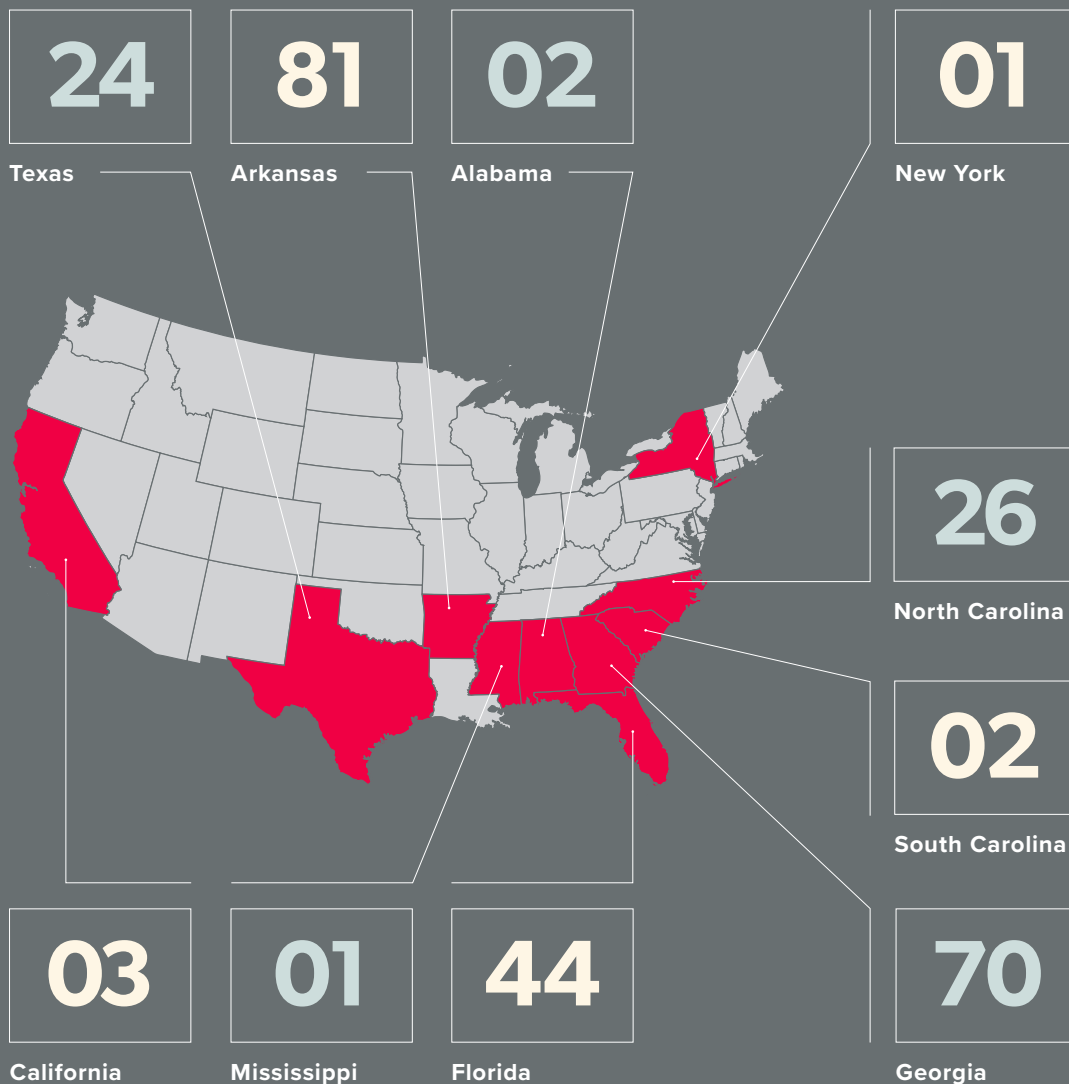




2019

Annual Report



Through a combination of organic growth and acquisitions, we serve our customers in 250+ offices throughout 10 states.*

*As of December 31, 2019

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."



Bank OZK has a 116-year tradition of community-based service and commitment to our customers. 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.

At Bank OZK, we are committed to providing the great service you've come to expect from our community bank heritage while leveraging technology to deliver for our customers. And no matter where you go, our digital experiences can go with you, making life simpler, safer and more fun.

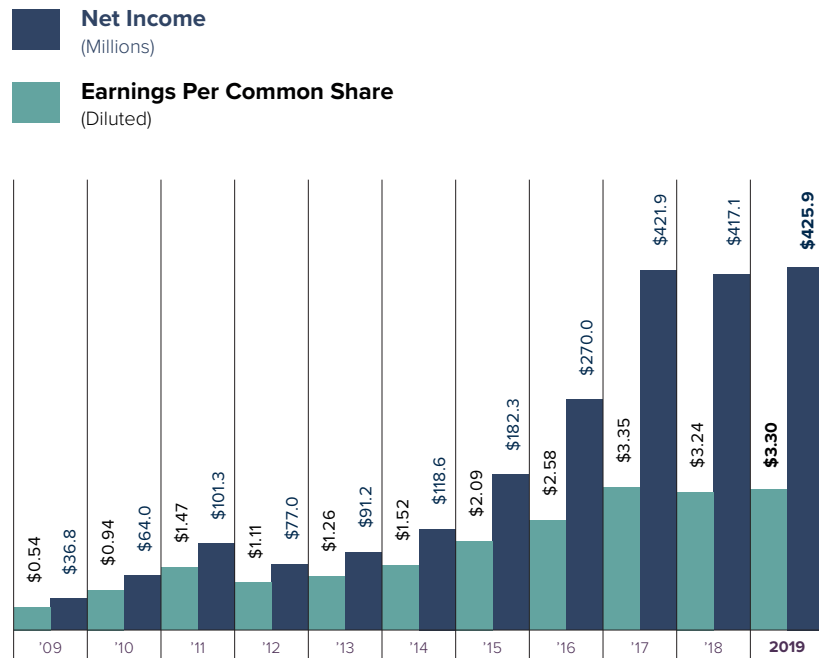
A Long-Term Perspective

The strong results we achieved in 2019 reflect our continued commitment to excellence and our focus on long-term performance. Our constant pursuit of building relationships, improving performance and enhancing efficiency has consistently produced superior results.

We remain 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.

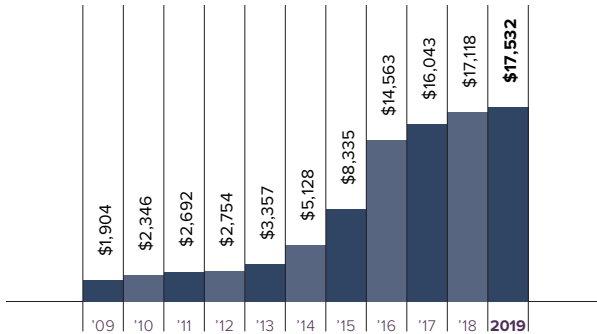
27.7%

Compound annual growth rate



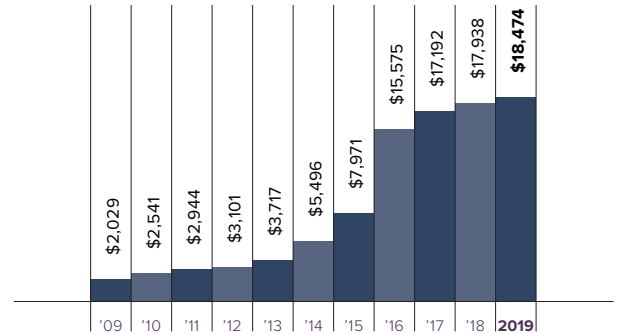
Over the past ten years, we have achieved compound annual growth rates of **27.7%** in net income and **19.8%** in diluted earnings per common share.

Total Loans (Millions)



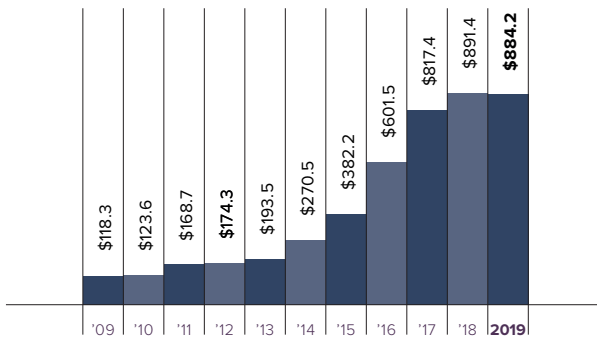
Over the past ten years, our total loans, including purchased loans, have grown at a compound annual rate of **24.9%**.

Deposits (Millions)



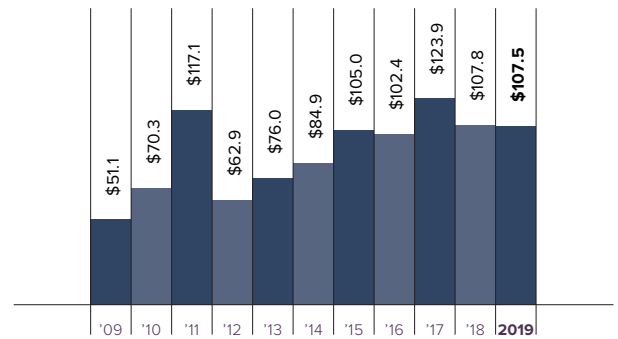
Over the past ten years, our deposits have grown at a compound annual rate of **24.7%**.

Net Interest Income (Millions)



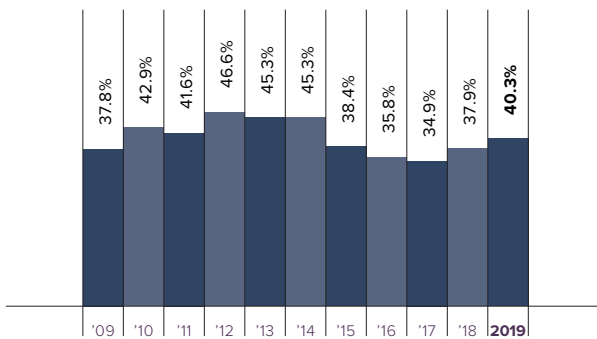
Net interest income has grown over the last ten years at a compound annual rate of **22.3%**.

Non-interest Income (Millions)



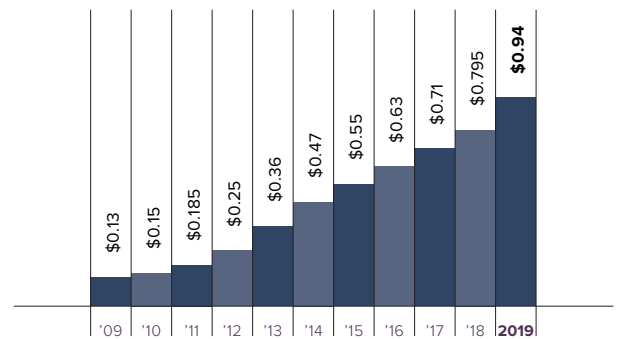
Non-interest income has grown over the last ten years at a compound annual rate of **7.7%**.

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 18 years.

Dividends per Share



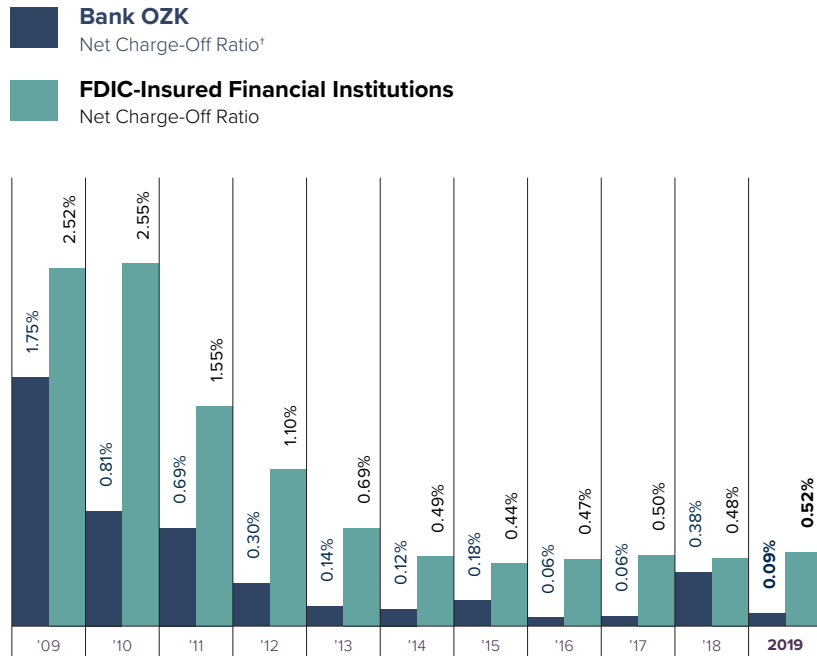
Over the past ten years, we have increased dividends paid to shareholders at a compound annual rate of **21.9%**.

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.

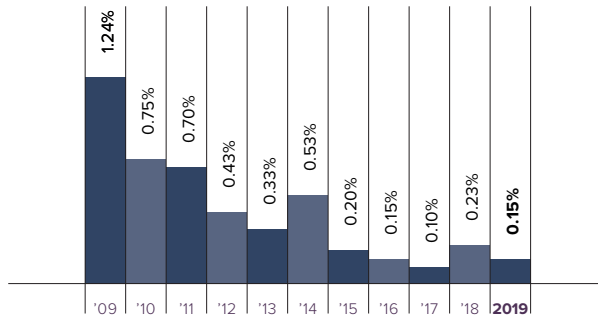
0.09%

Net Charge-Off Ratio[†]



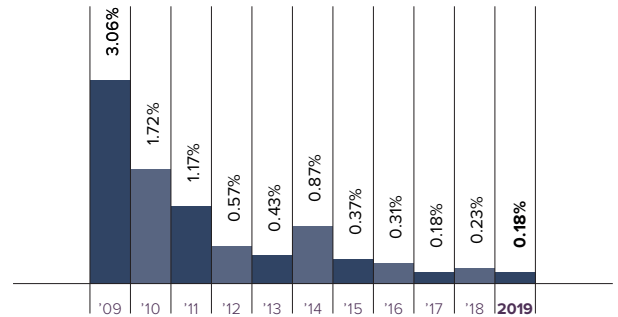
Source: Data for all FDIC-Insured Financial Institutions from the FDIC Quarterly Banking Profile for 4Q19.
[†]Ratios exclude purchased loans and net charge-offs related to such loans.

**Nonperforming Non-Purchased Loans (“NPLs”)/
Total Non-Purchased Loans %[†]**



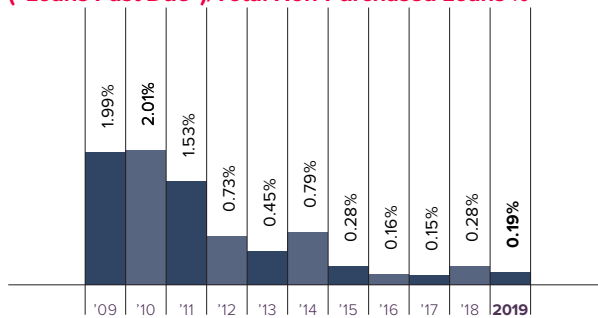
NPLs were just \$24 million, or 0.15% of total non-purchased loans, at 12/31/19.

Nonperforming Assets (“NPAs”)/Total Assets %^{}**



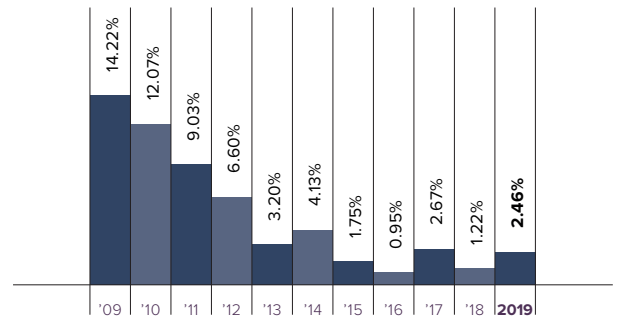
NPAs, which include NPLs and foreclosed assets, were just \$43 million, or 0.18% of total assets, at 12/31/19.

**Non-Purchased Loans Past Due 30 Days or More
Including Past Due Nonaccrual Non-Purchased Loans
 (“Loans Past Due”)/Total Non-Purchased Loans %[†]**



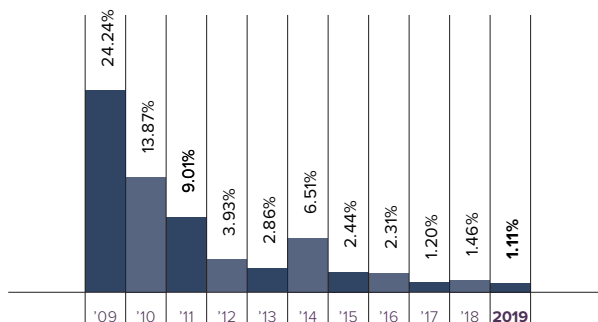
Non-purchased loans past due, including past due nonaccrual non-purchased loans, were just \$30 million, or 0.19% of total non-purchased loans, at 12/31/19.

**Substandard Non-Purchased Loans/
Total Risk-Based Capital %[†]**



Substandard loans were \$95 million, or just 2.46% of total risk-based capital, at 12/31/19.

NPAs/Total Risk-Based Capital %^{}**



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.

[†]Ratios exclude purchased loans, except for their inclusion in total assets.

^{**}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.

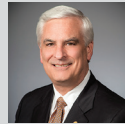
Quality and Diversity of Our Board Contribute to Our Success

Non-Independent Director

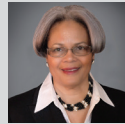


George Gleason

Independent Directors*



Nicholas Brown



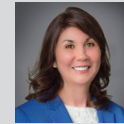
Paula Cholmondeley



Beverly Cole



Robert East



Kathleen Franklin



Catherine B. Freedberg, Ph.D.



Jeffrey Gearhart



Peter Kenny



William Koefoed



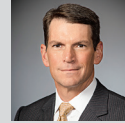
Jack Mullen



Christopher Orndorff



Robert Proost **



John Reynolds, M.D.



