaining maturities.

Repurchase agreements – For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Other borrowed funds – For these short-term instruments, the carrying amount is a reasonable estimate of fair value. The fair value of long-term instruments is estimated based on the current rates available to the Bank for borrowings with similar terms and remaining maturities.

Subordinated notes and debentures – The fair values of these instruments are based primarily upon discounted cash flows using rates for securities with similar terms and remaining maturities.

Off-balance sheet instruments – The fair values of commercial loan commitments and letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements. The fair values of commercial loan commitments and letters of credit were not material at December 31, 2018 and 2017.

The fair values of certain of these instruments were calculated by discounting expected cash flows, which contain numerous uncertainties and involve significant judgments by management. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments, the Bank does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

The following table presents the carrying amounts and estimated fair values, as of the dates indicated, and the fair value hierarchy of the Bank's financial instruments.

	Fair Value Hierarchy	December 31,			
		2018		2017	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(Dollars in thousands)					
<b>Financial assets:</b>					
Cash and cash equivalents	Level 1	\$ 290,672	\$ 290,672	\$ 440,388	\$ 440,388
Investment securities AFS	Levels 1, 2 and 3	2,862,340	2,862,340	2,593,873	2,593,873
Loans, net of ALL	Level 3	17,015,559	16,735,923	15,948,909	15,696,876
<b>Financial liabilities:</b>					
Demand, savings and interest bearing transaction deposits	Level 1	\$ 12,430,986	\$ 12,430,986	\$ 12,777,745	\$ 12,777,745
Time deposits	Level 2	5,507,429	5,532,908	4,414,600	4,430,627
Repurchase agreements with customers	Level 1	20,564	20,564	69,331	69,331
Other borrowings	Level 2	96,692	96,686	22,320	22,344
Subordinated notes	Level 2	223,281	217,571	222,899	219,356
Subordinated debentures	Level 2	119,358	107,712	118,800	94,057

## 20. Supplemental Cash Flow Information

The following is a summary of supplemental cash flow information for the periods indicated:

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
<b>Cash paid during the period for:</b>			
Interest	\$ 204,863	\$ 114,765	\$ 53,370
Income taxes	90,476	172,890	125,980
<b>Supplemental schedule of non-cash investing and financing activities:</b>			
Loans and other assets transferred to foreclosed assets	11,540	17,193	25,103
Loans advanced for sales of foreclosed assets	1,068	—	271
Net change in unrealized gains and losses on investment securities AFS	(28,268)	23,258	(52,736)
Common stock issued in merger and acquisition transactions	—	—	1,135,863

## 21. Other Operating Expenses

The following is a summary of other operating expenses for the periods indicated.

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Professional and outside services	\$ 35,867	\$ 32,441	\$ 21,330
Software expense	13,729	10,126	4,950
Telecommunication services	13,080	13,935	8,800
Advertising and public relations	11,557	5,989	5,617
Travel and meals	9,650	8,477	8,130
Postage and supplies	9,144	7,769	5,566
FDIC insurance	11,800	9,700	5,125
FDIC and state assessments	2,940	3,414	1,626
ATM expense	4,227	5,725	4,774
Loan collection and repossession expense	3,302	5,303	4,612
Writedowns of foreclosed assets	2,996	3,488	3,610
Amortization of intangible assets	12,579	12,580	9,037
Writedown of signage due to strategic rebranding	4,915	—	—
Other	18,126	8,333	7,221
Total other operating expenses	<u>\$ 153,912</u>	<u>\$ 127,280</u>	<u>\$ 90,398</u>

## 22. Earnings Per Common Share (“EPS”)

The following table sets forth the computation of basic and diluted EPS for the periods indicated.

	Year Ended December 31,		
	2018	2017	2016
	(In thousands, except per share amounts)		
<b>Numerator:</b>			
Distributed earnings allocated to common stockholders	\$ 102,218	\$ 88,732	\$ 62,173
Undistributed earnings allocated to common stockholders	314,888	333,159	207,806
Net earnings allocated to common stockholders	<u>\$ 417,106</u>	<u>\$ 421,891</u>	<u>\$ 269,979</u>
<b>Denominator:</b>			
Denominator for basic EPS – weighted-average common shares	128,595	125,465	104,409
Effect of dilutive securities – stock options	145	344	291
Denominator for diluted EPS – weighted-average common shares and assumed conversions	<u>128,740</u>	<u>125,809</u>	<u>104,700</u>
Basic EPS	<u>\$ 3.24</u>	<u>\$ 3.36</u>	<u>\$ 2.59</u>
Diluted EPS	<u>\$ 3.24</u>	<u>\$ 3.35</u>	<u>\$ 2.58</u>

Options to purchase 1,493,384 shares, 1,109,870 shares and 650,197 shares, respectively, of the Bank’s common stock at a weighted-average exercise price of \$51.98 per share, \$52.51 per share and \$52.76 per share, respectively, were outstanding during 2018, 2017 and 2016, but were not included in the computation of diluted EPS because the options’ exercise price was greater than the average market price of the Bank’s common stock and inclusion would have been antidilutive.

### 23. Changes In and Reclassification From Accumulated Other Comprehensive Income (Loss) (“AOCI”)

The following table presents changes in AOCI for the periods indicated.

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Beginning balance of AOCI – unrealized gains and losses on investment securities AFS	\$ (12,712)	\$ (25,920)	\$ 7,959
Cumulative effect of change in accounting principal	—	(3,408)	—
Beginning balance of AOCI, as adjusted – unrealized gains and losses on investment securities AFS	(12,712)	(29,328)	7,959
Other comprehensive income (loss):			
Unrealized gains and losses on investment securities AFS	(27,080)	27,291	(52,736)
Tax effect of unrealized gains and losses on investment securities AFS	5,687	(8,134)	18,860
Amounts reclassified from AOCI	—	(4,033)	(4)
Tax effect of amounts reclassified from AOCI	—	1,492	1
Total other comprehensive income (loss)	(21,393)	16,616	(33,879)
Ending balance of AOCI – unrealized gains and losses on investment securities AFS	<u>\$ (34,105)</u>	<u>\$ (12,712)</u>	<u>\$ (25,920)</u>

The Bank adopted the provisions of ASU 2018-02 effective as of the beginning of 2017 as a cumulative affect adjustment by reclassifying \$3.4 million from AOCI to retained earnings.

Amounts reclassified from AOCI are included in net gains on investment securities and the tax effect of amounts reclassified from AOCI are included in provision for income tax in the consolidated statements of income. The amounts reclassified from AOCI relate entirely to unrealized gains/losses on investment securities AFS that were sold during the periods indicated.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**Item 9A. CONTROLS AND PROCEDURES**

**(a) *Evaluation of Disclosure Controls and Procedures.***

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of the Bank's Chairman and Chief Executive Officer (principal executive officer) and its Chief Financial Officer and Chief Accounting Officer (principal financial officer), of the effectiveness of the design and operation of our disclosure controls and procedures as defined in SEC Rule 13a-15(e) under the Exchange Act. Disclosure controls and procedures are controls and other procedures designed to ensure that the information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate, to allow for timely decisions regarding required disclosure. Based on that evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Bank's disclosure controls and procedures were effective.

**(b) *Changes in Internal Control Over Financial Reporting.***

The Bank's management, including the Bank's Chairman and Chief Executive Officer and its Chief Financial Officer and Chief Accounting Officer, have evaluated any changes in the Bank's internal control over financial reporting that occurred during the Bank's fourth quarter ended December 31, 2018 and have concluded that there was no change during the Bank's fourth quarter ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.

**(c) *Report of Management on the Bank's Internal Control Over Financial Reporting***

February 27, 2019

Management of Bank OZK is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are made only in accordance with authorizations of management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management of Bank OZK, including the Chief Executive Officer and the Chief Financial Officer and Chief Accounting Officer, has assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2018, based on criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that the Bank's internal control over financial reporting was effective as of December 31, 2018, based on the specified criteria.