Steven Sadoff

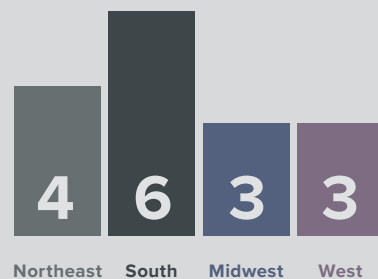


Ross Whipple

*As of December 31, 2019

**Term will end at the 2020 Annual Shareholders' meeting on May 4, 2020.

Geographic Diversity (# of Directors)



DIVERSE BLEND OF EXPERIENCES & QUALIFICATIONS

Relevant Industry Experience

Including banking, financial services, real estate and other industries

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

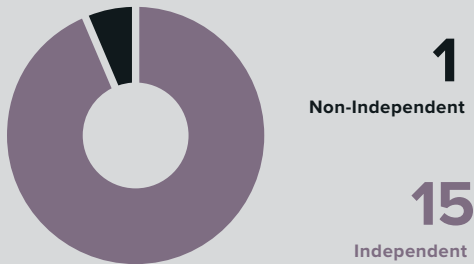
Broad & Diverse Market Perspective

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

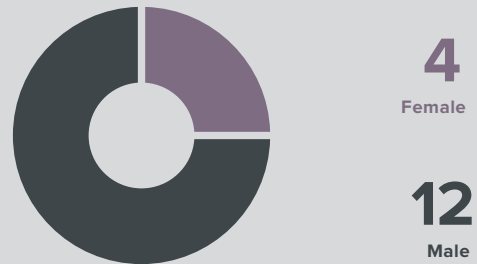
Compliance Experience

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

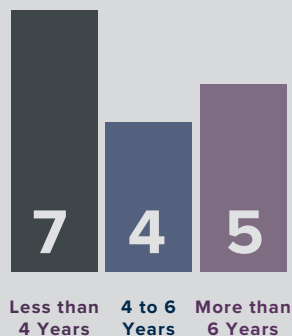
Independence*



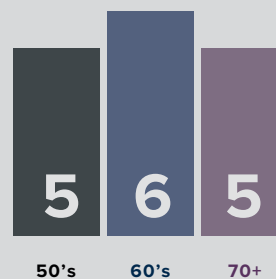
Gender*



Director Tenure* (# of Directors)



Director Age* (# of Directors)



*As of December 31, 2019

Deep and Talented Executive Management Team*



George Gleason
Chairman of the Board and
Chief Executive Officer
/ 41 years with OZK



Greg McKinney
Chief Financial Officer
/ 17 years with OZK



Tim Hicks
Chief Administrative Officer
and Executive Director of
Investor Relations
/ 11 years with OZK



Brannon Hamblen
President and COO—
Real Estate Specialties
Group
/ 12 years with OZK



John Carter
Chief Credit Officer and
Chairman of the Directors'
Loan Committee
/ 11 years with OZK



Cindy Wolfe
Chief Banking Officer
/ 22 years with OZK



Alan Jessup
Chief Lending Officer and
Managing Director—Community
Banking and Chairman of the
Officers' Loan Committee
/ 12 years with OZK



Jennifer Junker
Managing Director,
Trust and Wealth
/ 5 years with OZK



Dennis James
Executive Vice President
and Director of Regulatory
& Government Relations
/ 15 years with OZK



Scott Trapani
Chief Risk Officer
/ 1 year with OZK



Stan Thomas
Chief Accounting Officer
/ 9 years with OZK



Helen Brown
General Counsel and
Corporate Secretary
/ 6 years with OZK

14

Average years
with OZK

*Bank OZK executive officers
as of February 28, 2020



2019 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, 2019

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

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.01 par value per share	OZK	Nasdaq Global Select Market

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 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: \$3,650,000,000.

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, 2020
Common Stock, par value \$0.01 per share	129,334,415

Documents incorporated by reference: Portions of the Registrant's Proxy Statement for the 2020 Annual Meeting of Shareholders, scheduled to be held on May 4, 2020 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, 2019

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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 or relocating or closing existing offices; the ability to enter into and/or close additional acquisitions; 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; the potential impact of the change in the method of determining LIBOR; 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; natural disasters or acts of war or terrorism; global pandemics or health emergencies, such as the coronavirus; international or political instability; impairment of our goodwill or other intangible assets; adoption of new accounting standards, including the effects from the adoption of the current expected credit loss (“CECL”) model effective January 1, 2020, 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

In June 2017, we eliminated our former bank holding company, Bank of the Ozarks, Inc., by merging it with and into Bank of the Ozarks (subsequently renamed Bank OZK), an Arkansas state banking corporation (the “Bank”). The Bank is subject to regulation by the Arkansas State Bank Department (“ASBD”) and, as an insured depository institution that is not a member bank of the Board of Governors of the Federal Reserve System (“FRB”), the Bank’s primary federal regulator is the Federal Deposit Insurance Corporation (“FDIC”). The Bank is not 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 such date, and, for periods after such date, to the Bank, in each case including its consolidated subsidiaries. Shares of the Bank’s common stock are listed on the Nasdaq Global Select Market under the symbol “OZK.”

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

Bank OZK is a regional bank providing innovative financial solutions delivered by expert bankers with a relentless pursuit of excellence 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. We have been recognized as the top performing bank in the nation in its asset size 13 times in the past eight years and in 2019 we were named Best Bank in the South by *Money*, the personal finance news and advice brand. At December 31, 2019, we had total assets of \$23.6 billion, total loans (including purchased loans) of \$17.5 billion, total deposits of \$18.5 billion and total common stockholders’ equity of \$4.2 billion. For 2019, net interest income was \$884 million, net income available to common stockholders was \$426 million and diluted earnings per common share were \$3.30.

We provide a wide range of retail and commercial banking services through more than 250 offices (as of December 31, 2019) 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 do not have significant foreign operations.

Our Corporate Culture

Our Core Values. We hold to five core values as fundamental to who we are and how we do business. These core values include the following:

1. In all aspects of the conduct of our business, we apply the highest standards of business and professional ethics, honesty and fair dealing. These high standards apply in our dealings with customers, shareholders, employees, regulators and all others, including the investment community, media and general public. We want our reputation to be above reproach.
2. We are a “for profit” business capitalized by the investments of thousands of shareholders. These shareholders have entrusted their hard-earned money to us, expecting us to perform at a high level, maximizing their investments over the long term. We must return reasonable short-term and long-term profits in line with their reasonable expectations thus justifying their confidence in us.
3. We seek to serve our customers by providing them friendly, personalized service and helping them achieve their legitimate financial goals and objectives. We seek to understand the individual needs and desires of customers in their banking relationship, and we strive to meet or exceed their expectations.
4. We view all employees as members of an extended “corporate family.” As such, we want each employee to experience the satisfaction of working in a positive environment that includes good working relationships, fair compensation, good benefits, opportunity for other financial rewards and future opportunities. We seek to help each member of this corporate family grow, develop and achieve his or her career objectives and potential. In return, we

expect all employees to advance the Bank's interests through their hard work, loyalty, positive attitudes and performance. All employees will be evaluated and compensated based on their individual merit and performance without regard to race, color, national origin, religion, age, sex, sexual orientation, disability, genetic information, veteran status or any other protected status under federal, state or local law.

5. Our Bank is a good corporate citizen contributing in many ways to the positive educational, cultural and economic development of the communities in which we do business. Within reasonable limits, employees are encouraged to be actively involved in a variety of positive community endeavors.

Our core values can be further described through four tenets that we refer to as the OZK Way. The four tenets include the following:

- We want to provide exceptional service, present our products and services in an engaging way, and leverage our evolving technology to maximize the experience for each customer.
- We believe that capitalizing on the unique insights, abilities and experiences of each team member is critical in achieving the Bank's full potential. We embrace teamwork, collaboration and diversity in all its forms, recognizing that our potential together far exceeds the sum of our potential individually.
- We expect our team members to conduct themselves and our business with the highest standards of honesty, ethics, integrity and fair dealing.
- We will relentlessly pursue excellence. This quest for excellence includes continuous innovation and improvement, realizing that many small incremental enhancements can compound mightily over time.

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 stable deposit base through our emphasis on relationship-based banking, and believe that the following core strategies will assist us in growing our loan portfolio responsibly, maintaining our operational efficiency, increasing our profitability, and preserving our asset quality.

- In recent years, we have grown our non-purchased loan portfolio while remaining committed to our conservative credit culture. A significant portion of our non-purchased loan portfolio in recent years has been attributable to our Real Estate Specialties Group ("RESG"), which focuses on commercial real estate ("CRE") and acquisition, development and construction lending. We are focused on continuing to pursue meaningful non-purchased loan growth, including 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 Recreational Vehicle ("RV") and Marine lending business has become another national lending platform that provides meaningful growth and helps us achieve diversification within our loan portfolio. We expect that production from our other lending teams such as our Community Banking Division (including consumer, small business, government guaranteed, stabilized properties, agricultural, business aviation, affordable housing, middle market CRE, homebuilder finance, residential investment properties, and charter school lending) and our Corporate and Business Specialties Group ("CBSG") will continue to further contribute to that diversification effort. Prioritizing diversified growth in recent years has enabled us to reduce our RESG portfolio as a portion of total non-purchased loans from approximately 70% on December 31, 2016 to approximately 58% on December 31, 2019.
- As we continue to grow and diversify our lending activities, we intend to employ, and enhance as appropriate, 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. This focus is critical in today’s rapidly evolving banking environment where technology is becoming increasingly important in driving efficiency, 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 (through expanding current and developing new relationships).
- Our focus on long-term operational efficiency is a key factor in achieving our profitability and future growth goals and objectives. 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 and risk management, may allow us the opportunity to improve operational efficiencies over the long term as we grow our business.

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 RV and marine 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.

Procedures and Authority. Our Board of Directors (“Board”) and Directors’ Loan Committee (“DLC”) oversee and provide policy direction for our lending operations, which are primarily administered by our Chief Executive Officer (“CEO”), Chief Credit Officer (“CCO”) and Chief Lending Officer (“CLO”). We maintain a tiered loan limit authorization system. The CEO, CCO and CLO are granted lending authority by the Board, 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 \$20 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 total commitment (comprised of both funded and unfunded balance), as well as by property type and geography.

We have detailed, comprehensive standards for evaluating credit risk, both at the point of origination and thereafter, and we have a comprehensive internal grading system that is used to identify credit risk at the individual loan level. Oversight of credit risk is provided through loan policy, clearly defined processes and detailed procedures. These policies, procedures and processes place emphasis on strong underwriting standards and early detection of potential credit problems in order to develop and implement any necessary action plan(s) on a timely basis to mitigate potential losses and are carried out on a daily basis by our lenders and lending support personnel, our credit administration group, our underwriters and various other officers and personnel in the Bank that have credit management responsibilities. Additionally, our policies, procedures and processes are subject to review by our Credit Risk Management (“CRM”) activities (second line oversight), our Board Risk Committee (“BRC”) and periodic reviews by our Internal Audit group (third line oversight).

Real Estate Loans. Our portfolio of real estate loans 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” 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 any 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 – Risk Elements – Credit Risk" 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 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 RV and Marine Loans. Our portfolio of indirect consumer loans includes loans to individuals for the purchase of recreational vehicles and marine vessels, generated largely through relationships with dealers and correspondent lenders. These loans are generally collateralized by the purchased asset 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 comprised mainly of SBA, FSA and U.S. Department of Agriculture 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 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 are our subscription credit facilities for investment funds and 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 CBSG. 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 consists mainly 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. In December 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. We also make available, through various deposit placement networks, reciprocal deposits to our consumer, commercial and public funds deposit customers who want to make large deposit balances eligible for FDIC insurance beyond the traditional \$250,000 per insured bank, per depositor. Rates paid on 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, regional 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, except that brokered deposits, listing service deposits and certain of our public funds deposits are from outside our primary trade area and 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. 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 – Risk Elements – Liquidity Risk” to this Annual Report on Form 10-K.

Other Banking Services

Trust and Wealth Services. We offer a broad array of trust and wealth services from our headquarters in Little Rock, Arkansas, with additional staff in Northwest Arkansas, Texas, North Carolina, Georgia and Florida. These trust and wealth 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, 2019, total trust assets were approximately \$2.06 billion compared to approximately \$1.82 billion at December 31, 2018 and approximately \$1.94 billion at December 31, 2017.

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 automated clearing house (“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, 2019, we conducted operations through more than 250 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 and local 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, active community involvement and competitive products and pricing.

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, our lending groups 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.

Business Continuity and Information Security

We have developed and implemented business resilience programs to provide employees, customers, and stakeholders with reasonable assurance of resilience and recovery capabilities prior to, during and following a disruption. These programs align with industry standards and leading practices, and comply with regulatory requirements, including those of the Federal Financial Institutions Examination Council ("FFIEC"), and are subject to periodic review by the FDIC and ASBD, as well as internal audits.

The key elements of the programs are business continuity, disaster recovery and crisis management. These include planning, frequent assessments of new or adapting threats, adjustments to meet the needs of a dynamic organization, verification of recovery capabilities through tests and exercises, and continuous process improvement. The programs are actively managed, include various plans and teams trained and available around-the-clock to respond to disruptions and provide appropriate response during a disruption affecting our employees, customers, assets, business operations, technology infrastructure, brand and/or third-party relationships. The plans and programs are supported by a governance framework and are reviewed no less than annually to ensure strategies are effective, scalable, and current. 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.

We rely on electronic communications and information systems to conduct our operations and store sensitive data, and employ an in-depth, layered, defensive approach that leverages people, processes and technology to manage and maintain cybersecurity controls. We also utilize 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.

Employees

At December 31, 2019, we had 2,774 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.

Information about our Executive Officers

The following is a list of our executive officers. All information is given as of February 28, 2020.

George Gleason, age 66, 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 51, Chief Financial 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 on December 31, 2010. Effective January 2, 2020, the responsibilities of Chief Financial Officer and Chief Accounting Officer were split, with Mr. McKinney retaining the title and responsibilities of Chief Financial Officer. 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 senior audit manager when the firm closed its Little Rock office. Mr. McKinney is a C.P.A. (inactive) and holds a B.S. in Accounting from Louisiana Tech University.

Tim Hicks, age 47, 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 2017, Mr. Hicks served as Executive Vice President and Chief of Staff since 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 54, President and Chief Operating Officer – RESG. 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 an M.S. in Land Economics & Real Estate from Texas A&M University.

John Carter, age 40, Chief Credit Officer and Chairman of the Directors' Loan Committee. Prior to assuming the title of Chief Credit Officer in 2018, Mr. Carter served as the Director of Community Banking from 2015 to 2018. Mr. Carter joined the Bank in 2009 and served as a Vice President from 2009 to 2010, a Senior Vice President from 2010 to 2011, the Little Rock Market President from 2011 to 2014 and the Deputy Director of Community Bank Lending from 2014 to 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 54, Chief Banking Officer. Prior to assuming the role of Chief Banking Officer in 2018, Ms. Wolfe served as Deputy Director of Community Banking overseeing the Bank's Middle Market CRE business unit and offices across North Carolina and South Carolina. Ms. Wolfe joined the Bank in 1998, 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 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 47, Chief Lending Officer and Managing Director of Community Banking/Chairman of the Officers' Loan Committee. Prior to assuming the roles of Chief Lending Officer and Managing Director of Community Banking/Chairman of the Officers' Loan Committee in 2018, 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 joined the Bank in 2008 and served as Saline County President from 2008 to 2011 and South Arkansas President from 2011 to 2015. Mr. Jessup holds a B.S. in Finance from Arkansas State University.

Scott Trapani, age 57, Chief Risk Officer since March 2019. Prior to joining the Bank, Mr. Trapani served as Executive Vice President and Chief Risk Officer for Hilltop Holdings Inc. (NYSE: HTH) in Dallas, Texas from 2015 through 2019. Mr. Trapani served as Senior Vice President and Chief Risk Officer for the Federal Home Loan Bank of Dallas from 2013 through 2015 and as Chief Compliance Officer for Invesco, Ltd. in Atlanta, Georgia from 2008 through 2013. Earlier in his career, Mr. Trapani held senior roles in compliance and risk management with SunTrust Bank, GE Capital Corporation, BearingPoint Consulting and the FDIC. Mr. Trapani is a C.F.A. and holds a B.S. in Finance from Arizona State University.

Dennis James, age 69, Executive Vice President and Director of Regulatory and Government Relations since January 2019. Prior to assuming the role of Director 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 with honors, receiving a B.S.B.A. degree with a major in accounting.

Jennifer Junker, age 49, Managing Director, Trust and Wealth. Prior to joining the Bank in 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.

Stan Thomas, age 48, Chief Accounting Officer since January 2020. Mr. Thomas joined the Bank in 2011 and served as Senior Vice President/Director of Financial Reporting from 2011 to 2015 and Executive Vice President/Director of Financial Reporting from 2015 to 2019 prior to assuming the role of Chief Accounting Officer in January 2020. From 2008 to 2011, Mr. Thomas was a senior audit manager with a regional accounting firm. Prior to 2008, Mr. Thomas held various positions with two big-four accounting firms, leaving as a senior audit manager. Mr. Thomas is a C.P.A. and holds a B.S. in Accounting and an M.B.A. from Louisiana Tech University.

Helen W. Brown, age 42, General Counsel and Corporate Secretary. Prior to assuming the role of General Counsel in February 2020, Ms. Brown served as the General Counsel Corporate Governance and Corporate Secretary from July 2018 to January 2020. Ms. Brown joined the Bank in November 2013 as General Counsel Corporate Finance. Prior to joining the Bank, Ms. Brown was a Partner at Bass, Berry & Sims PLC in the firm's Corporate and Securities practice group. While in private practice, Ms. Brown focused on capital markets transactions, mergers and acquisitions and strategic investments, as well as advising companies on a variety of corporate governance and securities law matters. Ms. Brown received her Juris Doctor degree from the University of Arkansas School of Law, summa cum laude, and her Bachelor of Arts degree from the University of Arkansas, cum laude.

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 stability of the banking system as a whole, not for the protection of our shareholders and creditors. Significant elements of some of the statutes, regulations and policies applicable to us and our subsidiaries are described below, although the following discussion is a summary and does not purport to be complete. 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.

In 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.

The current U.S. political environment makes the prospects for further statutory changes to federal banking laws in the near term uncertain; however, even absent additional legislation, the federal banking agencies will continue to consider and potentially propose and adopt regulatory changes. Recent proposals include potential changes to regulations addressing brokered deposits and regulations under the Community Reinvestment Act. 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 the FDIC determines that an institution fails to meet these standards, the FDIC may require the institution to submit an acceptable compliance plan or, alternatively, 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

The Dodd-Frank Act fundamentally restructured federal banking regulation by shifting from prudential regulation of individual institutions to a systemic view of regulations. The Dodd-Frank Act and its implementing regulations resulted in significant regulatory change. Aspects 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. 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 take any actions necessary to comply with new statutory and regulatory requirements.

Capital Stress Testing. As a result of the EGRRCPA, we are no longer required to prepare annual capital stress tests pursuant to the Dodd-Frank Act. However, we 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.

The Volcker Rule. 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 August 2019, the federal banking agencies amended the Volcker Rule (effective as of January 1, 2020) to establish a tiered compliance regime based on a bank’s dollar amount of trading activity. Because we do not currently engage and have not historically engaged in activities prohibited by the Volcker Rule or its associated regulations, 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. From December 2008 to November 2009, we participated in the Troubled Asset Relief Program (“TARP”) and related Capital Purchase Plan (“CPP”) established by the U.S. Treasury Department (“Treasury”). Although we exited the programs in 2009, 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. 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.

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 us, 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

We are subject to the risk-based capital requirements established by the FDIC and other federal banking regulators 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. Because we exceed \$15 billion in total assets, our trust preferred securities are not included in tier 1 capital, but continue to be included as tier 2 capital.

The 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, 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.