PricewaterhouseCoopers, LLP, the independent registered public accounting firm that audited the Bank's consolidated financial statements included in this Annual Report on Form 10-K, has also audited the effectiveness of the Bank's internal control over financial reporting as of December 31, 2018. Their report is included in Item 8 under the heading "Report of Independent Registered Public Accounting Firm."

/s/ George Gleason  
George Gleason  
*Chairman and Chief Executive Officer*

/s/ Greg McKinney  
Greg McKinney  
*Chief Financial Officer and Chief Accounting Officer*

**Item 9B. OTHER INFORMATION**

On February 24, 2019, the Personnel and Compensation Committee (“Compensation Committee”) of the Board of Directors of the Bank approved the 2019 Executive Management Cash-Based Performance Plan (“2019 Cash Incentive Plan”). The Compensation Committee believes that subjecting a portion of the executive officer’s cash compensation to achievement of pre-established performance targets, as provided under the 2019 Cash Incentive Plan, will ensure the continued alignment of executive compensation, Bank performance and strategic goal attainment.

The Bank’s performance metrics (each a “Performance Metric”) and relative weighting for each metric under the 2019 Cash Incentive Plan is set forth below. Awards under the 2019 Cash Incentive Plan will be calculated based on the Bank’s consolidated financial results for the period beginning on January 1, 2019 and ending on December 31, 2019 (the “Performance Period”).

<u>2019 Cash Incentive Plan Metrics</u>	<u>Weight</u>
Diluted Earnings Per Share (“EPS”).....	20%
Efficiency Ratio .....	20%
Net Charge-Off Ratio .....	20%
Net Interest Margin (fully taxable equivalent).....	20%
Ratio of Nonperforming Assets to Total Assets .....	20%

The Compensation Committee determines incentive opportunities payable to each participant based on the level of performance attained for the particular Performance Metric over the Performance Period. Payouts under each Performance Metric will depend on the level of performance achieved with respect to the particular Performance Metric. If the Bank’s performance is below the threshold performance level set for the particular Performance Metric, the payout related to that metric is zero. Bank performance that is at or above the maximum performance level set for the particular Performance Metric may result in payment up to the maximum amount of the incentive opportunity for that particular Performance Metric. Following the Performance Period, the Compensation Committee shall determine whether and to what extent each Performance Metric has been met and the amounts, if any, payable to each participant for the Performance Period. Awards under the 2019 Cash Incentive Plan will be settled solely in cash. All awards received by any participant pursuant to the 2019 Cash Incentive Plan may be subject to recovery by the Bank under the Bank’s Incentive Compensation Clawback Policy.

**PART III**

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by Item 401 of Regulation S-K regarding directors is incorporated herein by this reference to the Bank’s Proxy Statement to be filed with the FDIC within 120 days of the Bank’s fiscal year-end.

The information required by Item 405, Item 407(c)(3), Item 407 (d)(4) and Item 407 (d)(5) of Regulation S-K is incorporated herein by this reference to the Bank’s Proxy Statement to be filed with the FDIC within 120 days of the Bank’s fiscal year-end.

In accordance with Item 406 of Regulation S-K, the Bank has adopted a code of ethics that applies to certain Bank executives. The code of ethics is posted on the Bank’s Investor Relations website at <http://ir.ozk.com> under “Corporate Governance Documents.”

**Item 11. EXECUTIVE COMPENSATION**

The information required by Item 402, Item 407 (e)(4) and Item 407 (e)(5) of Regulation S-K is incorporated herein by this reference to the Bank’s Proxy Statement to be filed with the FDIC within 120 days of the Bank’s fiscal year-end.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS**

The information required by Item 201(d) and Item 403 of Regulation S-K is incorporated herein by this reference to the Bank’s Proxy Statement to be filed with the FDIC within 120 days of the Bank’s fiscal year-end.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by Item 404 and Item 407(a) is incorporated herein by this reference to the Bank’s Proxy Statement to be filed with the FDIC within 120 days of the Bank’s fiscal year-end.



**Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by Item 9(e) of Schedule 14A regarding audit fees, audit committee pre-approval policies, and related information is incorporated herein by this reference to the Bank's Proxy Statement to be filed with the FDIC within 120 days of the Bank's fiscal year-end.

**PART IV**

**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) List the following documents filed as a part of this report:

(1) The Consolidated Financial Statements of the Registrant.

Reference is made to Part II, Item 8 of this Annual Report on Form 10-K.

(2) Financial Statement Schedules.

Reference is made to Selected Quarterly Financial Data, Part II, Item 6 of this Annual Report on Form 10-K.

(3) Exhibits.

See Item 15(b) to this Annual Report on Form 10-K.

(b) Exhibits.

The exhibits to this Annual Report on Form 10-K are listed in the Exhibit Index following the signature page to this Form 10-K.

(c) Financial Statement Schedules.

See Part IV, Item 15(a)(2) of this Annual Report on Form 10-K.

**Item 16. FORM 10-K SUMMARY**

Not Applicable.

## EXHIBIT INDEX

The following exhibits are filed with this report or are incorporated by reference to previously filed material.

### Exhibit No.

- 2.1 Agreement and Plan of Merger among Bank of the Ozarks, Inc., Bank of the Ozarks, Community & Southern Holdings, Inc. and Community & Southern Bank, dated as of October 19, 2015 (previously filed as Exhibit 2.1 to the Bank's Quarterly Report on Form 10-Q filed with the FDIC on August 8, 2017, and incorporated herein by reference)
- 2.2 Agreement and Plan of Merger among Bank of the Ozarks, Inc., Bank of the Ozarks, C1 Financial, Inc. and C1 Bank, dated as of November 9, 2015 (previously filed as Exhibit 2.2 to the Bank's Quarterly Report on Form 10-Q filed with the FDIC on August 8, 2017, and incorporated herein by reference)
- 2.3 Agreement and Plan of Merger among Bank of the Ozarks, Inc. and Bank of the Ozarks, dated as of April 10, 2017 (previously filed as Exhibit 2.1 to the Bank's Current Report on Form 10-K filed with the FDIC on June 26, 2017, and incorporated herein by reference)
- 3.1 Amended and Restated Articles of Incorporation of Bank of the Ozarks (previously filed as Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on June 26, 2017, and incorporated herein by reference)
- 3.2 Articles of Amendment to the Amended and Restated Articles of Incorporation of Bank OZK (previously filed as Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on July 16, 2018, and incorporated herein by reference)
- 3.3 Second Amended and Restated Bylaws of Bank OZK (previously filed as Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on August 10, 2018, and incorporated herein by reference)
- 4.1 Form of Common Stock Certificate (previously filed as Exhibit 4.2 to the Bank's Current Report on Form 8-K filed with the FDIC on July 16, 2018, and incorporated herein by reference)
- 4.2 Instruments defining the rights of security holders, including indentures. The Bank hereby agrees to furnish to the FDIC upon request copies of instruments defining the rights of holders of long-term debt of the Bank and its consolidated subsidiaries; no issuance of debt exceeds ten percent of the assets of the Bank and its subsidiaries on a consolidated basis
- 10.1\* Form of Indemnification Agreement for directors and executive officers (previously filed as Exhibit 10.1 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.2\* Amended and Restated Deferred Compensation Plan, as amended effective June 26, 2017 (previously filed as Exhibit 10.2 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.3\* Split Dollar Insurance Agreement with Bank OZK (previously Bank of the Ozarks) as Trustee of the Linda and George Gleason Insurance Trust, effective as of May 4, 2010 (previously filed as Exhibit 10.3 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.4\* Split Dollar Insurance Agreement with George G. Gleason, II, effective as of May 4, 2010 (previously filed as Exhibit 10.4 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.5\* Split Dollar Designation by Bank OZK (previously Bank of the Ozarks), dated as of May 4, 2010 in respect of George G. Gleason, II as the insured (previously filed as Exhibit 10.5 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.6\* Supplemental Executive Retirement Plan for George G. Gleason, II, effective May 4, 2010 (previously filed as Exhibit 10.6 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.7\* Executive Life Insurance Agreement for George G. Gleason, II, effective May 4, 2010 (previously filed as Exhibit 10.7 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.8\* Agreement to Terminate Executive Life Insurance Agreement dated December 29, 2017 by and between George Gleason and the Bank (previously Bank of the Ozarks) (previously filed as Exhibit 99.1 to the Bank's Current Report on Form 8-K filed with the FDIC on December 29, 2017, and incorporated herein by reference)
- 10.9\* Third Amended and Restated Non-Employee Director Stock Option Plan as of April 15, 2013 (previously filed as Exhibit 10.9 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)