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 or regulations related to information security, data and/or privacy may significantly increase our compliance costs 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, in 2018 the European Union's General Data Protection Regulation (the "GDPR") and the California Consumer Privacy Act of 2018 (the "CCPA") became effective. 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 a company's ability to fully assess an incident prior to external reporting. We must constantly monitor additional legal and regulatory requirements that apply to existing and future subsets of our 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. Regulations under the CRA 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 another bank or its assets or liabilities. A bank's CRA performance record is reviewed in connection with the filing of certain regulatory applications, including merger applications and branch applications. An unsatisfactory performance record can substantially delay or block the transactions contemplated by such applications. 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 December 2019, the FDIC and the Office of the Comptroller of the Currency ("OCC") proposed changes to the CRA's implementing regulations in an attempt to reduce their complexity. We will continue to evaluate the impact of any changes to the regulations implementing the CRA.

We are also subject to certain fair lending laws and regulations, including the Equal Credit Opportunity Act of 1974 and the Fair Housing Act of 1968, which (among other things) prohibit discrimination in credit and residential real estate transactions, including discrimination on the basis of, among other factors, race or color, national origin, gender, marital or familial status, age, handicap or disability, and religion. We are required to have a fair lending program of sufficient depth and breadth to monitor fair lending risks and appropriately remediate identified risks. Bank regulators have increasingly focused on the enforcement of these laws, and fair lending weaknesses can result in significant supervision and/or enforcement actions, along with fines, penalties, or financial remediation; reputational damage; CRA rating downgrade; investigation and enforcement actions by the U.S. Department of Justice ("DOJ"); or restrictions on our growth, revenue or expansion opportunities.

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 Securities and Exchange Commission (“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 to date, 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.

We are subject to the customer due diligence rules issued by Treasury’s Financial Crimes Enforcement Network (“FinCEN”) under the BSA, which require 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 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, among other things, issuing a cease-and-desist order, imposing civil monetary penalties, requiring an increase in capital, entering into informal and formal enforcement actions against the insured bank, requiring the insured bank to take identified corrective actions to address cited concerns or refrain from taking certain actions, or terminating deposit insurance.

Federal and state banking regulators have the authority to initiate informal or formal enforcement actions against us. Informal actions may include board resolutions approved by the applicable regulators, supervisory letters or memoranda of understanding. Formal actions may include consent orders, cease-and-desist orders, requiring an increase in capital, termination of deposit insurance and civil money penalties. Informal actions are generally a confidential part of the regulators' examination and supervisory process and may not be disclosed without the permission of the regulators. Formal actions, however, are publicly disclosed.

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. Consistent with their supervision practices for banks of our size, the FDIC and ASBD utilize an exam team that remains on site throughout the year and conduct regular examinations of us, reviewing such matters as the overall safety and soundness of our institution, the adequacy of our allowance for loan losses, 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. Our FDIC and ASBD examinations are generally 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 FFIEC 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 limitations on 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 18 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 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 18 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 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 our 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

Banking regulators, federal and state governments and other bodies routinely consider and enact new laws, regulations and policies, and may have differing interpretations regarding certain laws, regulations and policies, regulating the banking industry and public companies generally. 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 changes in laws on our business and results of operations will depend in part 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. However, given our growth and the extensive and comprehensive regulation of our industry, we expect that our regulatory compliance costs will continue to increase over time. 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 17th 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, principal financial officer and principal accounting officer, 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 Investor Relations website in such section. Our Corporate Governance Guidelines, Board committee charters and other corporate governance related documents are also posted on our website, and available in print upon request from any shareholder to our Investor Relations Department.

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.

ECONOMIC AND CREDIT RISKS

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, but not limited to, 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 markets where we operate and in the U.S. as a whole may continue to 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.

Our business depends on the condition of the local and regional economies where we operate and we may have more credit risk to the extent loans are concentrated by location or industry of the borrowers or collateral.

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 or real estate 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 delinquencies or 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.

Approximately 19% of our total loan portfolio at December 31, 2019 was concentrated in the New York–Newark–Jersey City Metropolitan Statistical Area (“MSA”). As a result, our financial condition and results of operations depend, in part, upon economic conditions in this market area. Deterioration in economic conditions in this market could result in one or more of the following: an increase in loan delinquencies and charge-offs, an increase in problem assets and foreclosures, a decrease in the demand for our products and services, or a decrease in the value of collateral for loans, especially real estate.

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, among other management and monitoring procedures, 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 significantly increase our credit risk, which could have an adverse effect on our allowance and provision for credit 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 72.8% of our total loans at December 31, 2019 (77.2% at December 31, 2018). In addition, our construction/land development and non-farm/non-residential loans, which are subsets of our real estate loans, comprised 36.4% and 22.6%, respectively, of our total loan portfolio at December 31, 2019 (38.4% and 25.2%, respectively, at December 31, 2018). 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. In addition, many of our real estate construction, acquisition and development loans typically involve large balances to single borrowers or groups of related borrowers. 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 allowances for 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 allowance for credit losses, which could have an adverse effect on our financial position and 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 net charge-offs, our allowance and provision for credit 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, or expected to be realized, upon disposition of foreclosed assets will approximate the carrying value of such assets. If the proceeds, or expected 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, or otherwise be required to write down the value of such assets, which in turn could have an adverse effect on our results of operations.

The appraisals and other valuation techniques we use in evaluating and monitoring loans secured by real property may not accurately describe the net value of the collateral that we can realize.

Our underwriting and ongoing monitoring policies and processes for real estate loans generally utilize appraisals of the real property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and, as real estate values may change significantly in relatively short periods of time (especially in periods of heightened economic uncertainty), this estimate may not accurately describe the net value of the real property collateral after the loan is made. As a result, we may obtain subsequent appraisals that differ materially from prior appraisals regarding the value of the property, which could have an adverse effect on the loan's credit quality or risk rating, and we may not be able to realize the full amount of any remaining indebtedness when we foreclose on and sell the relevant property. This could have a material adverse effect on our business, financial condition or results of operations.

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

Our Indirect RV and Marine lending group makes loans to individuals for the purchase of those types of vehicles and vessels. 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 and correspondent relationships. If we are not able to maintain existing relationships with significant dealers or correspondents 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 and correspondents 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 LTV 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 allowance and provision for credit losses and our financial condition and results of operations.

We could experience deficiencies in our allowance for credit losses.

We maintain an allowance for credit losses, established through a provision for credit losses charged to expense, that represents our best estimate of probable losses incurred in our loan portfolio. Effective January 1, 2020, we adopted the current expected credit loss (“CECL”) model which requires, among other items, that we establish an allowance for the lifetime expected losses on individual loans, and a reserve (reflected as a liability on our consolidated balance sheet) for lifetime expected losses on our unfunded commitments (comprised primarily of closed but unfunded construction and development loans). The aggregate of the allowance for both the funded loans and the unfunded commitments is referred to as our allowance for credit losses (“ACL”). Although we believe that we maintain our ACL, on a post-CECL basis, at a level adequate to absorb lifetime expected losses in our loan portfolio, estimates of credit losses are subjective and their accuracy may depend on the outcome of future events that are difficult to predict. 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. Credit losses occur for many reasons beyond our control. Accordingly, we may incur charge-offs or otherwise be required to make significant and unanticipated increases in our ACL 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 ACL and our methodologies for calculating the ACL. These regulatory authorities may require adjustments to the ACL or ACL

methodology or may require recognition of additional credit losses or charge-offs based upon their judgment. Any increase in the ACL, credit losses or charge-offs required by bank regulatory authorities could have a material adverse effect on our financial condition, results of operations and liquidity.

The CECL guidance requires the ACL to be forward-looking and requires immediate recognition of estimated credit losses over the remaining life of financial assets. The CECL model applies to the measurement of credit losses on the financial assets measured at amortized cost, including but not limited to loan receivables. It also applies to off-balance sheet credit exposures not accounted for at fair value (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). For assets within the scope of CECL, a cumulative-effect adjustment is recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. We have developed and implemented processes and procedures to comply with the CECL requirements. Effective January 1, 2020, CECL changed the method of provisioning ACL, required us to increase our ACL and increased the types of data we need to collect and review to determine the appropriate ACL. In addition, this change will likely result in more volatility in the level of ACL and our provision expense for credit losses. 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 and “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Risk Elements – Credit Management Actions – 2020” of this Annual Report on Form 10-K for a more detailed discussion of changes to how we measure and recognize credit impairment, including the effect on our ACL, under the CECL methodology.

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.

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.

OPERATIONAL RISKS

We depend on key personnel for our success.

Our operating results and ability to execute our strategic plans and minimize credit 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 believes is capable of managing and growing our business and executing those strategic plans. 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 business strategies.

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. Legal authorities and regulators could hold us responsible for failures by these parties to comply with applicable laws, rules or regulations. These failures could expose us to significant litigation or regulatory action that could limit our activities or impose significant fines or other financial losses. Additionally, we could be subject to significant litigation from consumers or other parties harmed by these failures and could suffer significant losses of business and revenue, as well as reputational harm as a result of these failures.

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.

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 customers and could have an adverse effect on our business, financial position, results of operations and liquidity.

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.

Ineffective techniques for managing risk, or failures or circumvention of our internal controls, may expose us to material unanticipated losses.

In order to manage the significant risks inherent in our business, we must maintain effective policies, procedures and systems that enable us to identify, monitor and control our exposure to material risks, such as credit, operational, legal and reputational risks. Our risk management methods may prove to be ineffective due to their design, their implementation or the degree to which we adhere to them, or as a result of the lack of adequate, accurate or timely information or otherwise. Any failure or circumvention of our controls, processes and procedures or failure to comply with regulations related to controls, processes and procedures could necessitate changes in those controls, processes and procedures, which may increase our compliance costs, divert management attention from our business or subject us to regulatory actions and increased regulatory scrutiny. If our risk management efforts are ineffective, we could suffer losses that could have a material adverse effect on our financial condition, results of operations and liquidity, and we could be subject to litigation from customers or sanctions or fines from regulators. Our techniques for managing the risks we face may not fully mitigate the risk exposure in all economic or market environments, including exposure to risks that we might fail to identify or anticipate.

Our internal controls, disclosure controls, processes and procedures, and corporate governance policies and procedures are based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls, processes and procedures or failure to comply with regulations related to controls, processes and procedures could necessitate changes in those controls, processes and procedures, which may increase our compliance costs, divert management attention from our business or subject us to regulatory actions and increased regulatory scrutiny. Any of these could have an adverse effect on our financial condition, results of operations and liquidity.

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.

We may incur losses as a result of unforeseen or catastrophic events, including the emergence of a pandemic, terrorist attacks, extreme weather events, or other natural disasters and climate change.

The occurrence of unforeseen or catastrophic events, including the emergence of a pandemic, such as coronavirus, or other widespread health emergency (or concerns over the possibility of such an emergency), terrorist attacks, extreme terrestrial or solar weather events or other natural disasters, could create economic and financial disruptions, and could lead to operational difficulties (including travel limitations) that could impair our ability to manage our businesses.

Certain of our borrowers may be affected by the recent outbreak of the coronavirus, which originated in Wuhan, Hubei Province, China but has been reported in other countries. These effects could include disruptions or restrictions in our borrowers' supply chains or decreases in demand for their products and services. If our borrowers are adversely affected, or if the virus leads to a widespread health crisis that impacts economic growth, our financial condition and results of operations could be adversely affected, despite having no direct operations in China.

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, including increases in storm incidents and resulting rising sea levels. To the extent climate change causes changes in weather patterns, our markets could experience increases in storm intensity and rising sea-levels. Over time, these conditions could result in declining demand for certain types of business that we finance, including commercial real estate projects, or decrease the value of our loans and other assets secured by real estate that might be impacted. Should the impact of climate change be material in nature or occur for lengthy periods of time, our financial condition or results of operations would be adversely affected. In addition, changes in federal and state legislation and regulation on climate change could result in increased capital expenditures to, among other things, improve the energy efficiency of properties we own in order to comply with such regulations. Climate change may also have indirect effects on our business by increasing the cost of (or making unavailable) property insurance on terms we find acceptable. There can be no assurance that climate change will not have a material adverse effect on our operations or business.

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.

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 and success 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 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 accounting principles generally accepted in the U.S. (“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 have been determined by management to be 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 ACL or sustain credit losses that are significantly higher than the reserve provided; recognize significant impairment on goodwill and other intangible asset balances; 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.”

LEGAL, COMPLIANCE AND REGULATORY RISKS

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.

In addition, 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.

We are subject to increased litigation, government investigation and increased scrutiny from bank regulatory and other government authorities, stemming from broader systemic regulatory concerns, including with respect to stress testing, liquidity and capital levels, asset quality, provisioning for credit loss, AML/BSA, consumer compliance and other prudential matters and efforts to ensure that financial institutions take steps to improve their risk management and prevent future crises. In this regard, government authorities, including the bank regulatory agencies and law enforcement, are also pursuing aggressive enforcement actions with respect to compliance and other legal matters involving financial activities, which heightens the risks associated with actual and perceived compliance failures and may also adversely affect our ability to enter into certain transactions or engage in certain activities, or obtain necessary regulatory approvals in connection therewith. The government enforcement authority includes, among other things, the ability to assess significant civil or criminal monetary penalties, fines, or restitution; to issue informal or formal enforcement actions, including required board resolutions, memoranda of understanding, written agreements, consent orders, cease and desist orders or prompt corrective action orders; to take corrective action and cease unsafe and unsound practices; and to initiate injunctive actions against banking organizations and institution-affiliated parties. These enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices.

In some cases, regulatory agencies may take supervisory actions that may not be publicly disclosed, which may address existing controls and could restrict or limit a financial institution. Also, as part of our regular examination process, our regulators may advise

us to operate under various restrictions as a prudential matter. Such supervisory actions or restrictions, in whatever manner imposed, could negatively affect our ability to engage in new activities and certain transactions, as well as have a material adverse effect on our business and results of operations and may not be publicly disclosed.

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

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 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 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 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 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.

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.

Our concentration in CRE lending may subject us to additional 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 165% of our total risk-based capital at December 31, 2019 (186% at December 31, 2018). Additionally, while our ratio of total loans for multifamily and non-owner occupied, non-farm/non-residential and loans for construction, land development and other land to total risk-based capital of 276% at December 31, 2019 does not exceed regulatory guidance, this ratio has exceeded such regulatory guidance in prior years (313% at December 31, 2018). 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, procedures and appropriate risk management practices with respect to our CRE loan portfolio consistent with this guidance, bank regulators could require us to implement additional policies, procedures or risk management practices, or require us to maintain increased capital levels, consistent with their interpretation of the guidance that may result in additional costs to us.

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

The CRA, the Equal Credit Opportunity Act and the Fair Housing Act impose nondiscriminatory lending requirements on financial institutions. The CFPB, the DOJ, 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 CRA 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.

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, 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 the FDIC determines 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 continue to affect the profitability of our business activities, require additional 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;
- 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
- limitations on our ability to offer certain consumer products and services due to anticipated stricter consumer protection laws and regulations.

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 ("USMCA") to replace the North American Free Trade Agreement ("NAFTA"), which was signed into law on January 29, 2020 after congressional approval. 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.

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.

LIQUIDITY AND MARKET RISKS

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 is the potential that we will be unable to meet our obligations as they become due because of an inability to liquidate assets or obtain adequate funding (referred to as "funding liquidity risk" or that we cannot easily unwind or offset specific expenses without significantly lowering market prices because of inadequate market depth or market disruptions (referred to as "market liquidity risk"). Our ALCO Committee ("ALCO"), which reports to the Board, has primary responsibility for oversight of our liquidity, funds management, asset/liability (interest rate risk) position, investment portfolio, and capital.

The objective of managing liquidity risk is to ensure that our cash flow requirements resulting from depositor, borrower (including our ability to fund our significant balance of closed but unfunded loans), 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 policies and 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 secondary funding sources, including 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 generally 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.

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 an increase in funding liquidity risk or an increase in market liquidity risk, we might be unable to meet our depositors', borrowers' or creditors' needs, which would adversely affect our financial condition, results of operations and liquidity.

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, least costly 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 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. At December 31, 2019 we had \$2.12 billion in brokered deposits (\$2.04 billion at December 31, 2018). 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 adversely 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, 2019, 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 through other means. 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 additional 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 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 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 18 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.

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 and economic value of equity (“EVE”) 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 from the repayment or prepayment of loans, (viii) the need, if any, for additional capital and/or debt to support continued growth, and (ix) other relevant factors. EVE, which measures the expected change in the fair value of equity, is calculated as the fair value of all assets minus the fair value of liabilities and incorporates a number of assumptions including (i) the timing and amount of cash flows expected to be received or paid on various assets and liabilities, (ii) the expected exercise of call features on various assets and liabilities, (iii) estimated discount rates and (iv) other relevant factors. These

assumptions and inputs into our interest simulation model and EVE are difficult to predict. Should these assumptions prove to be inaccurate, our interest simulation model and EVE 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.

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.

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.

ALCO 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 that have experienced a deterioration of financial condition, or that 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 \$739 million in general, hybrid and separate account BOLI contracts at December 31, 2019. 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 also 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.

Changes to or possible elimination of London Interbank Offered Rates (“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 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, 2019, approximately \$12.53 billion, or approximately 71% of our total loans were variable rate. Of those variable rate loans, approximately 79% were indexed to 30-day or 90-day LIBOR. 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 most of these 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.

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.

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, 2019, we had an aggregate principal amount of \$118 million of floating rate and 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, 2019, 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 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 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.

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, over a short period of time, 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.

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 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 acquisition of other financial institutions or to support expected growth. We may determine from time to time to issue additional equity securities to raise additional capital, support growth, or to make acquisitions. Further, we have, and may continue to, issue stock options, grant restricted stock awards or other stock grants, awards or units in order 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. In addition, 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.

STRATEGIC, REPUTATIONAL AND OTHER RISKS

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 restrictions or actions, legislative considerations, and competition may impede or restrict our ability to expand our market presence and could adversely affect our future operating results.

We have made, and are continuing to make, significant changes and enhancements to our infrastructure in a number of important areas. The ultimate success and completion of these changes may vary significantly from initial planning, which could which could materially affect our control environment, operating efficiency, and results of operations.

Over the last several years, we have completed numerous strategic initiatives and improvement projects, including the merger of our bank holding company into the Bank, our name change and strategic rebranding, expansion and enhancement of our infrastructure for information technology, cybersecurity, information systems, business resilience, enterprise risk management, internal audit, compliance, BSA and AML monitoring activities and program enhancements, 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. Ongoing investment will continue with respect to expansion and enhancements to our infrastructure, implementation of various customer-facing digital capabilities, and a variety of other projects to enhance, automate or otherwise create efficiencies in how we do business.

These changes continue to be implemented; some of the projects are fully completed, and some projects are in their early stages. By their very nature, projections of duration, cost, expected savings, expected efficiencies and related items are subject to change and significant variability. We may encounter significant adverse developments in the completion and implementation of these changes. These may include significant time delays, cost overruns, loss of key people, technological problems, processing failures and other adverse developments. Any or all of these issues could result in disruptions to our systems, processes, control environment, procedures and employees, which may adversely impact our customers and our ability to conduct business.

We have plans, policies and procedures designed to prevent or limit the negative effect of these potential adverse developments. However, there can be no assurance that any such adverse developments will not occur or, if they do occur, that they will be adequately remediated. The ultimate effect of any adverse development could subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could materially affect our control environment, operating efficiency and results of operations.

If we do not manage our growth effectively, our business, future prospects, financial condition, results of operations and liquidity could be adversely affected.