- 10.10\* Form of Stock Option Agreement for Non-Employee Directors (previously filed as Exhibit 10.10 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.11\* Bank of the Ozarks, Inc. Amended and Restated Stock Option Plan, effective May 18, 2015 (previously filed as Exhibit 10.11 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.12\* Form of Stock Option Grant Agreement for employees under the Amended and Restated Stock Option Plan, effective May 18, 2015 (previously filed as Exhibit 10.12 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.13\* Bank of the Ozarks, Inc. 2009 Restricted Stock and Incentive Plan, as amended on May 19, 2014 (previously filed as Exhibit 10.13 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.14\* 2014 Form of Notice of Grant of Restricted Stock and Award Agreement (previously filed as Exhibit 10.14 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.15\* Second Amended and Restated Bank of the Ozarks, Inc. 2009 Restricted Stock and Incentive Plan, effective May 16, 2016 (previously filed as Exhibit 10.15 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.16\* Form of Notice of Grant of Restricted Stock and Award Agreement for grants under the Second Amended and Restated Restricted Stock and Incentive Plan, effective May 16, 2016 (previously filed as Exhibit 10.16 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.17\* Third Amended and Restated Non-Employee Director Stock Plan dated May 7, 2018 (previously filed as Exhibit 10.1 to the Bank's Current Report on Form 8-K filed with the FDIC on May 7, 2018, and incorporated herein by reference)
- 10.18\* Form of Restricted Stock Award Agreement for grants under the Third Amended and Restated Non-Employee Director Stock Plan dated May 7, 2018 (previously filed as Exhibit 10.2 to the Bank's Current Report on Form 8-K filed with the FDIC on May 7, 2018, and incorporated herein by reference)
- 10.19\* Bank of the Ozarks, Inc. 2017 Stock-Based Performance Award Plan (previously filed as Exhibit 10.20 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.20\* Bank of the Ozarks, Inc. 2017 Cash-Based Performance Plan (previously filed as Exhibit 10.21 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.21\* Bank of the Ozarks 2018 Executive Management Stock-Based Performance Plan (previously filed as Exhibit 10.1 to the Bank's Current Report on Form 8-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.22\* Bank of the Ozarks 2018 Executive Management Cash-Based Performance Plan (previously filed as Exhibit 10.2 to the Bank's Current Report on Form 8-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
- 10.23\* Form of 2019 Performance Based Restricted Stock Unit Award Agreement for Executive Officers (previously filed as Exhibit 10.1 to the Bank's Current Report on Form 8-K filed with the FDIC on January 29, 2019, and incorporated herein by reference)
- 10.24\* Bank OZK 2019 Executive Management Cash-Based Performance Plan, filed herewith
- 11.1 Earnings Per Share Computation (included in Note 22 to the Consolidated Financial Statements)
- 21 List of Subsidiaries of the Registrant, filed herewith
- 31.1 Certification of Chairman and Chief Executive Officer, filed herewith
- 31.2 Certification of Chief Financial Officer and Chief Accounting Officer, filed herewith
- 32.1 Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith
- 32.2 Certification of Chief Financial Officer and Chief Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith

\* Management contract or a compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BANK OZK

By: /s/ Greg McKinney

Chief Financial Officer and Chief Accounting Officer

Date: February 27, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ George Gleason</u> George Gleason	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 27, 2019
<u>/s/ Greg McKinney</u> Greg McKinney	Chief Financial Officer and Chief Accounting Officer (Principal Financial and Accounting Officer)	February 27, 2019
<u>/s/ Nicholas Brown</u> Nicholas Brown	Director	February 27, 2019
<u>/s/ Paula Cholmondeley</u> Paula Cholmondeley	Director	February 27, 2019
<u>/s/ Richard Cisne</u> Richard Cisne	Director	February 27, 2019
<u>/s/ Beverly Cole</u> Beverly Cole	Director	February 27, 2019
<u>/s/ Robert East</u> Robert East	Director	February 27, 2019
<u>/s/ Kathleen Franklin</u> Kathleen Franklin	Director	February 27, 2019
<u>/s/ Catherine B. Freedberg</u> Catherine B. Freedberg	Director	February 27, 2019
<u>/s/ Jeff Gearhart</u> Jeff Gearhart	Director	February 27, 2019
<u>/s/ Linda Gleason</u> Linda Gleason	Director	February 27, 2019
<u>/s/ Peter Kenny</u> Peter Kenny	Director	February 27, 2019
<u>/s/ William Koefoed</u> William Koefoed	Director	February 27, 2019
<u>/s/ Jack Mullen</u> Jack Mullen	Director	February 27, 2019
<u>/s/ Chris Orndorff</u> Chris Orndorff	Director	February 27, 2019
<u>/s/ Robert Proost</u> Robert Proost	Director	February 27, 2019
<u>/s/ John Reynolds</u> John Reynolds	Director	February 27, 2019

/s/ Steven Sadoff Director  
Steven Sadoff

February 27, 2019

/s/ Ross Whipple Director  
Ross Whipple

February 27, 2019

**Subsidiaries of the Bank**

1. Ozark Capital Statutory Trust II, a Connecticut business trust
2. Ozark Capital Statutory Trust III, a Delaware business trust
3. Ozark Capital Statutory Trust IV, a Delaware business trust
4. Ozark Capital Statutory Trust V, a Delaware business trust
5. The Highlands Group, Inc., a 100% owned Arkansas subsidiary of Bank OZK
6. Arlington Park, LLC, a 50% owned Arkansas subsidiary of The Highlands Group, Inc.
7. BOTO, LLC, a 100% owned Arkansas subsidiary of Bank OZK
8. BOTO FL Properties LLC, a 100% owned Florida subsidiary of Bank OZK
9. PAB State Credits LLC, a 100% owned Georgia subsidiary of Bank OZK
10. FCB Properties LLC, a 100% owned Georgia subsidiary of Bank OZK
11. BOTO NC Properties, LLC, a 100% owned North Carolina subsidiary of Bank OZK
12. BOTO GA Properties, LLC, a 100% owned Georgia subsidiary of Bank OZK
13. BOTO-AR Properties, LLC, a 100% owned Arkansas subsidiary of Bank OZK
14. BOTO SC Properties, LLC, a 100% owned South Carolina subsidiary of Bank OZK
15. Omnibank Center Business Condominium Owners Association, Inc., a 75.2% owned Texas subsidiary of Bank OZK
16. Summit Real Estate Investments, Inc., a 100% owned Arkansas subsidiary of Bank OZK
17. Intervest Statutory Trust II, a Connecticut business trust
18. Intervest Statutory Trust III, a Connecticut business trust
19. Intervest Statutory Trust IV, a Delaware business trust
20. Intervest Statutory Trust V, a Delaware business trust
21. BOTO Holdings, Inc., a 100% owned Texas subsidiary of Bank OZK
22. RESG Cayman Islands SPE, LLC, a 100% owned Texas subsidiary of Bank OZK
23. Hughes Meadows Apartments, LP, a 99.99% owned Arkansas subsidiary of Summit Real Estate Investments, Inc.