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. Our growth prospects must be considered in light of the risks, expenses and difficulties frequently encountered by banking companies pursuing such strategies. In order to successfully expand our banking relationships in our current or new markets, we must, among other things:

- 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;
- identify and expand into suitable markets;
- identify and acquire suitable sites for new banking offices;
- obtain regulatory and other approvals;
- 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 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 may continue 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. Any acquisition may involve the payment of a premium over book and/or market value and, therefore, some dilution of our tangible book value and diluted earnings per common share may occur in connection with any such 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.

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 a variety of sources, including 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.

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.

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, 2019 our goodwill totaled \$661 million. While our previous evaluations of goodwill, including our evaluation as of December 31, 2019, 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 could have a material adverse effect on our financial condition and results of operations.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our principal executive office is located in Little Rock, Arkansas. At December 31, 2019, we conducted banking operations in 254 offices in ten states, including 243 banking offices and eleven 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, 2019.

State	Banking Facility		Total
	Owned	Leased	
Arkansas	74 ⁽¹⁾	7 ⁽²⁾	81
Georgia	61	9 ⁽³⁾	70
Florida	31	13 ⁽⁴⁾	44
North Carolina	24	2 ⁽⁵⁾	26
Texas	20	4 ⁽⁶⁾	24
Alabama	2	—	2
South Carolina	2	—	2
California	—	3 ⁽⁷⁾	3
New York	—	1	1
Mississippi	—	1 ⁽⁸⁾	1
Total	<u>214</u>	<u>40</u>	<u>254</u>

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

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

(3) Includes one loan production office each in Atlanta and Alpharetta.

(4) Includes a loan production office in Orlando.

(5) Includes one loan production office each in Raleigh and Greenville.

(6) Includes a loan production office in Tyler.

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

(8) Includes a loan production office in Brookhaven.

Item 3. LEGAL PROCEEDINGS

On October 26, 2018, a purported class action complaint alleging violations of federal securities laws 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. Under applicable federal law, the federal district court in the Colbert Case named Strathclyde Pension Fund as the lead class plaintiff. The Colbert complaint, as amended on June 21, 2019, 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 amended 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 amended complaint identified the respective proposed class period as encompassing persons who purchased the Bank's common stock between February 19, 2016 and October 18, 2018, and seeks damages against the Bank and the individual defendants. The Bank and the individual defendants believe that the plaintiffs' allegations set forth in the amended complaint are without merit, and the Bank and the individual defendants have moved to dismiss the case and 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. As amended on July 15, 2019, the complaint 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 amended complaint seeks damages against the individual defendants and disgorgement of any profits, benefits and other compensation received by them. The Bank intends to vigorously oppose the ability of the plaintiff to proceed in a derivative capacity. All defendants have moved to dismiss the action, and the individual defendants intend to vigorously defend against the claims against them.

On August 14, 2019, a shareholder derivative complaint was filed in the United States District Court for the Eastern District of Arkansas, case number 4:19-cv-567-KGB, by Barbara Bonessi as plaintiff, against the Bank, as nominal defendant, the current members of the board of directors, and certain current and former officers and directors of the Bank. As amended on January 20, 2020, the complaint alleges claims against the current members of the board of directors of breach of fiduciary duty, waste of corporate assets, unjust enrichment, failing to prevent other officers and directors from alleged insider trading in the Bank's stock, and violation of Section 14(a) of the Securities Exchange Act of 1934, as amended, and Rule 14a-9 promulgated thereunder, all in the context of the same factual circumstances recited in the actions noted in the two preceding paragraphs. The amended complaint also alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, and alleges unlawful sales of Bank stock against certain current and former directors and officers of the Bank while in possession of non-public material adverse information, based on the same factual circumstances recited in the actions noted in the two preceding paragraphs. Under the amended complaint, the plaintiff seeks damages against the individual defendants and disgorgement of any profits, benefits and other compensation received by them. The Bank will vigorously oppose the ability of the plaintiff to proceed under the amended complaint in a derivative capacity, and all individual defendants intend to vigorously defend against the claims against them.

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.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

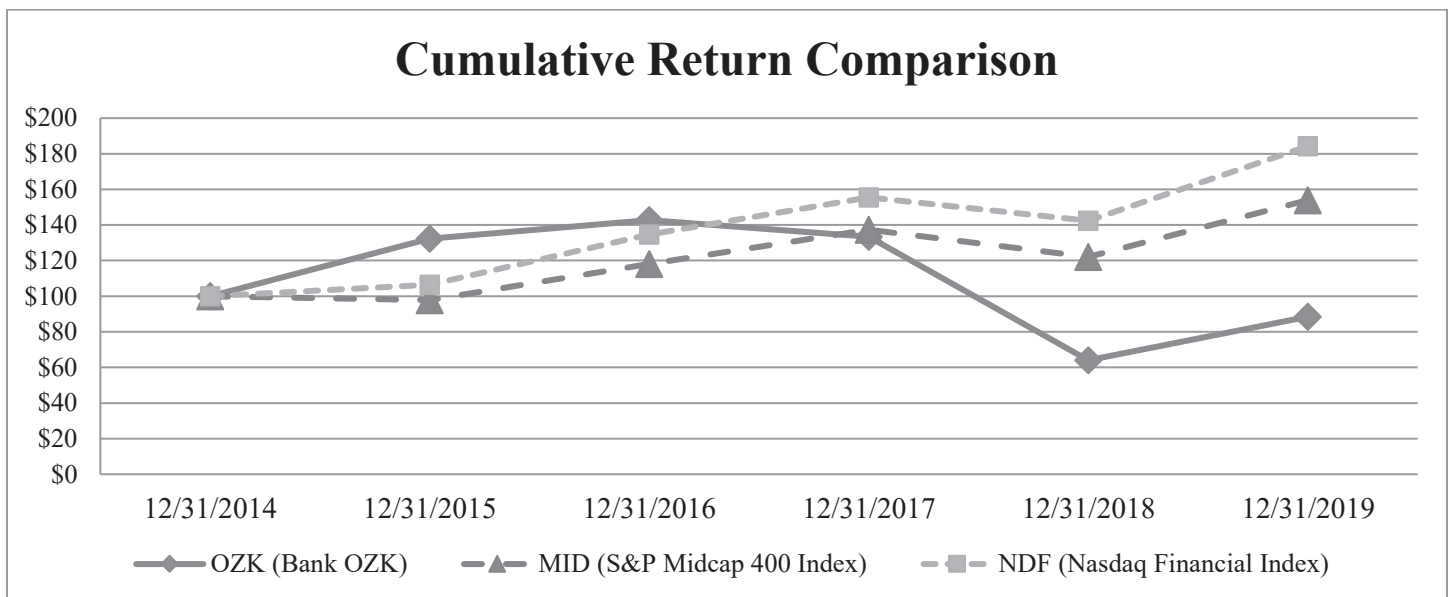
Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Bank’s common stock is listed on the Nasdaq Global Select Market under the symbol “OZK” and at December 31, 2019, the Bank had approximately 1,279 shareholders of record. On December 31, 2019, the closing price of our common stock was \$30.51 per share.

During the fourth quarter of 2019, the Bank issued 16,150 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 2019, we had no repurchases of shares of our common stock.

The graph below shows a comparison for the period commencing December 31, 2014 through December 31, 2019 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, 2014.



	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
OZK (Bank OZK)	\$ 100	\$ 132	\$ 143	\$ 133	\$ 64	\$ 88
MID (S&P Midcap 400 Index)	\$ 100	\$ 98	\$ 118	\$ 137	\$ 122	\$ 154
NDF (Nasdaq Financial Index)	\$ 100	\$ 106	\$ 135	\$ 155	\$ 142	\$ 184

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, 2019 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,				
	2019	2018	2017	2016	2015
	(Dollars in thousands, except per share amounts)				
Income statement data:					
Interest income	\$ 1,162,541	\$ 1,100,820	\$ 932,593	\$ 662,555	\$ 409,719
Interest expense	278,360	209,387	115,164	61,050	27,568
Net interest income	884,181	891,433	817,429	601,505	382,151
Provision for loan losses	26,241	64,398	28,092	23,792	19,415
Non-interest income	107,527	107,775	123,858	102,399	105,015
Non-interest expense	401,130	380,752	332,672	255,754	190,982
Net income available to common stockholders	425,906	417,106	421,891	269,979	182,253
Common share and per common share data:					
Earnings – diluted	\$ 3.30	\$ 3.24	\$ 3.35	\$ 2.58	\$ 2.09
Book value	32.19	29.32	26.98	23.02	16.16
Tangible book value ⁽¹⁾	26.88	23.90	21.45	17.08	14.48
Dividends	0.94	0.795	0.71	0.63	0.55
Weighted-average diluted shares outstanding (thousands)	129,006	128,740	125,809	104,700	87,348
End of period shares outstanding (thousands)	128,951	128,611	128,288	121,268	90,612
Balance sheet data at period end:					
Total assets	\$ 23,555,728	\$ 22,388,030	\$ 21,275,647	\$ 18,890,142	\$ 9,879,459
Total loans	17,532,043	17,117,823	16,043,029	14,563,115	8,334,671
Non-purchased loans	16,224,539	15,073,791	12,733,937	9,605,093	6,528,634
Purchased loans	1,307,504	2,044,032	3,309,092	4,958,022	1,806,037
Allowance for loan losses	108,525	102,264	94,120	76,541	60,854
Foreclosed assets	19,096	16,171	25,357	43,702	22,870
Investment securities – AFS	2,277,389	2,862,340	2,593,873	1,464,391	577,780
Goodwill and other intangible assets	684,542	696,461	709,040	720,950	152,340
Deposits	18,474,259	17,938,415	17,192,345	15,574,878	7,971,468
Repurchase agreements with customers	11,249	20,564	69,331	65,110	65,800
Other borrowings	351,387	96,692	22,320	41,903	204,540
Subordinated notes	223,663	223,281	222,899	222,516	—
Subordinated debentures	119,916	119,358	118,800	118,242	117,685
Unfunded balance of closed loans	11,325,598	11,364,975	13,192,439	10,070,043	5,804,257
Total common stockholders’ equity	4,150,351	3,770,330	3,460,728	2,791,607	1,464,631
Loan, including purchased loans, to deposit ratio	94.90%	95.43%	93.31%	93.50%	104.56%
Average balance sheet data:					
Total average assets	\$ 22,759,370	\$ 21,911,255	\$ 19,654,664	\$ 14,270,078	\$ 8,621,334
Total average common stockholders’ equity	3,971,952	3,598,628	3,127,576	2,068,328	1,217,475
Average common equity to average assets	17.45%	16.42%	15.91%	14.49%	14.12%
Performance ratios:					
Return on average assets	1.87%	1.90%	2.15%	1.89%	2.11%
Return on average common stockholders’ equity	10.72	11.59	13.49	13.05	14.97
Return on average tangible common stockholders’ equity ⁽¹⁾	12.98	14.41	17.49	16.25	17.02
Net interest margin – FTE	4.34	4.59	4.85	4.92	5.19
Efficiency ratio	40.27	37.93	34.88	35.84	38.45
Common stock dividend payout ratio	28.44	24.51	21.03	23.03	25.83
Asset quality ratios:					
Net charge-offs to average non-purchased loans ⁽²⁾	0.09%	0.38%	0.06%	0.06%	0.18%
Net charge-offs to average total loans	0.11	0.34	0.07	0.07	0.17
Nonperforming loans to total loans ⁽³⁾	0.15	0.23	0.10	0.15	0.20
Nonperforming assets to total assets ⁽³⁾	0.18	0.23	0.18	0.31	0.37
Allowance for loan losses as a percentage of:					
Non-purchased loans ⁽⁴⁾	0.66%	0.67%	0.73%	0.78%	0.91%
Nonperforming loans ⁽⁴⁾	448%	284%	717%	521%	452%
Capital ratios:					
Common equity tier 1	13.76%	12.56%	11.17%	9.99%	10.79%
Tier 1 risk-based capital	13.76	12.56	11.17	9.99	11.62
Total risk-based capital	15.57	14.37	12.94	11.99	12.12
Tier 1 leverage	15.36	14.25	13.83	11.99	14.96

(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 Management” 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.

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.

	2019 – Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(Dollars in thousands, except per share amounts)			
Interest income	\$ 295,243	\$ 296,819	\$ 289,517	\$ 280,963
Interest expense	(69,355)	(72,283)	(70,737)	(65,986)
Net interest income	225,888	224,536	218,780	214,977
Provision for loan losses	(6,681)	(6,769)	(7,854)	(4,938)
Non-interest income	24,072	26,603	26,446	30,406
Non-interest expense	(96,678)	(99,131)	(100,914)	(104,406)
Income before taxes	146,601	145,239	136,458	136,039
Income taxes	(35,889)	(34,726)	(32,574)	(35,240)
Noncontrolling interest	(6)	(10)	7	7
Net income available to common stockholders	<u>\$ 110,706</u>	<u>\$ 110,503</u>	<u>\$ 103,891</u>	<u>\$ 100,806</u>
Basic earnings per common share	<u>\$ 0.86</u>	<u>\$ 0.86</u>	<u>\$ 0.81</u>	<u>\$ 0.78</u>
Diluted earnings per common share	<u>\$ 0.86</u>	<u>\$ 0.86</u>	<u>\$ 0.81</u>	<u>\$ 0.78</u>

	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 before taxes	147,106	153,330	99,844	153,778
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>

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, 2019 and 2018 and our results of operations for each of the years in the three-year period ended December 31, 2019. 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.

Bank OZK (the "Bank") is 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 not 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). Shares of the Bank's common stock are listed in the Nasdaq Global Select Market under the symbol "OZK."

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 calculated pursuant to GAAP under the incurred loss methodology and 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 credit risk. Grades are reviewed on specific loans from time to time by senior management and as part of our internal credit risk management processes.

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, nature and down payment requirements 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, recent trends of charge-offs by loan types 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 provision expense for the reporting period and 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 provision expense for the reporting period and the required level of ALL and may result in an allowance allocation or a partial or full charge-off.

At both December 31, 2019 and 2018, 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 no longer past due, the loan has performed in accordance with its contractual terms for a reasonable period of time (generally at least six months), and is expected to continue to perform in accordance with its contractual terms. 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, 2019 and 2018, 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) (“AOCI”), 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. Additionally, the valuation of investment securities acquired in an acquisition may include certain 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 the credit quality, financial condition and near term prospects of the issuer, the nature and cause of the unrealized loss, the severity and duration of the unrealized loss and various other factors. 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	
	2019	2018	2017	2019 from 2018	2018 from 2017
	(Dollars in thousands, except per share amounts)				
Total assets	\$23,555,728	\$22,388,030	\$21,275,647	5.2%	5.2%
Investment securities AFS	2,277,389	2,862,340	2,593,873	(20.4)	10.4
Total loans	17,532,043	17,117,823	16,043,029	2.4	6.7
Deposits	18,474,259	17,938,415	17,192,345	3.0	4.3
Common stockholders' equity	4,150,351	3,770,330	3,460,728	10.1	8.9
Net income available to common stockholders	425,906	417,106	421,891	2.1	(1.1)
Diluted earnings per common share	3.30	3.24	3.35	1.9	(3.3)
Book value per common share	32.19	29.32	26.98	9.8	8.7
Tangible book value per common share ⁽¹⁾	26.88	23.90	21.45	12.5	11.4

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

Highlights of 2019 include the following:

- Growth in total assets of 5.2% to \$23.56 billion at December 31, 2019;
- Growth in total loans of 2.4% to \$17.53 billion at December 31, 2019;
- Net income available to common stockholders of \$425.9 million for 2019, a 2.1% increase from net income available to common stockholders for 2018;
- Return on average assets of 1.87% for 2019;
- Returns on average common stockholders' equity and average tangible common stockholders' equity of 10.72% and 12.98%, respectively, for 2019 (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 Management");
- Net interest margin, on a fully taxable equivalent ("FTE") basis, of 4.34% for 2019;
- An efficiency ratio (non-interest expense divided by the sum of net interest income, on an FTE basis, and non-interest income) of 40.3% for 2019;
- A net charge-off ratio for total loans of 0.11% for 2019; and
- Excluding purchased loans, our ratio of nonperforming loans to total loans was 0.15% at December 31, 2019, and our ratio of nonperforming assets to total assets was 0.18% at December 31, 2019.

During 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.

Net Interest Income

Net interest income and net interest margin are analyzed in this discussion on an FTE basis. The adjustment to convert net interest income to an FTE basis consists of dividing tax-exempt interest income by one minus the statutory federal income tax rate of 21% in 2019 and 2018 and 35% in 2017. Effective December 22, 2017, the Tax Cuts and Jobs Act ("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 2019 and 2018 compared to 2017. The FTE adjustments to net interest income were \$4.4 million in 2019, \$4.7 million in 2018 and \$12.5 million in 2017. 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.

2019 compared to 2018

Net interest income for 2019 decreased to \$888.6 million compared to \$896.1 million for 2018. Net interest margin decreased 25 basis points (“bps”) to 4.34% for 2019 compared to 4.59% for 2018. The decrease in net interest income was primarily the result of the decrease in net interest margin partially offset by growth in average earning assets, which increased 4.9% to \$20.46 billion for 2019 compared to \$19.52 billion for 2018. The decrease in net interest margin for 2019 compared to 2018 was primarily due to the 42 bps increase in rates paid on interest bearing deposits, partially offset by a four bps increase in yield on average earning assets.

Yields on average earning assets were 5.70% for 2019 compared to 5.66% for 2018. The yield on our non-purchased loan portfolio increased eight bps to 6.19% for 2019 compared to 6.11% for 2018. This increase was primarily due to increases in the federal funds target rate, Wall Street Journal Prime Rate (“WSJ Prime”) and London Interbank Offered Rates (“LIBOR”) that occurred during 2018. The effect of those higher interest rates was reduced during the second half of 2019 as those interest rates moved lower in response to FRB decreases in the federal funds target rate. At December 31, 2019 approximately 74% of our non-purchased loans were variable interest rate loans and generally reprice with movements in LIBOR or WSJ Prime. Also, during recent quarters, we have experienced high levels of loan repayments in our non-purchased loan portfolio. These payoffs have resulted in various amounts of minimum interest, prepayment penalties and such other items. Additionally, our loan yields include accretion of deferred loan fees and discounts and amortization of deferred loan costs and premiums that vary based on loan prepayments and other factors. The yield on our purchased loan portfolio decreased 15 bps to 6.44% for 2019 compared to 6.59% for 2018. 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, 2019, approximately 42% of our purchased loan portfolio contained loans with variable interest rates. The yield on our aggregate investment securities portfolio for 2019 increased 11 bps to 2.74% compared to 2.63% for 2018. This increase was primarily the result of higher yielding taxable securities that were purchased throughout 2018.

To the extent that the FRB decreases the federal funds target rate in future periods and LIBOR and/or WSJ Prime also decrease, we would expect our yield on both non-purchased and, to a lesser extent, purchased loans to decrease, although we have endeavored to reduce the potential effect of any such decreases in interest rates by placing floor rates in many of our variable rate loans. Conversely, to the extent that there are future increases in the federal funds target rate in future periods and LIBOR and/or WSJ Prime also increase, we would expect to experience increases in our loan yields in future periods. At December 31, 2019 approximately 99% of our variable rate non-purchased loans and approximately 47% of our variable rate purchased loans had floor rates.

The overall increase in rates on average interest bearing liabilities, which increased 40 bps for 2019 compared to 2018, was primarily due to increases in rates on interest bearing deposits, which increased 42 bps for 2019 compared to 2018. The increase in rates on our interest bearing deposits, the largest component of our interest bearing liabilities, was primarily due to increases in interest rates in 2018 (although the effect of those higher interest rates was reduced during the second half of 2019 as interest rates moved lower in response to FRB decreases in the federal funds target rate) and increased competition for deposits. To the extent there are future decreases in the federal funds target rate, we would expect to experience decreases in the cost of our interest-bearing deposits in future periods. Conversely, to the extent that there are future increases in the federal funds target rate, we would expect to experience increases in our costs of interest bearing deposits in future periods. However, future decreases or increases in our costs of interest bearing deposits may lag future decreases or increases in the federal funds target rate. Additionally, changes in expected deposit levels necessary to fund future potential growth in earning assets or to otherwise provide on-balance sheet liquidity, or changes in competitive conditions could significantly affect deposit costs 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 decreased 40 bps in 2019 compared to 2018 primarily due to decreases in our administered rates on these accounts. The rates on our other borrowing sources decreased 19 bps for 2019 compared to 2018, primarily as a result of an increase in capitalized interest associated with the ongoing construction during 2019 of our new corporate headquarters. 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, decreased 49 bps in 2019 compared to 2018 primarily due to an increase in capitalized interest associated with the ongoing construction during 2019 of our corporate headquarters.

The increase in average earning assets for 2019 compared to 2018 was due to increases in the average balance of non-purchased loans, partially offset by a decrease in the average balance of purchased loans and investment securities. Average non-purchased loans increased \$1.82 billion, or 13.0%, to \$15.86 billion for 2019 compared to 2018. Average purchased loans decreased \$0.97 billion, or 36.9%, to \$1.66 billion for 2019 compared to 2018, primarily due to continued paydown and payoff activity in that portfolio. Average investment securities decreased \$95.6 million, or 3.6%, to \$2.59 billion for 2019 compared to 2018.

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 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, WSJ Prime and 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 WSJ Prime. 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) repos, (ii) other borrowings, (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.

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 Consolidated Balance Sheets and Net Interest Analysis

	2019			Year Ended December 31, 2018			2017		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
(Dollars in thousands)									
ASSETS									
Interest earning assets:									
Interest earning deposits and federal funds sold	\$ 353,528	\$ 6,758	1.91%	\$ 160,148	\$ 3,039	1.90%	\$ 81,504	\$ 656	0.81%
Investment securities:									
Taxable	2,099,522	52,812	2.52	2,143,455	50,021	2.33	1,158,519	25,460	2.20
Tax-exempt – FTE	485,946	18,041	3.71	537,616	20,497	3.81	714,329	34,508	4.83
Non-purchased loans – FTE	15,861,797	982,430	6.19	14,040,952	858,466	6.11	10,979,369	607,925	5.54
Purchased loans	1,661,205	106,908	6.44	2,633,271	173,465	6.59	4,175,146	276,499	6.62
Total earning assets – FTE	20,461,998	1,166,949	5.70	19,515,442	1,105,488	5.66	17,108,867	945,048	5.52
Non-interest earning assets	2,297,372			2,395,813			2,545,797		
Total assets	<u>\$22,759,370</u>			<u>\$21,911,255</u>			<u>\$19,654,664</u>		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest bearing liabilities:									
Deposits:									
Savings and interest bearing transaction	\$ 9,039,984	\$ 126,685	1.40%	\$ 9,983,075	\$ 118,771	1.19%	\$ 8,587,404	\$ 53,496	0.62%
Time deposits of \$100 or more	3,449,197	73,336	2.13	3,183,108	47,691	1.50	3,164,843	31,222	0.99
Other time deposits	2,872,676	58,337	2.03	1,651,960	20,155	1.22	1,560,035	11,365	0.73
Total interest bearing deposits	15,361,857	258,358	1.68	14,818,143	186,617	1.26	13,312,282	96,083	0.72
Repurchase agreements with customers	13,502	50	0.37	101,682	785	0.77	75,915	132	0.17
Other borrowings ⁽¹⁾	94,399	1,531	1.62	166,937	3,017	1.81	62,988	1,305	2.07
Subordinated notes	223,469	12,757	5.71	223,089	12,757	5.72	222,705	12,620	5.67
Subordinated debentures ⁽¹⁾	119,629	5,664	4.73	119,076	6,211	5.22	118,515	5,024	4.24
Total interest bearing liabilities	15,812,856	278,360	1.76	15,428,927	209,387	1.36	13,792,405	115,164	0.83
Non-interest bearing liabilities:									
Non-interest bearing deposits	2,753,634			2,695,623			2,652,895		
Other non-interest bearing liabilities	217,809			185,035			78,684		
Total liabilities	18,784,299			18,309,585			16,523,984		
Common stockholders' equity	3,971,952			3,598,628			3,127,576		
Noncontrolling interest	3,119			3,042			3,104		
Total liabilities and stockholders' equity	<u>\$22,759,370</u>			<u>\$21,911,255</u>			<u>\$19,654,664</u>		
Net interest income – FTE	<u>\$ 888,589</u>			<u>\$ 896,101</u>			<u>\$829,884</u>		
Net interest margin – FTE	<u>4.34%</u>			<u>4.59%</u>			<u>4.85%</u>		

(1) The interest expense and rates for “other borrowings” and “subordinated debentures” were impacted by interest capitalized, primarily for our corporate headquarters facility that is currently under construction. Capitalized interest included in “other borrowings” totaled \$0.9 million in 2019, \$0.6 million in 2018 and \$0.2 million in 2017. Capitalized interest included in “subordinated debentures” totaled \$0.9 million in 2019 and none in 2018 or 2017. In the absence of this interest capitalization, these rates on other borrowings would have been 2.58% in 2019, 2.19% in 2018 and 2.44% in 2017 and the rate on subordinated debentures would have been 5.48% for 2019.

Average balances in the previous table 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 and our subordinated debentures 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.

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

	2019 over 2018			2018 over 2017		
	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	\$ 3,696	\$ 23	\$ 3,719	\$ 1,493	\$ 890	\$ 2,383
Investment securities:						
Taxable	(1,105)	3,896	2,791	22,985	1,576	24,561
Tax-exempt – FTE	(1,918)	(538)	(2,456)	(6,739)	(7,272)	(14,011)
Non-purchased loans – FTE	112,776	11,188	123,964	187,186	63,355	250,541
Purchased loans	(62,557)	(4,000)	(66,557)	(101,570)	(1,464)	(103,034)
Total interest income – FTE	50,892	10,569	61,461	103,355	57,085	160,440
Interest expense:						
Savings and interest bearing transaction	(13,216)	21,130	7,914	16,605	48,670	65,275
Time deposits of \$100 or more	5,657	19,988	25,645	273	16,196	16,469
Other time deposits	24,790	13,392	38,182	1,122	7,668	8,790
Repurchase agreements with customers	(324)	(411)	(735)	198	455	653
Other borrowings	(1,178)	(308)	(1,486)	1,879	(167)	1,712
Subordinated notes	22	(22)	—	21	116	137
Subordinated debentures	27	(574)	(547)	29	1,158	1,187
Total interest expense	15,778	53,195	68,973	20,127	74,096	94,223
Increase (decrease) in net interest income – FTE	\$ 35,114	\$ (42,626)	\$ (7,512)	\$ 83,228	\$ (17,011)	\$ 66,217

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.

2019 compared to 2018

Non-interest income for 2019 decreased 0.2% to \$107.5 million compared to \$107.8 million for 2018.

Service charges on deposit accounts, the largest component of our non-interest income, increased 5.6% to \$41.8 million in 2019 compared to \$39.5 million in 2018. This increase was primarily due to net growth in the number of core checking accounts during recent quarters.

Trust income increased 8.9% to \$7.6 million in 2019 compared to \$6.9 million in 2018. This increase in trust income was primarily due to growth in both corporate trust income and personal trust income.

BOLI income from the increases in cash surrender value was \$20.7 million in both 2019 and 2018. BOLI income from death benefits was \$3.2 million in both 2019 and 2018. 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 52.7% to \$3.7 million in 2019 compared to \$7.8 million in 2018. 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. Also, concurrent with the adoption of Accounting Standards Update (“ASU”) 2016-13, effective January 1, 2020, most of our income previously reported as “Other income from purchased loans” will be included in interest income on purchased loans in future periods. See further discussion of ASU 2016-13 in the MD&A under “Risk Elements – Credit Risk Management – Credit Management Actions – 2020.”

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, decreased 12.0% to \$17.9 million in 2019 compared to \$20.4 million in 2018. Loan service, maintenance and other fees include unused line of credit fees, asset management fees, certain underwriting fees and various other fees on non-purchased loans that are not considered yield adjustments. While income from these items may vary significantly from period to period, we generally expect the income from these items to continue to decrease in 2020.

We had net gains from the sale of investment securities of \$0.7 million in 2019 compared to essentially no net gains during 2018. Gains on sales of other assets were \$2.2 million in both 2019 and 2018.

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.

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.

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

Non-Interest Income

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Service charges on deposit accounts	\$ 41,774	\$ 39,544	\$ 42,853
Trust income	7,554	6,935	6,691
BOLI income:			
Increase in cash surrender value	20,715	20,700	18,246
Death benefits	3,194	3,211	431
Other income from purchased loans, net	3,684	7,784	13,456
Loan service, maintenance and other fees	17,917	20,354	15,696
Net gains on investment securities	713	17	4,033
Gains on sales of other assets	2,233	2,219	5,553
Other	9,743	7,011	16,899
Total non-interest income	\$ 107,527	\$ 107,775	\$ 123,858

Non-Interest Expense

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

2019 compared to 2018

Non-interest expense increased 5.4% to \$401.1 million in 2019 compared to \$380.8 million in 2018. The increase in our non-interest expense in 2019 compared to 2018 was primarily attributable to our continued expansion and enhancement of our infrastructure for information technology, cybersecurity, information systems, business resilience, enterprise risk management, credit risk, 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”). We expect these expenses to remain elevated in 2020.

Salaries and employee benefits, our largest component of non-interest expense, increased 13.1% to \$192.9 million in 2019 compared to \$170.5 million in 2018. The increase in salaries and benefits for 2019 compared to 2018 is primarily due to employees added as we continue to grow, including our focus on our infrastructure initiatives as discussed above. We had 2,774 full-time equivalent employees at December 31, 2019, compared to 2,563 full-time equivalent employees at December 31, 2018.

Net occupancy and equipment expense increased 4.7% to \$59.0 million in 2019 compared to \$56.4 million in 2018. At December 31, 2019 we had 254 offices compared to 251 at December 31, 2018.

Other operating expenses decreased 3.02% to \$149.3 million in 2019 compared to \$153.9 million in 2018. The decrease in other operating expense in 2019 compared to 2018 is primarily attributable to our name change and strategic rebranding initiatives during 2018.

Our efficiency ratio (non-interest expense divided by the sum of net interest income–FTE and non-interest income) was 40.3% for 2019 compared to 37.9% for 2018. The increase in our efficiency ratio for 2019 compared to 2018 was primarily due to the increase in non-interest expense due to our infrastructure initiatives discussed above, including the increase in the number of full-time equivalent employees, and the decrease in our non-interest income–FTE in 2019 compared to 2018.

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.

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.

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

Non-Interest Expense

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Salaries and employee benefits	\$ 192,851	\$ 170,478	\$ 152,194
Net occupancy and equipment expense	59,018	56,362	53,198
Other operating expenses:			
Professional and outside services	33,030	35,867	32,441
Software and data processing	19,535	13,729	10,126
Deposit insurance and assessments	13,425	14,740	13,114
Travel and meals	11,230	9,650	8,477
Telecommunication services	10,583	13,080	13,935
Postage and supplies	8,684	9,144	7,769
Advertising and public relations	7,242	11,557	5,989
ATM expense	4,626	4,227	5,725
Loan collection and repossession expense	2,818	3,302	5,303
Writedowns of foreclosed assets	2,419	2,996	3,488
Writedowns of signage due to strategic rebranding	—	4,915	—
Amortization of intangibles	11,918	12,579	12,580
Other	23,751	18,126	8,333
Total non-interest expense	<u>\$ 401,130</u>	<u>\$ 380,752</u>	<u>\$ 332,672</u>

Income Taxes

Our provision for income taxes was \$138.4 million in 2019 compared to \$137.0 million in 2018 and \$158.6 million in 2017. Our effective income tax rates were 24.5% for 2019, 24.7% for 2018 and 27.3% for 2017. The slight decrease in our effective income tax rate for 2019 compared to 2018 was primarily a result of a decrease in our state income taxes. 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 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 2019, 2018 and 2017 is included in note 13 to the consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

RISK ELEMENTS

Risk is inherent in substantially all of the Bank’s operations, and our business exposes us to strategic risk, credit risk, market risk, liquidity risk, operational risk, legal and compliance risk and reputational risk. We use an enterprise-wide risk management framework to identify, measure, monitor, manage and report risks that affect or could affect the achievement of our strategic, financial and other goals and objectives. Accordingly, risk management is an essential element in managing our operations and is a key determinant of our overall performance. Our Board of Directors (the “Board”) is responsible for approving our overall risk management framework, including setting our risk appetite for the Basel risk categories, and establishing risk tolerances for each of our key risks. The Board Risk Committee (“BRC”), which is a board-level committee, has been assigned oversight responsibility for our risk management processes. The BRC meets at least quarterly to monitor and review our various enterprise risk management policies and activities, review and approve our overall risk posture, and such other actions as detailed in its charter document. The BRC has appointed the Executive Risk Council (“ERC”), which is comprised of senior executives of the Bank and is chaired by the Chief Risk Officer (“CRO”), to assist BRC in the oversight of our enterprise risk management processes and activities. The ERC, pursuant to its charter, has responsibility for review and approval of detailed risk management processes and procedures, monitoring each of our key performance indicators and key risk indicators against our Board-approved risk thresholds, assessing current and emerging risks, monitoring our risk culture, overseeing compliance with regulatory expectations and requirements, and various other risk management functions and activities.

Our most significant risk exposure has traditionally been credit risk from the extension of credit to our customers. In addition to credit risk, we are also exposed to risk from various other areas including liquidity risk, market and interest rate risk, strategic risk, legal and compliance risk (including regulatory risk), reputational risk and operational risk (including information technology risk, model risk, third party vendor risk, legal risk and cyber security risk). Both our BRC and our ERC review the overall framework, policies, procedures and processes employed by us to manage and monitor each of these risks, including strategies for reducing such risks to appropriate levels consistent with Board-approved risk appetite. Additionally, we utilize various other committees and management councils to monitor risk for each of these specific risk categories. The activities of such committees and councils are reviewed and approved by ERC, BRC and/or the Board.

Clearly defined roles and responsibilities are critical to the effective management of risk. We utilize the three lines of defense concept to clearly designate risk management activities throughout the Bank.

- First line of defense activities provide for the identification, acceptance and ownership of risks. These defense activities are typically executed by various lines of business personnel and owners.
- Second line of defense activities provide for objective oversight of our risk-taking activities and assessment of our aggregate risk levels. These defense activities are executed under the leadership and guidance of our Corporate Risk Management Group (“CRMG”) and our CRO, who reports directly to our BRC.
- Third line of defense activities provide for independent reviews and assessments of risk management practices across the Bank. These defense activities are executed by our Internal Audit department, which reports directly to our Audit Committee.

While these various risk management activities help us to identify, measure, monitor, manage and report risks, such activities are not intended to, nor can they eliminate, all risk.

Credit Risk Management

Overview. Credit risk is defined as the risk that arises from the potential that a borrower or counterparty will fail to perform its financial or contractual obligations. Credit risk arises primarily from our lending activities, including our off-balance sheet credit instruments comprised primarily of construction loans that have closed but have not yet funded. The Board is responsible for approving overall credit policies relating to the management of credit risk, along with overseeing and monitoring credit risk. 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. The Directors’ Loan Committee (“DLC”) has primary responsibility for monitoring our credit approval process. DLC consists of five or more directors and is chaired

by our Chief Credit Officer (“CCO”). Loans and aggregate loan relationships exceeding \$20 million up to the limits established by our Board must be approved by the DLC. At least quarterly, our Board, BRC and/or DLC reviews summary reports of past due loans, internally classified and watch list loans, lending concentration reports, and various other loan reports.

Credit Management Actions. The daily administration of our lending function is the responsibility of the Chief Executive Officer (“CEO”), the CCO and the Chief Lending Officer (“CLO”). We maintain a tiered loan limit authorization system. Loan authority is granted to the CEO, CCO and CLO by the Board. The loan authorities of other lending officers are granted by the DLC on the recommendation of appropriate senior officers in amounts commensurate with the officer’s skill level and knowledge.

We have detailed, comprehensive standards for evaluating credit risk, both at the point of origination and thereafter, and we have a comprehensive internal grading system that is used to identify credit risk at the individual loan level. Oversight of credit risk is provided through loan policy, clearly defined processes and detailed procedures. These policies, procedures and processes place emphasis on strong underwriting standards and detection of potential credit problems in order to develop and implement any necessary action plan(s) on a timely basis to mitigate potential losses and are carried out by our lenders and lending support personnel, our credit administration group, our underwriters and various other officers and personnel in the Bank that have credit management responsibilities. Additionally, our policies, procedures and processes are subject to review by our Credit Risk Management (“CRM”) group (second line oversight), our BRC and periodic reviews by our Internal Audit group (third line oversight).

Our CRM function is separate from our lending function and provides second line oversight. CRM is responsible for providing an independent evaluation of our loan portfolio, including detailed credit reviews performed for the purpose of reviewing the adequacy of documentation, compliance with loan policy and other credit policies, reviewing individual loan grading, evaluating asset quality, performing and reporting to ERC and BRC credit risk analytics (which includes assessing the trend of credit risk metrics, assessing any trends or material transitions of our internal risk ratings or credit grading of individual loan portfolios, and various other risk analytics), and reviewing the effectiveness of credit administration, among other items. CRM prepares reports that document their credit risk oversight activities, including identification of underwriting or other deficiencies in the loan approval or credit monitoring process, establishing recommendations for improvement and outlining management’s proposed action plan(s) for curing the identified deficiencies. Internal oversight of the CRM function is provided by the Credit Risk Management Council (“CRMC”), which is chaired by the Managing Director of CRM. The reports produced by CRM are provided to and reviewed by CRMC, ERC and BRC.

Our Internal Audit group performs periodic reviews of various lending and credit-related activities, including underwriting, closing and funding procedures, credit and asset administration, among others. Internal Audit prepares reports documenting such reviews, including recommendations for improvement and management’s proposed action plan(s) for remediating such recommendations. These reports are provided to and reviewed by our Audit Committee.