24. Keiser Apartments Limited Partnership, a 99% owned Arkansas subsidiary of Summit Real Estate Investments, Inc.
25. Ridgecrest Limited Partnership, a 95% owned Arkansas subsidiary of Summit Real Estate Investments, Inc.
26. East Atlantic Properties, LLC, a 100% owned North Carolina subsidiary of Bank OZK
27. BOTC, LLC, a 100% owned North Carolina subsidiary of Bank OZK
28. Twin Points Road Clubhouse Properties, LLC, a 100% owned Arkansas subsidiary of Bank OZK
29. Highway 7 Properties, LLC, a 100% owned Arkansas subsidiary of Bank OZK
30. BOTO Bankmobile, LLC, a 100% owned Florida subsidiary of Bank OZK
31. Deltona Inn Properties, LLC, a 100% owned Florida subsidiary of Bank OZK
32. Elizabeth Station, LLC, a 33.34% owned Georgia subsidiary of Bank OZK

## CERTIFICATIONS

I, George Gleason, certify that:

1. I have reviewed this report on Form 10-K of Bank OZK;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2019

/s/ George Gleason  
George Gleason  
Chairman and Chief Executive Officer



I, Greg McKinney, certify that:

1. I have reviewed this report on Form 10-K of Bank OZK;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2019

/s/ Greg McKinney  
Greg McKinney  
Chief Financial Officer and Chief Accounting Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Annual Report of Bank OZK (the Bank) on Form 10-K for the period ended December 31, 2018 as filed with the Federal Deposit Insurance Corporation (the FDIC) on the date hereof (the Report), I, George Gleason, Chairman and Chief Executive Officer of the Bank, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

February 27, 2019

/s/ George Gleason  
\_\_\_\_\_  
George Gleason  
Chairman and Chief Executive Officer

In accordance with SEC Release No. 34-47986, this Exhibit 32.1 is furnished to the FDIC as an accompanying document and is not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Annual Report of Bank OZK (the Bank) on Form 10-K for the period ended December 31, 2018 as filed with the Federal Deposit Insurance Corporation (the FDIC) on the date hereof (the Report), I, Greg McKinney, Chief Financial Officer and Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

February 27, 2019

/s/ Greg McKinney  
Greg McKinney  
Chief Financial Officer and Chief Accounting Officer

In accordance with SEC Release No. 34-47986, this Exhibit 32.2 is furnished to the FDIC as an accompanying document and is not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933.

---

# Leading the Nation 8 Years Running

# # 1 Bank in the U.S.

---

**2018 Top Performing Bank**—*Bank Director Magazine*

---

Assets  
\$5 Billion–\$50 Billion

---

**2018 Top Performing Regional Bank**—S&P Global Market Intelligence

---

Assets  
\$10 Billion–\$50 Billion

---

**2017 Top Performing Bank**—*Bank Director Magazine*

---

Assets  
\$5 Billion–\$50 Billion

---

**2017 Top Performing Regional Bank**—S&P Global Market Intelligence

---

Assets  
\$10 Billion–\$50 Billion

---

**2016 Top Performing Bank**—*Bank Director Magazine*

---

Assets  
\$5 Billion–\$50 Billion

---

**2016 Top Performing Regional Bank**—S&P Global Market Intelligence

---

**2015 Top Performing Bank**—*Bank Director Magazine*

---

Assets  
\$5 Billion–\$50 Billion

---

**2015 Top Performing Regional Bank**—S&P Global Market Intelligence

---

**2014 Top Performing Bank**—*Bank Director Magazine*

---

Assets  
\$1 Billion–\$5 Billion

---

**2013 Top Performing Bank**—*Bank Director Magazine*

---

Assets  
\$1 Billion–\$5 Billion

---

**2012 Top Performing Regional Bank**—S&P Global Market Intelligence

---

**2012 Top Performing Bank**—*ABA Banking Journal*

---

Assets  
\$1 Billion–\$10 Billion

---

**2011 Top Performing Bank**—*ABA Banking Journal*

---

Assets  
over \$3 Billion

---





Little Rock, Arkansas  
(501) 978-2265, Fax (501) 320-4078  
NASDAQ: OZK  
**ozk.com**

**For additional information, contact:**

Investor Relations,  
Bank OZK  
17901 Chenal Parkway  
Little Rock, AR 72223

**Transfer Agent:**

Trust and Wealth Management Division,  
Bank OZK  
17901 Chenal Parkway  
Little Rock, AR 72223