At December 31, 2019, our total loan portfolio was \$17.53 billion, an increase of 2.4% from \$17.12 billion at December 31, 2018. At December 31, 2019, our total loan portfolio consisted of 72.8% real estate loans, 3.8% commercial and industrial loans, 16.8% consumer loans and 6.6% 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,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Real estate:					
Residential 1-4 family	\$ 998,632	\$ 1,049,460	\$ 1,174,427	\$ 1,259,289	\$ 737,206
Non-farm/non-residential	3,956,579	4,319,388	4,478,876	4,665,401	3,146,413
Construction/land development	6,391,429	6,562,185	6,648,061	5,295,860	2,873,398
Agricultural	230,076	165,088	150,003	124,857	94,358
Multifamily residential	1,194,192	1,116,026	508,514	744,005	580,325
Total real estate	12,770,908	13,212,147	12,959,881	12,089,412	7,431,700
Commercial and industrial	661,952	823,417	738,225	577,335	439,538
Consumer	2,934,534	2,345,863	1,472,593	1,028,991	35,232
Other	1,164,649	736,396	872,330	867,377	428,201
Total loans	<u>\$17,532,043</u>	<u>\$17,117,823</u>	<u>\$16,043,029</u>	<u>\$14,563,115</u>	<u>\$ 8,334,671</u>

Included in “other” loans at December 31, 2019, 2018, 2017, 2016 and 2015 are loans totaling approximately \$1.08 billion, \$656 million, \$830 million, \$835 million and \$394 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.

Our credit risk management strategies include efforts to diversify our loan portfolio and avoid the risk of undue concentrations of credit in a particular collateral type, geography or with an individual customer. While our loan portfolio is diversified, we do have concentrations in commercial real estate (“CRE”) lending. Our Board has adopted and we adhere to various concentration limits on CRE lending, including limits on CRE lending in various geographies and Metropolitan Statistical Areas (“MSAs”). All of these limits are monitored and revised as necessary based on the results of our annual CRE stress testing activities and other factors.

The amount of both the funded and unfunded balances of our top ten largest geographies and MSAs for real estate loans, as of the dates indicated, are included in the following table.

Top Ten Geographies and MSAs for Real Estate Loans

Geography or MSA	Funded Balance	Unfunded Balance	Total Commitment
		(Dollars in thousands)	
December 31, 2019:			
New York–Newark–Jersey City, NY–NJ–PA MSA	\$ 3,398,399	\$ 2,179,440	\$ 5,577,839
Miami–Fort Lauderdale–West Palm Beach, FL MSA	1,047,660	1,059,369	2,107,029
Los Angeles–Long Beach–Anaheim, CA MSA	702,184	762,133	1,464,317
Dallas–Fort Worth–Arlington, TX MSA	809,761	372,700	1,182,461
Tampa–St. Petersburg–Clearwater, FL MSA	407,898	628,637	1,036,535
Chicago–Naperville–Elgin, IL–IN–WI MSA	375,933	550,437	926,370
Atlanta–Sandy Springs–Roswell, GA MSA	606,212	202,125	808,337
Phoenix–Mesa–Scottsdale, AZ MSA	178,756	429,223	607,979
San Francisco–Oakland–Hayward, CA MSA	292,690	308,799	601,489
Washington–Arlington–Alexandria, DC–VA–MD–WV–MSA	220,354	367,928	588,282
All other geographies	4,731,061	2,893,321	7,624,382
Total Real Estate Loans	<u>\$ 12,770,908</u>	<u>\$ 9,754,112</u>	<u>\$ 22,525,020</u>
December 31, 2018:			
New York–Newark–Jersey City, NY–NJ–PA MSA	\$ 3,263,281	\$ 3,004,411	\$ 6,267,692
Miami–Fort Lauderdale–West Palm Beach, FL MSA	1,244,251	1,580,073	2,824,324
Los Angeles–Long Beach–Anaheim, CA MSA	369,108	1,185,020	1,554,128
Dallas–Fort Worth–Arlington, TX MSA	766,876	291,506	1,058,382
Atlanta–Sandy Springs–Roswell, GA MSA	785,244	252,531	1,037,775
Chicago–Naperville–Elgin, IL–IN–WI MSA	589,607	331,475	921,082
Denver–Aurora–Lakewood, CO MSA	475,632	238,429	714,061
Phoenix–Mesa–Scottsdale, AZ MSA	96,979	459,407	556,386
Little Rock–North Little Rock–Conway, AR MSA	476,393	49,151	525,544
San Francisco–Oakland–Hayward, CA MSA	152,265	334,424	486,689
All other geographies	4,992,511	2,689,904	7,682,415
Total Real Estate Loans	<u>\$ 13,212,147</u>	<u>\$ 10,416,331</u>	<u>\$ 23,628,478</u>

Loans originated to acquire promissory notes from non-depository financial institutions are typically collateralized by an assignment of the promissory note and all related note documents including mortgages, deeds of trust, etc. and the underlying property may be located in one or more of the geographies or MSAs listed above. The funded balance of these loans are reported as “other” loans in accordance with FDIC instructions for the Call Report and are excluded from the above table.

In addition to the top ten geographies and MSAs shown above, as of December 31, 2019, we had 73 additional geographies and MSAs that contain total committed balances (both funded and unfunded) of \$10 million or more, compared to 87 additional geographies and MSAs at December 31, 2018.

Given that we have concentrations in CRE lending (i.e., non-farm/non-residential and construction/land development lending), we have provided further detail on these two groups of loans. The funded 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,			
	2019		2018	
	Amount	%	Amount	%
	(Dollars in thousands)			
Office, including medical offices	\$ 949,119	24.0%	\$ 1,005,946	23.3%
Hotels and motels	857,276	21.7	978,959	22.7
Retail, including shopping centers and strip centers	431,970	10.9	560,222	13.0
Churches and schools	311,027	7.9	285,044	6.6
Mixed use properties	295,423	7.5	234,887	5.4
Manufacturing and industrial facilities	264,048	6.7	274,569	6.4
Restaurants and bars	178,307	4.5	162,573	3.8
Nursing homes and assisted living centers	125,353	3.2	210,869	4.9
Gasoline stations and convenience stores	88,158	2.2	100,416	2.3
Office warehouse, warehouse and mini-storage	69,512	1.8	47,513	1.1
Hospitals, surgery centers and other medical	29,533	0.7	41,479	1.0
Golf courses, entertainment and recreational facilities	29,165	0.7	33,450	0.8
Other non-farm/non-residential	327,688	8.2	383,461	8.7
Total	<u>\$ 3,956,579</u>	<u>100.0%</u>	<u>\$ 4,319,388</u>	<u>100.0%</u>

The funded 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

	December 31,			
	2019		2018	
	Amount	%	Amount	%
	(Dollars in thousands)			
Unimproved land	\$ 237,614	3.7%	\$ 203,127	3.1%
Land development and lots:				
1-4 family residential and multifamily	352,100	5.5	407,502	6.2
Non-residential	532,139	8.3	576,130	8.8
Construction:				
1-4 family residential:				
Owner occupied	5,844	0.1	11,342	0.2
Non-owner occupied:				
Pre-sold	2,031,251	31.8	2,189,475	33.4
Speculative	135,377	2.1	130,310	2.0
Multifamily	827,122	12.9	1,616,408	24.6
Industrial, commercial and other	2,269,982	35.6	1,427,891	21.7
Total	<u>\$ 6,391,429</u>	<u>100.0%</u>	<u>\$ 6,562,185</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. 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, 2019, 2018 and 2017, 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 (none at December 31, 2019 or 2017), we had \$10.6 million of construction and development loans with interest reserves that were nonperforming.

During the years ended December 31, 2019, 2018 and 2017, we recognized approximately \$292 million, \$263 million and \$180 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 \$297 million, \$254 million, and \$172 million, respectively, during the years ended December 31, 2019, 2018 and 2017.

The maximum committed balance of all construction and development loans which provide for the use of interest reserves at December 31, 2019 was approximately \$14.8 billion, of which \$6.0 billion was outstanding at December 31, 2019 and \$8.8 billion remained to be advanced. The weighted average LTC on such loans, assuming such loans are ultimately fully advanced, was approximately 51%, which means that the weighted average cash equity contributed on such loans, assuming such loans are ultimately fully advanced, was approximately 49%. 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%.

Between 2010 and 2016, we made fifteen acquisitions and continue to have substantial balances of purchased loans. Purchased loans, which are the remaining loans from our fifteen acquisitions, accounted for 7.5% of our total loan portfolio at December 31, 2019 (11.9% at December 31, 2018), and will continue to decrease as purchased loans are repaid. 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,	
	2019	2018
	(Dollars in thousands)	
Loans without evidence of credit deterioration at date of acquisition:		
Unpaid principal balance	\$ 1,243,327	\$ 1,943,962
Valuation discount	(17,022)	(27,580)
Carrying value	1,226,305	1,916,382
Loans with evidence of credit deterioration at date of acquisition:		
Unpaid principal balance	101,741	157,853
Valuation discount	(20,542)	(30,203)
Carrying value	81,199	127,650
Total carrying value	\$ 1,307,504	\$ 2,044,032

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,		
	2019	2018	2017
	(Dollars in thousands)		
Balance – beginning of year	\$ 127,650	\$ 175,221	\$ 241,619
Accretion	15,060	24,459	38,925
Transfer to foreclosed assets	(436)	(1,621)	(2,678)
Net payments received	(59,741)	(69,325)	(98,815)
Loans sold	—	—	(1,717)
Net charge-offs	(1,327)	(1,095)	(918)
Other activity, net	(7)	11	(1,195)
Balance – end of year	<u>\$ 81,199</u>	<u>\$ 127,650</u>	<u>\$ 175,221</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,		
	2019	2018	2017
	(Dollars in thousands)		
Accretable difference – beginning of year	\$ 36,002	\$ 45,182	\$ 65,152
Transfers to foreclosed assets	(48)	(114)	(300)
Purchased loans paid off	—	—	(352)
Cash flow revisions as a result of renewals and/or modifications	2,918	15,393	19,607
Accretion	(15,060)	(24,459)	(38,925)
Accretable difference – end of year	<u>\$ 23,812</u>	<u>\$ 36,002</u>	<u>\$ 45,182</u>

During the years ended December 31, 2019, 2018 and 2017, we recognized accretion income totaling \$25.2 million, \$43.9 million and \$78.6 million, respectively, on our purchased loan portfolio. The valuation discounts on our purchased loan portfolio totaled \$37.6 million at December 31, 2019 and \$57.8 million at December 31, 2018.

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 no longer past due, the loan has performed in accordance with its contractual terms for a reasonable period of time (generally at least six months), and is expected to continue to perform in accordance with its contractual terms. 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,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Nonaccrual loans ⁽¹⁾	\$ 19,337	\$ 30,884	\$ 12,899	\$ 14,371	\$ 13,194
Accruing loans 90 days or more past due	—	—	—	—	—
TDRs – nonaccruing	3,884	3,878	—	—	—
TDRs – accruing	656	627	—	—	—
Total nonperforming loans	23,877	35,389	12,899	14,371	13,194
Foreclosed assets ⁽²⁾	19,096	16,171	25,357	43,702	22,870
Total nonperforming assets	\$ 42,973	\$ 51,560	\$ 38,256	\$ 58,073	\$ 36,064
Nonperforming loans to total loans ⁽³⁾	0.15%	0.23%	0.10%	0.15%	0.20%
Nonperforming assets to total assets ⁽³⁾	0.18	0.23	0.18	0.31	0.37

(1) Excludes all nonaccrual non-purchased loans that are considered TDRs.

(2) 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.

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

The elevated level of nonaccrual loans at December 31, 2018 was primarily due to two non-purchased credits. As of December 31, 2018, these two unrelated projects located in South Carolina and North Carolina had been in our portfolio since 2007 and 2008, and were previously classified as substandard. The combined balance of these two credits, after the charge-offs, was \$20.6 million at December 31, 2018. Both credits were past due, were on nonaccrual status and were deemed impaired at December 31, 2018. During the second quarter of 2019, we transferred to foreclosed assets the underlying collateral securing these two credits. During the fourth quarter of 2019, we sold the assets previously securing the South Carolina credit. The carrying value of this asset at disposition was \$9.8 million, and we recognized a gain on sale of \$1.1 million. The carrying value of the assets securing the North Carolina credit was \$7.7 million at December 31, 2019.

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, 2019, we had reduced the carrying value of our non-purchased loans deemed impaired (most of which were included in nonaccrual loans) to the estimated fair value of such loans of \$22.0 million. The adjustment to reduce the carrying value of impaired loans to estimated fair value consisted of \$1.5 million of partial or full charge-offs and \$1.9 million of specific loan loss allocations. Impaired non-purchased loans at December 31, 2019 and 2018, respectively, included \$0.7 million and \$0.6 million of accruing loans that were determined to be TDRs. These amounts do not include the balance of, any partial or full charge-offs on, or any specific ALL allocations related to our \$10.9 million of impaired purchased loans at December 31, 2019.

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

Foreclosed Assets

	December 31,	
	2019	2018
(Dollars in thousands)		
Real estate:		
Residential 1-4 family	\$ 2,201	\$ 823
Non-farm/non-residential	3,989	4,407
Construction/land development	12,153	10,628
Agricultural	—	164
Total real estate	18,343	16,022
Commercial and industrial	4	31
Consumer	749	118
Foreclosed assets	<u>\$ 19,096</u>	<u>\$ 16,171</u>

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

Activity Within Foreclosed Assets

	Year Ended December 31,		
	2019	2018	2017
(Dollars in thousands)			
Balance – beginning of year	\$ 16,171	\$ 25,357	\$ 43,702
Loans and other assets transferred into foreclosed assets	31,709	11,540	17,193
Sales of foreclosed assets	(26,365)	(17,891)	(32,050)
Writedowns of foreclosed assets	(2,419)	(2,835)	(3,488)
Balance – end of year	<u>\$ 19,096</u>	<u>\$ 16,171</u>	<u>\$ 25,357</u>

The following table presents information concerning the geographic location of nonperforming assets, excluding purchased loans, at December 31, 2019. 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	\$ 9,197	\$ 5,233	\$ 14,430
North Carolina	1,816	9,250	11,066
Florida	3,436	2,703	6,139
Georgia	3,650	247	3,897
Texas	2,089	692	2,781
South Carolina	1,788	—	1,788
Alabama	198	513	711
All other	1,703	458	2,161
Total	<u>\$ 23,877</u>	<u>\$ 19,096</u>	<u>\$ 42,973</u>

As of December 31, 2019, 2018 and 2017, 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 \$6.4 million during 2019, \$3.5 million during 2018 and \$3.6 million during 2017 for such loans. We also recorded provision of \$6.4 million during 2019, \$3.5 million during 2018 and \$3.6 million during 2017 for purchased loans. Additionally, we transferred certain of these purchased loans to foreclosed assets. As a result of these actions, we had \$10.9 million of impaired purchased loans at December 31, 2019, \$7.8 million of impaired purchased loans at December 31, 2018 and \$10.0 million of impaired purchased loans at December 31, 2017. We had \$1.6 million of ALL at December 31, 2019, 2018 and 2017 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

	December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Impaired purchased loans without evidence of credit deterioration at date of acquisition (rated FV 77)	\$ 7,935	\$ 2,822	\$ 4,797	\$ 1,243	\$ 771
Impaired purchased loans with evidence of credit deterioration at date of acquisition (rated FV 88)	2,975	4,979	5,222	5,273	7,283
Total impaired purchased loans	\$ 10,910	\$ 7,801	\$ 10,019	\$ 6,516	\$ 8,054
Impaired purchased loans to total purchased loans	0.83%	0.38%	0.30%	0.13%	0.45%

Allowance for Loan Losses

Our ALL was \$108.5 million at December 31, 2019 compared to \$102.3 million at December 31, 2018 and \$94.1 million at December 31, 2017. At December 31, 2019, 2018 and 2017, 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 0.66% at December 31, 2019, compared to 0.67% at December 31, 2018 and 0.73% at December 31, 2017. Excluding purchased loans, our ALL as a percentage of nonperforming loans was 448% at December 31, 2019 compared to 284% at December 31, 2018 and 717% at December 31, 2017. Our practice is to charge off any estimated loss as soon as we are able to identify and reasonably quantify such potential loss. The amount of ALL and 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 2019 was \$26.2 million, including \$19.8 million for non-purchased loans and \$6.4 million for purchased loans, compared to \$64.4 million in 2018, including \$60.9 million for non-purchased loans and \$3.5 million for purchased loans, and \$28.1 million in 2017, including \$24.5 million for non-purchased loans and \$3.6 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.

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

Analysis of the ALL

	Year Ended December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Balance, beginning of period	\$ 102,264	\$ 94,120	\$ 76,541	\$ 60,854	\$ 52,918
Non-purchased loans charged off:					
Real estate:					
Residential 1-4 family	(514)	(220)	(340)	(406)	(794)
Non-farm/non-residential	(4,590)	(20,540)	(881)	(323)	(857)
Construction/land development	(528)	(25,584)	(1,020)	(42)	(2,760)
Agricultural	(46)	(97)	(2)	(37)	(27)
Multifamily residential	—	—	—	—	(228)
Total real estate	(5,678)	(46,441)	(2,243)	(808)	(4,666)
Commercial and industrial	(2,194)	(3,139)	(3,440)	(3,261)	(3,803)
Consumer	(3,839)	(1,449)	(689)	(228)	(148)
Other	(3,635)	(3,332)	(2,282)	(1,744)	(1,474)
Total non-purchased loans charged off	(15,346)	(54,361)	(8,654)	(6,041)	(10,091)
Recoveries of non-purchased loans previously charged off:					
Real estate:					
Residential 1-4 family	174	169	11	52	86
Non-farm/non-residential	38	169	594	10	15
Construction/land development	117	59	86	68	83
Agricultural	7	30	43	—	—
Multifamily residential	—	—	—	14	—
Total real estate	336	427	734	144	184
Commercial and industrial	301	157	171	114	326
Consumer	427	207	166	37	54
Other	743	768	662	533	563
Total recoveries	1,807	1,559	1,733	828	1,127
Net charge-offs – non-purchased loans	(13,539)	(52,802)	(6,921)	(5,213)	(8,964)
Purchased loans charged off	(8,997)	(5,647)	(6,119)	(5,675)	(2,982)
Recoveries of purchased loans previously charged off	2,556	2,195	2,527	2,783	467
Net charge-offs – purchased loans	(6,441)	(3,452)	(3,592)	(2,892)	(2,515)
Net charge-offs – total loans	(19,980)	(56,254)	(10,513)	(8,105)	(11,479)
Provision for loan losses:					
Non-purchased loans	19,800	60,946	24,500	20,500	15,700
Purchased loans	6,441	3,452	3,592	3,292	3,715
Total provision	26,241	64,398	28,092	23,792	19,415
Balance, end of period	\$ 108,525	\$ 102,264	\$ 94,120	\$ 76,541	\$ 60,854
ALL allocated to non-purchased loans	\$ 106,925	\$ 100,664	\$ 92,520	\$ 74,941	\$ 59,654
ALL allocated to purchased loans	1,600	1,600	1,600	1,600	1,200
Total ALL	\$ 108,525	\$ 102,264	\$ 94,120	\$ 76,541	\$ 60,854

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,				
	2019	2018	2017	2016	2015
Net charge-offs of non-purchased loans to total average non-purchased loans ⁽¹⁾	0.09%	0.38%	0.06%	0.06%	0.18%
Net charge-offs of purchased loans to total average purchased loans	0.39	0.13	0.09	0.09	0.14
Net charge-offs of total loans to total average loans	0.11	0.34	0.07	0.07	0.17
ALL for non-purchased loans to total non-purchased loans ⁽²⁾	0.66	0.67	0.73	0.78	0.91
ALL for purchased loans to total purchased loans	0.12	0.08	0.05	0.03	0.07
ALL to total loans	0.62	0.60	0.59	0.53	0.73
ALL to nonperforming loans ⁽²⁾	448%	284%	717%	521%	452%

(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. The amounts shown in the previous table are not necessarily indicative of the actual future losses that may occur within particular categories.

Allocation of the ALL

	2019		2018		December 31, 2017		2016		2015	
	Allowance	% of Loans ⁽¹⁾	Allowance	% of Loans ⁽¹⁾	Allowance	% of Loans ⁽¹⁾	Allowance	% of Loans ⁽¹⁾	Allowance	% of Loans ⁽¹⁾
ALL for non-purchased loans:										
Real estate:										
Residential 1-4 family	\$ 14,008	4.6%	\$ 13,754	4.7%	\$ 12,829	4.9%	\$ 10,225	5.0%	\$ 8,672	5.4%
Non-farm/non-residential	17,289	20.3	18,456	21.9	26,855	23.0	21,555	24.8	16,796	30.8
Construction/land development	26,295	39.2	27,103	42.5	27,422	49.4	20,673	49.6	18,176	43.3
Agricultural	1,719	1.4	1,343	1.1	1,093	1.1	2,787	1.0	3,388	1.1
Multifamily residential	5,477	7.1	6,208	7.0	2,395	2.9	2,447	4.5	3,031	6.8
Commercial and industrial	5,961	3.9	9,256	5.1	10,448	4.9	13,043	3.8	6,409	5.8
Consumer	30,866	16.3	20,382	12.8	8,858	7.1	1,945	2.3	707	0.4
Other	5,310	7.2	4,162	4.9	2,620	6.7	2,266	9.0	2,475	6.4
Total ALL for non-purchased loans	106,925		100,664		92,520		74,941		59,654	
ALL for purchased loans	1,600		1,600		1,600		1,600		1,200	
Total ALL	<u>\$108,525</u>		<u>\$102,264</u>		<u>\$ 94,120</u>		<u>\$ 76,541</u>		<u>\$ 60,854</u>	

(1) Excludes purchased loans.

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, 2019 substandard loans, excluding purchased loans, not designated as impaired, nonaccrual or 90 days past due, totaled \$71.2 million, compared to \$10.0 million at December 31, 2018 and \$71.6 million at December 31, 2017. No loans were designated as doubtful or loss at December 31, 2019, 2018 or 2017. The increase in substandard loans not deemed impaired, nonaccrual or 90 days past due at December 31, 2019 compared to December 31, 2018 is primarily due to a single credit at our Real Estate Specialty Group that was downgraded to substandard during the fourth quarter of 2019. This credit, which is collateralized by a lot development and townhouse construction project near Lake Tahoe, California, had an outstanding balance of \$57.0 million at December 31, 2019. The downgrade of this credit was in conjunction with the quarterly analysis of the credit and underlying project performance and was primarily due to several lot sales expected to close in late 2019 being cancelled or delayed, along with a lower expected volume of pending lot sales going into 2020. This credit was not past due at December 31, 2019.

Credit Management Actions – 2020. Effective January 1, 2020, we implemented a dual risk rating scale that utilizes quantitative models and qualitative factors (“score cards”) in determining the risk rating for our commercial loans. This dual risk rating methodology incorporates an obligor risk rating (“ORR”) and a facility risk rating (“FRR”) which are combined to create a two-dimensional risk rating for commercial loans. The ORR is influenced by a loan’s PD as determined from the score cards, with such score card PDs affected by various financial metrics, such as projected cash flow, LTV, property and/or market characteristics, borrower financial strength and other financial and loan characteristics. Thus, the higher a loan’s PD, the more adverse the loan’s ORR. The FRR is influenced by a loan’s LGD as determined from the score cards. Score card LGDs are affected by the estimated loss when a borrower cannot or will not repay the loan. Estimated losses take into consideration our underwriting standards and protections including collateral and collateral margin requirements, loan covenants, support required from guarantors, insurance and other factors. The higher a loan’s LGD, the more adverse the loan’s FRR. The combined dual risk rating provides an annualized expected loss estimate for each commercial loan and, based on such loss estimates, a risk rating is assigned. While our consumer loans are not risk rated, we do utilize output from the score cards on consumer loans for purposes of determining the necessary allowance for credit losses (“ACL”) for consumer loans.

Also, effective January 1, 2020, we adopted the provisions of Financial Accounting Standards Board (“FASB”) ASU 2016-13 “*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.*” This new guidance replaces the current incurred loss method that is utilized in estimating our ALL at December 31, 2019 with a method that required us to estimate credit losses expected to occur over the life of the financial instrument and to recognize those estimated losses at adoption of ASU 2016-13 and subsequent to adoption, at the time of the loan origination. This revised method is what FASB describes as the current expected credit loss (“CECL”) method. Key drivers in estimating our ACL under the CECL method include individual loan score card results, reasonable and supportable forecast periods, loss reversion estimates and numerous other inputs and assumptions, all of which are subject to significant judgments and estimates that could materially affect the estimated ACL under CECL.

The adoption of ASU 2016-13 is expected to result in an overall increase in our ACL ranging from \$70 million to \$95 million and will be recorded as a cumulative effect adjustment to retained earnings. This expected overall increase will be comprised of an increase in our ACL for the outstanding balance of our loan portfolio expected to range from \$25 million to \$40 million and an ACL for the closed but unfunded portion of our loan portfolio expected to range from \$45 million to \$55 million. As required by ASU 2016-13, the portion of the ACL for the outstanding balance of our loan portfolio will continue to be reported as a contra-asset on our consolidated balance sheet and the ACL for our closed but unfunded loans will be reported as a liability on our consolidated balance sheet. As a result of the adoption of CECL, we expect we will have increased volatility in our ongoing provision for credit losses based on potential volatility in our loan growth, changes in our balance of unfunded closed loans and changes in economic forecasts and other assumptions, among other factors. Also, concurrent with the adoption of CECL, most of our income previously reported as “Other income from purchased loans” will now be included in interest income on purchased loans.

Liquidity Risk Management

Overview. Liquidity risk is the potential that we will be unable to meet our obligations as they come due because of an inability to liquidate assets or obtain adequate funding (referred to as “funding liquidity risk”) or that we cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions (referred to as “market liquidity risk”). Our assets and liability committee (“ALCO”) has primary responsibility for oversight of our liquidity, funds

management, asset/liability (interest rate risk) position and capital and 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 (including our ability to fund our significant balance of closed but unfunded loans) 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 and monitoring liquidity risk. On a quarterly basis, we perform a comprehensive liquidity stress test. This stress test is intended to identify and quantify sources of potential liquidity strain and vulnerabilities related to liquidity and to analyze possible impacts on our Bank for a variety of institution-specific and market-wide events across multiple time horizons. Also, pursuant to these various liquidity and funds management policies, we maintain a buffer of highly liquid assets to protect against cash outflows in the event of a liquidity crisis.

Liquidity management actions. 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 secondary funding sources, including 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.

Given that our lending and investing activities are funded primarily by deposits, we continue to focus substantial efforts in order to grow our existing deposit base. Our deposits increased \$536 million in 2019 and \$746 million in 2018. The amount of deposits by account type as of the dates indicated and their respective percentage of total deposits are reflected in the following table.

Deposits – By Account Type

	December 31,			
	2019		2018	
	(Dollars in thousands)			
Non-interest bearing	\$ 2,795,251	15.1%	\$ 2,748,273	15.3%
Interest bearing:				
Transaction (NOW)	2,706,426	14.7	2,359,299	13.2
Savings and money market	5,601,181	30.3	7,323,414	40.8
Time deposits less than \$100	3,321,446	18.0	2,297,101	12.8
Time deposits of \$100 or more	4,049,955	21.9	3,210,328	17.9
Total deposits	<u>\$ 18,474,259</u>	<u>100.0%</u>	<u>\$ 17,938,415</u>	<u>100.0%</u>

The amount of deposits by customer type as of the dates indicated and their respective percentage of total deposits are reflected in the following table.

Deposits – By Customer Type

	December 31,			
	2019		2018	
	(Dollars in thousands)			
Consumer	\$ 7,526,014	40.7%	\$ 7,212,856	40.2%
Commercial	4,334,366	23.5	4,446,537	24.8
Public Funds	3,782,415	20.5	3,562,462	19.9
Brokered	2,115,193	11.4	2,035,158	11.3
Reciprocal	716,271	3.9	681,402	3.8
Total deposits	<u>\$ 18,474,259</u>	<u>100.0%</u>	<u>\$ 17,938,415</u>	<u>100.0%</u>

At December 31, 2019, we had outstanding brokered deposits of \$2.12 billion, or approximately 11.4% of total deposits, compared to \$2.04 billion, or approximately 11.3% of total deposits at December 31, 2018. 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) ALCO, which reports to the board of directors, monitors 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.

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,					
	2019		2018		2017	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Non-interest bearing	\$ 2,753,634	—	\$ 2,695,623	—	\$ 2,652,895	—
Interest bearing:						
Transaction (NOW)	2,571,389	1.02%	3,385,298	1.08%	2,860,591	0.61%
Savings and money market	6,468,595	1.55	6,597,777	1.25	5,726,813	0.63
Time deposits less than \$100	2,872,676	2.03	1,651,960	1.22	1,560,035	0.73
Time deposits of \$100 or more	3,449,197	2.13	3,183,108	1.50	3,164,843	0.99
Total deposits	<u>\$18,115,491</u>	1.68	<u>\$17,513,766</u>	1.26	<u>\$15,965,177</u>	0.72

The calculation of the average rate paid on total deposits of 1.68% for 2019, 1.26% for 2018 and 0.72% for 2017 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 1.43% for 2019, 1.07% for 2018 and 0.60% for 2017.

The following table sets forth time deposits by time remaining to maturity as of the date indicated.

Maturity Distribution of Time Deposits

	December 31, 2019		
	Time Deposits Under \$100,000	Time Deposits Over \$100,000	Total Time Deposits
3 months or less	\$ 998,825	\$ 1,129,045	\$ 2,127,870
Over 3 to 6 months	1,201,780	1,418,040	2,619,820
Over 6 to 12 months	950,197	1,347,387	2,297,584
Over 12 months	170,644	155,483	326,127
Total	<u>\$ 3,321,446</u>	<u>\$ 4,049,955</u>	<u>\$ 7,371,401</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,					
	2019		2018		2017	
	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)					
Arkansas	\$ 7,054,860	38.2%	\$ 6,988,931	39.0%	\$ 5,280,075	30.7%
Georgia	3,967,304	21.5	3,783,868	21.1	4,088,723	23.8
Texas	2,411,661	13.1	1,953,273	10.9	2,158,392	12.6
Florida	2,391,056	12.9	2,615,278	14.6	2,757,852	16.0
New York	1,350,774	7.3	1,396,934	7.8	1,765,957	10.3
North Carolina	1,123,269	6.1	996,838	5.6	927,635	5.4
Alabama	90,805	0.5	125,041	0.7	111,907	0.7
South Carolina	84,530	0.4	78,252	0.3	101,804	0.5
Total	<u>\$ 18,474,259</u>	100.0%	<u>\$ 17,938,415</u>	100.0%	<u>\$ 17,192,345</u>	100.0%

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.

In addition to customer deposits, cash flows from our loan portfolio provide us with a significant source of liquidity. The following table reflects total loans grouped by remaining maturities at December 31, 2019 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	\$ 4,480,065	\$ 6,369,981	\$ 1,920,862	\$ 12,770,908
Commercial and industrial	114,452	422,755	124,745	661,952
Consumer	16,908	71,112	2,846,514	2,934,534
Other	637,402	516,046	11,201	1,164,649
Total	\$ 5,248,827	\$ 7,379,894	\$ 4,903,322	\$ 17,532,043
Fixed rate	\$ 631,952	\$ 1,800,115	\$ 2,574,908	\$ 5,006,975
Floating rate (not at a floor or ceiling rate) ⁽¹⁾	7,890,644	367,995	48,860	8,307,499
Floating rate (at floor rate) ⁽¹⁾	3,444,386	574,410	134,193	4,152,989
Floating rate (at ceiling rate)	64,498	82	—	64,580
Total	\$ 12,031,480	\$ 2,742,602	\$ 2,757,961	\$ 17,532,043

(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.

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.

At December 31, 2019, we had \$11.33 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.

Cash flows from our investment securities portfolio also provide us with an additional source of liquidity. The following table reflects the expected maturity distribution of our investment securities, at estimated fair value, at December 31, 2019 and weighted-average yields (for tax-exempt obligations on an FTE basis) of such securities. The maturity for all investment securities is shown based on each security's contractual maturity date, except (1) 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, 2019 and (2) 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	\$ 9,278	\$ 27,244	\$ 101,952	\$ 383,156	\$ 521,630
U.S. Government agency mortgage-backed securities	436,064	1,067,098	224,750	22,449	1,750,361
Corporate Obligations	—	5,398	—	—	5,398
Total	<u>\$ 445,342</u>	<u>\$ 1,099,740</u>	<u>\$ 326,702</u>	<u>\$ 405,605</u>	<u>\$ 2,277,389</u>
Percentage of total	19.6%	48.3%	14.3%	17.8%	100.0%
Cumulative percentage of total	19.6%	67.8%	82.2%	100.0%	
Weighted-average yield – FTE	1.87%	1.89%	2.64%	2.90%	2.15%

Given that deposit levels, loan repayments and cash flow from our investment securities portfolio may be affected by a number of factors, 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, repurchase agreements with customers, secured and unsecured federal funds lines of credit from correspondent banks, other borrowings (primarily FHLB advances and, to a lesser extent, federal funds purchased), FRB borrowings, subordinated notes, subordinated debentures and/or accessing the capital markets.

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,					
	2019		2018		2017	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(Dollars in thousands)					
Repurchase agreements with customers	\$ 13,502	0.37%	\$ 101,682	0.77%	\$ 75,915	0.17%
Other borrowings ⁽¹⁾	94,399	1.62	166,937	1.81	62,988	2.07
Subordinated notes	223,469	5.71	223,089	5.72	222,705	5.67
Subordinated debentures ⁽¹⁾	119,629	4.73	119,076	5.22	118,515	4.24
Total other interest bearing liabilities	<u>\$ 450,999</u>	4.44	<u>\$ 610,784</u>	3.73	<u>\$ 480,123</u>	3.97

- (1) The interest expense and rates for “other borrowings” and “subordinated debentures” were impacted by interest capitalized, primarily for our corporate headquarters facility that is currently under construction. Capitalized interest included in “other borrowings” totaled \$0.9 million in 2019, \$0.6 million in 2018 and \$0.2 million in 2017. Capitalized interest included in “subordinated debentures” totaled \$0.9 million in 2019 and none in 2018 and 2017. In the absence of this interest capitalization, these rates on other borrowings would have been 2.58% in 2019, 2.19% in 2018 and 2.44% in 2017 and the rate on subordinated debentures would have been 5.48 % for 2019.

At December 31, 2019, we had substantial unused borrowing availability. This availability was primarily comprised of the following four options: (1) \$2.8 billion of available blanket borrowing capacity with the FHLB, (2) \$1.6 billion of investment securities available to pledge for federal funds or other borrowings, (3) \$720 million of available unsecured federal funds borrowing lines and (4) up to \$119 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.

Sources and Uses of Funds. Operating activities provided net cash of \$425 million in 2019, \$705 million in 2018 and \$384 million in 2017. 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 decrease in net cash provided by operating activities for 2019 compared to 2018 was primarily due to the collection in 2018 of the majority of our current income taxes receivable balance recorded as of December 31, 2017.

Investing activities provided net cash of \$0.12 billion in 2019 and used net cash of \$1.53 billion in 2018 and \$2.63 billion in 2017. The decrease in net cash used by investing activities in 2019 compared to 2018 and 2018 compared to 2017 was primarily the result of a lower level of net purchases in our investment securities portfolio, which provided \$653 million in 2019, used \$316 million in 2018, and used \$1.14 billion in 2017, and lower growth in our non-purchased loan portfolio, which used \$1.10 billion in 2019, used \$2.18 billion in 2018 and used \$2.85 billion in 2017, partially offset by less cash provided by payoffs from our purchased loan portfolio, which provided \$0.64 billion in 2019, provided \$1.07 billion in 2018 and provided \$1.42 billion in 2017.

Financing activities provided net cash of \$660 million in 2019, \$671 million in 2018 and \$1.82 billion in 2017. While the net cash provided by financing activities was relatively unchanged from 2018 to 2019, we did experience less growth in deposits in 2019 compared to 2018, primarily in an effort to reduce our use of higher cost wholesale deposits that are typically more rate sensitive than our retail deposits. 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 \$0.75 billion 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).

Contractual Obligations. The following table presents, as of December 31, 2019, 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 Trough 3 Years	Over 3 Through 5 Years	Over 5 Years	Total
	(Dollars in thousands)				
Time deposits ⁽¹⁾	\$ 7,101,492	\$ 288,923	\$ 45,889	\$ 282	\$ 7,436,586
Deposits without a stated maturity ⁽²⁾	11,102,973	—	—	—	11,102,973
Repurchase agreements with customers ⁽¹⁾	11,250	—	—	—	11,250
Other borrowings ⁽¹⁾	350,889	929	9	—	351,827
Subordinated notes ⁽¹⁾	12,431	24,794	24,794	264,181	326,200
Subordinated debentures ⁽¹⁾	4,654	9,284	9,284	172,393	195,615
Lease obligations	8,508	14,665	12,794	55,492	91,459
Other obligations	108,118	13,972	3,025	12,128	137,243
Total contractual obligations	\$18,700,315	\$ 352,567	\$ 95,795	\$ 504,476	\$19,653,153

(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, 2019. 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, 2019.

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 16 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, 2019. 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	\$ 1,643,861	\$ 6,254,598	\$ 3,201,703	\$ 225,436	\$ 11,325,598
Standby letters of credit	9,971	793	—	—	10,764
Total commitments	<u>\$ 1,653,832</u>	<u>\$ 6,255,391</u>	<u>\$ 3,201,703</u>	<u>\$ 225,436</u>	<u>\$ 11,336,362</u>

Market and Interest Rate Risk Management

Overview. Market risk is the risk to a financial institution’s condition resulting from adverse movements in market rates or prices, including, but not limited to, interest rates, foreign exchange rates, commodity prices, or equity prices. Security price risk is the risk that arises from security price volatility – the risk of a decline in the value of a security or a portfolio. Equity price risk can be either systematic or unsystematic risk. Unsystematic risk can be mitigated through diversification, whereas systematic cannot be. In a global economic crisis, equity price risk is systematic because it affects multiple asset classes. Interest rate risk is the risk of increased volatility due to a change of interest rates. There are different types of risk exposures that can arise when there is a change of interest rates, such as basis risk, options risk, term structure risk and repricing risk. We are exposed to both interest rate risk and market risk.

Our Board is responsible to approving the overall policies related to the management of financial risks, including interest rate risk and market risk. The Board has delegated to ALCO, which is chaired by our Chief Financial Officer, the responsibility of managing interest rate and market risk consistent with Board-approved policies and limits.

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.

Interest Rate Risk Management Actions. 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, which analyzes the expected change in near term (one year) net interest income in response to changes in interest rates, and economic value of equity (“EVE”), which measures the expected change in the fair value of equity in response to changes in interest rates, to analyze our interest rate risk and interest rate sensitivity.

Our 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, down 100 bps, down 200 bps, and down 300 bps. Based on current conditions, we believe that modeling our change in net interest income assuming interest rates go down 300 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, 2020. 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
+300	10.7%
+200	6.7
+100	2.8
-100	(2.0)
-200	(2.0)

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.

EVE is calculated as the fair value of all assets minus the fair value of liabilities. We measure changes in the dollar amount of EVE for parallel shifts in interest rates. Due to embedded optionality and asymmetric rate risk, changes in EVE can be useful in quantifying risks not apparent for small rate changes.

EVE Model Results

Change in Interest Rates (in bps)	% Change in Projected Baseline EVE
+200	3.8%
-200	(4.3)

At December 31, 2019, approximately 71% of our total loans had variable rates, including 74% of our non-purchased loans and 42% of our purchased loans. Additionally, 99% of our variable rate non-purchased loans and 47% of our variable rate purchased loans had floor rates. The following table reflects a summary, at December 31, 2019, of the funded balance of our variable rate loans at a floor given changes in interest rates.

Variable Rate Loan Analysis

Changes in Interest Rate	Percentage of Variable Rate Loans at Floor		
	Non-purchased	Purchased	Total
Currently at floor	34%	22%	33%
Down 25 bps	41%	26%	40%
Down 50 bps	48%	27%	47%
Down 75 bps	59%	30%	58%
Down 100 bps	67%	31%	66%
Down 150 bps	93%	42%	90%
Down 200 bps	99%	45%	96%
Down 250 bps	99%	47%	97%

The following table reflects total loans as of December 31, 2019 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	\$ 631,952	\$528,073	\$512,539	\$ 759,503	\$2,574,908	\$ 5,006,975
Floating rate (not at a floor or ceiling rate) ⁽¹⁾	7,890,644	114,224	99,120	154,651	48,860	8,307,499
Floating rate (at floor rate) ⁽¹⁾	3,444,386	149,993	122,468	301,949	134,193	4,152,989
Floating rate (at ceiling rate)	64,498	39	1	42	—	64,580
Total	<u>\$12,031,480</u>	<u>\$792,329</u>	<u>\$734,128</u>	<u>\$1,216,145</u>	<u>\$2,757,961</u>	<u>\$17,532,043</u>
Percentage of total	68.6%	4.5%	4.2%	6.9%	15.8%	100.0%
Cumulative percentage of total	68.6%	73.1%	77.3%	84.3%	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.

At December 31, 2019, most of our floating rate loans are tied to three major benchmark interest rates, the 1-month LIBOR, 3-month LIBOR and WSJ Prime. 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	\$ 2,742,430	\$ 6,651,528	\$ —	\$ 9,393,958
3-month LIBOR	40,547	477,792	—	518,339
Wall Street Journal Prime	1,173,912	1,101,269	64,580	2,339,761
Other contractual interest rate indices	196,100	76,910	—	273,010
Total	<u>\$ 4,152,989</u>	<u>\$ 8,307,499</u>	<u>\$ 64,580</u>	<u>\$ 12,525,068</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.

LIBOR is expected to be phased out after 2021. As a result, we are assessing the impacts of such phase out and exploring alternatives, including the Secured Overnight Financing Rate (“SOFR”) and other interest rate indices, to use in place of LIBOR. Our subordinated debentures and related trust preferred securities, our subordinated notes and significant portions of our loan portfolio are tied to LIBOR. Currently, we are unable to determine the effect that the phase out of LIBOR might have on those financial instruments tied to LIBOR.

Market Risk Management Actions. We are exposed to market risk primarily through changes in fair value of our fixed income investment securities portfolio. Investment portfolio strategies are set by senior management and are subject to the oversight and direction of ALCO. At December 31, 2019 and 2018, 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). At December 31, 2019, we had \$36.1 million of net unrealized gain in our investment securities portfolio that was reported, net of applicable income taxes, in AOCI.

The following table presents the amortized cost and estimated fair value of investment securities—AFS as of the dates indicated.

Investment Securities – AFS

	December 31,			
	2019		2018	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
Obligations of states and political subdivisions	\$ 503,399	\$ 521,630	\$ 615,328	\$ 606,616
U.S. Government agency mortgage-backed securities	1,732,671	1,750,361	2,248,065	2,212,546
Other U.S. Government agency securities	—	—	27,538	26,936
Corporate obligations	5,229	5,398	15,188	15,183
CRA qualified investment fund	—	—	1,109	1,059
Total	<u>\$ 2,241,299</u>	<u>\$ 2,277,389</u>	<u>\$ 2,907,228</u>	<u>\$ 2,862,340</u>

Our investment securities portfolio is reported at estimated fair value, which included gross unrealized gains of \$37.6 million and gross unrealized losses of \$1.5 million at December 31, 2019 and gross unrealized gains of \$7.1 million and gross unrealized losses of \$52.0 million at December 31, 2018. We believe that all of the unrealized losses on individual investment securities at December 31, 2019 and 2018 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)			
December 31, 2019:				
Obligations of states and political subdivisions	\$ 503,399	\$ 1,260	\$ (18,241)	\$ 486,418
U.S. Government agency mortgage-backed securities	1,732,671	254	(33,131)	1,699,794
Corporate obligations	5,229	93	—	5,322
Total	<u>\$ 2,241,299</u>	<u>\$ 1,607</u>	<u>\$ (51,372)</u>	<u>\$ 2,191,534</u>
December 31, 2018:				
Obligations of states and political subdivisions	\$ 615,328	\$ 1,423	\$ (25,410)	\$ 591,341
U.S. Government agency mortgage-backed securities	2,248,065	442	(47,488)	2,201,019
Other 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>

We recognized premium amortization, net of discount accretion, of \$17.8 million during 2019, \$22.1 million during 2018 and \$16.0 million during 2017. Any premium amortization or discount accretion is considered an adjustment to the yield of our investment securities.

We had net gains of \$0.7 million from the sale of approximately \$96 million of investment securities AFS in 2019, compared to essentially no net gains from the sale of investment securities AFS in 2018 and net gains of \$4.0 million from the sale of approximately \$239 million of investment securities AFS in 2017. Investment securities AFS totaling \$552 million in 2019, \$497 million in 2018 and \$245 million in 2017 matured, were called or were otherwise paid down by the issuer. We purchased essentially no investment securities AFS in 2019, compared to \$0.82 billion in 2018 and \$1.61 billion in 2017.

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, 2019, approximately 95% of our investment securities had an investment grade credit rating (i.e., the equivalent of a rating of BBB- or better) and approximately 5% 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.

Capital Management

Overview. The primary function of capital is to support our operations, including growth expectations, and act as a cushion to absorb unanticipated losses. Accordingly, our management has developed and our Board has approved a detailed capital policy that addresses, among other things, capital adequacy, considers capital planning strategies for expected future growth, provides plans and actions for capital contingency needs, provides a capital distribution strategy and includes provisions and procedures for developing, reviewing and modifying our capital strategy and our internal capital guidelines and limits based on the results of budgeting and forecasting activities, capital stress testing results and other factors. Oversight of our capital management plan and capital monitoring activities has been delegated to our ALCO.

Capital Management Actions. We primarily rely on our common stockholders' equity, comprised of common stock, additional paid-in capital, our retained earnings and our accumulated other comprehensive income (loss) to support our operations and act as a cushion to absorb unanticipated losses. Our common stockholders' equity totaled \$4.15 billion at December 31, 2019 compared to \$3.77 billion at December 31, 2018. Additionally, our common stockholders' equity is augmented by our subordinated notes, our subordinated debentures, and, to a limited extent, our ALL.

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.

As previously discussed, LIBOR is expected to be phased out after 2021. Currently, we are unable to determine the effect, if any, that the phase out of LIBOR might have on our financial instruments tied to LIBOR.

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, 2019, 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	4.84%	September 29, 2033
Ozark III	14,434	—	14,434	14,000	4.94	September 25, 2033
Ozark IV	15,464	—	15,464	15,000	4.13	September 28, 2034
Ozark V	20,619	—	20,619	20,000	3.49	December 15, 2036
Intervest II	15,464	(277)	15,187	15,000	4.85	September 17, 2033
Intervest III	15,464	(321)	15,143	15,000	4.69	March 17, 2034
Intervest IV	15,464	(584)	14,880	15,000	4.31	September 20, 2034
Intervest V	10,310	(554)	9,756	10,000	3.54	December 15, 2036
Total	<u>\$ 121,652</u>	<u>\$ (1,736)</u>	<u>\$ 119,916</u>	<u>\$ 118,000</u>		

Our subordinated debentures and trust preferred securities are tied to a spread over the 90-day LIBOR. As previously discussed, LIBOR is expected to be phased out after 2021. Currently, we are unable to determine the effect, if any, that the phase out of LIBOR might have on our financial instruments tied to LIBOR. 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 “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**

	December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Total common stockholders' equity before noncontrolling interest	\$ 4,150,351	\$ 3,770,330	\$ 3,460,728
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangibles, net of accumulated amortization	(23,753)	(35,672)	(48,251)
Total intangibles	(684,542)	(696,461)	(709,040)
Total tangible common stockholders' equity	<u>\$ 3,465,809</u>	<u>\$ 3,073,869</u>	<u>\$ 2,751,688</u>
Total assets	\$ 23,555,728	\$ 22,388,030	\$ 21,275,647
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangibles, net of accumulated amortization	(23,753)	(35,672)	(48,251)
Total intangibles	(684,542)	(696,461)	(709,040)
Total tangible assets	<u>\$ 22,871,186</u>	<u>\$ 21,691,569</u>	<u>\$ 20,566,607</u>
Ratio of total common stockholders' equity to total assets	<u>17.62%</u>	<u>16.84%</u>	<u>16.27%</u>
Ratio of total tangible common stockholders' equity to total tangible assets	<u>15.15%</u>	<u>14.17%</u>	<u>13.38%</u>

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

	December 31,				
	2019	2018	2017	2016	2015
	(In thousands, except per share amounts)				
Total common stockholders' equity before noncontrolling interest	\$ 4,150,351	\$ 3,770,330	\$ 3,460,728	\$ 2,791,607	\$ 1,464,631
Less intangible assets:					
Goodwill	(660,789)	(660,789)	(660,789)	(660,119)	(125,442)
Core deposit and other intangibles, net of accumulated amortization	(23,753)	(35,672)	(48,251)	(60,831)	(26,898)
Total intangibles	(684,542)	(696,461)	(709,040)	(720,950)	(152,340)
Total tangible common stockholders' equity	<u>\$ 3,465,809</u>	<u>\$ 3,073,869</u>	<u>\$ 2,751,688</u>	<u>\$ 2,070,657</u>	<u>\$ 1,312,291</u>
Common shares outstanding	<u>128,951</u>	<u>128,611</u>	<u>128,288</u>	<u>121,268</u>	<u>90,612</u>
Book value per common share	<u>\$ 32.19</u>	<u>\$ 29.32</u>	<u>\$ 26.98</u>	<u>\$ 23.02</u>	<u>\$ 16.16</u>
Tangible book value per common share	<u>\$ 26.88</u>	<u>\$ 23.90</u>	<u>\$ 21.45</u>	<u>\$ 17.08</u>	<u>\$ 14.48</u>

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

	Year Ended December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Net income available to common stockholders	\$ 425,906	\$ 417,106	\$ 421,891	\$ 269,979	\$ 182,253
Average common stockholders' equity before noncontrolling interest	\$ 3,971,952	\$ 3,598,628	\$ 3,127,576	\$ 2,068,328	\$ 1,217,475
Less average intangible assets:					
Goodwill	(660,789)	(660,789)	(660,632)	(363,324)	(118,013)
Core deposit and other intangibles, net of accumulated amortization	(29,784)	(42,315)	(54,702)	(43,623)	(28,660)
Total average intangibles	(690,573)	(703,104)	(715,334)	(406,947)	(146,673)
Average tangible common stockholders' equity	\$ 3,281,379	\$ 2,895,524	\$ 2,412,242	\$ 1,661,381	\$ 1,070,802
Return on average common stockholders' equity	10.72%	11.59%	13.49%	13.05%	14.97%
Return on average tangible common stockholders' equity	12.98%	14.41%	17.49%	16.25%	17.02%

Goodwill. Between 2010 and 2016, we have made fifteen acquisitions, including seven FDIC-assisted transactions and eight traditional merger and acquisition (“M&A”) transactions. In conjunction with several of the traditional M&A transactions, our purchase price exceeded the fair value of the net assets acquired, resulting in the recording of goodwill. At December 31, 2019 and 2018, we had goodwill totaling \$660.8 million. This resultant goodwill is the most significant intangible asset we have and is the largest item in adjusting our total common stockholders' equity before noncontrolling interest to our tangible common stockholders' equity. As a result and consistent with requirements under GAAP, 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 performed our annual impairment test of goodwill as of September 30, 2019. Subsequent to our September 30, 2019 annual impairment test, we performed an additional goodwill impairment test as of December 31, 2019. Both impairment tests included various valuation considerations including comparable peer data, precedent transaction comparables, overall financial performance, share price of our common stock and other factors. Neither the September 30, 2019 nor the December 31, 2019 impairment test indicated any impairment of goodwill. There can be no assurance that future evaluations of our goodwill will not result in impairment of such goodwill.

Common Stock Dividend Policy. In 2019 we paid dividends of \$0.94 per common share, compared to \$0.795 per common share in 2018 and \$0.71 per common share in 2017. On January 2, 2020, our board of directors approved a dividend of \$0.26 per common share that was paid on January 24, 2020 to shareholders of record on January 17, 2020. 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 18 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.

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 AOCI 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. At December 31, 2019, the Basel III Rules required 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, 2019 and 2018, 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 were 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, 2019 and 2018, 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)								
December 31, 2019:								
Common equity tier 1 to risk-weighted assets	\$3,422,832	13.76%	\$1,741,897	7.00%	\$1,741,897	7.00%	\$1,617,475	6.50%
Tier 1 capital to risk-weighted assets	3,422,832	13.76	2,115,160	8.50	2,115,160	8.50	1,990,739	8.00
Total capital to risk-weighted assets	3,874,357	15.57	2,612,845	10.50	2,612,845	10.50	2,488,424	10.00
Tier 1 leverage to average assets	3,422,832	15.36	891,109	4.00	891,109	4.00	1,113,887	5.00
December 31, 2018:								
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

Capital Stress Testing. We completed our annual capital stress tests utilizing multiple economic scenarios, including an adverse idiosyncratic scenario unique to our Bank. The results of each stress test reflected that we would maintain well-capitalized status for all capital ratios over the stress test time horizon.

Growth. In 2019, we (i) opened loan production offices in Alpharetta, Georgia and Irvine, California for our Indirect RV & Marine lending team, an office in Greenville, North Carolina for our Community Banking agricultural lending team, and a loan production office in Jacksonville Beach, Florida; (ii) opened retail banking offices in Ft. Worth, Texas and Dallas, Texas; (iii) closed three retail banking offices, including one in Magnolia, Arkansas, one in Clarksville, Arkansas and one in Mobile, Alabama; (iv) replaced an existing leased facility with a bank-owned facility in Winston-Salem, North Carolina; and (v) converted a loan production office in East Point, Georgia to a retail banking office. In 2020, among other things, we expect to complete construction on our new corporate headquarters in Little Rock, Arkansas.

We may open additional branches and loan production offices as our needs and resources permit. Additionally, as we have done in recent quarters, we may relocate offices and we may close certain offices and consolidate the business of such offices into other nearby offices. Opening new offices is subject to local banking market conditions, availability of satisfactory 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 or close current offices as a result of a variety of factors including our financial results, changes in economic or competitive conditions, strategic opportunities, individual office profitability metrics or other factors

During 2019, we spent \$99 million on capital expenditures for premises and equipment. Our capital expenditures for 2020 are expected to be in the range of \$40 million to \$50 million, including progress payments on construction projects expected to be completed in 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.

Operational Risk Management

Overview. Operational risk is the risk to current or anticipated earnings or capital arising from inadequate or failed internal processes or systems, human errors or misconduct, reputational damage or adverse external events. Operational risk is inherent in all of our businesses. To assist in our operational risk management, in addition to monitoring our operational risk appetite using key performance and risk metrics, we utilize risk control and self-assessments across the Bank to identify key operational risks and associated key internal controls. We have in place a number of controls that assist in the management of operational risk including, but not limited to, transactional documentation requirements; systems and procedures to monitor transactions; systems and procedures to detect and mitigate attempts to commit fraud, penetrate our systems, access customer data, and/or deny access to our systems by legitimate customers; regulatory compliance reviews; and periodic reviews by various components of our CRMG and our Internal Audit function. Reconciliation procedures have also been established to ensure that data processing systems accurately capture data and transactions. Further, we have programs and procedures to maintain contingency and business continuity plans for operational support in the event of disruptions to our business. We also mitigate certain operational risks through the purchase of insurance. Our Operational Risk Management group, which reports to our CRO, also has responsibilities for assisting the business units in identifying, managing and monitoring various other risks including risks resulting from the use of technology, cyber security risk, third party vendor management risk, risks associated with the introduction of new products and services, and various other operational risks.

Model risk is the risk that the various models and tools utilized throughout the Bank do not provide accurate results, particularly in times of market stress or other unforeseen circumstances, or prove to be inadequate or inaccurate because of flaws in their design or implementation. We have an internal Model Risk Management group, which reports to our CRO, that has developed a model framework, in compliance with FRB Supervision and Regulation Letter *SR 11-7: Guidance on Model Risk Management*, whereby all models and tools utilized throughout the Bank are inventoried, assessed, and validated in accordance with this framework.

As part of our operational risk management program, we also actively monitor our legal risk exposure. Legal risk arises from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect our operations or condition. These risks are inherent in all of our businesses. Legal risk exposures are actively and primarily managed by our business units in conjunction with our legal department. Our ERC, BRC and our Board oversee our legal risk management. Specifically, our legal department is responsible for providing advice, interpreting and identifying developments regarding laws, regulations, regulatory guidance and litigation, and setting standards for communicating relevant changes to our Corporate Compliance group, each of our lines of business managers and our Internal Audit group. Our legal department also identifies and communicates legal risk associated with new products and business practices.

Reputational Risk Management

Reputational risk is the risk that adverse perceptions regarding our business practices or financial health, or adverse developments, customer sentiment or other external perceptions regarding the practices of our competitors, or the financial services industry, may adversely impact our reputation and business prospects. We have a team of bankers and risk professionals that monitor our reputational risk exposure by tracking and measuring a variety of social media posts, and enforcing detailed policies and procedures that are intended to govern our employees regarding the use of social media, websites and other external communications made by employees. Additionally, we also monitor our reputational risk exposure by frequently monitoring other financial and non-financial reputational risk-related metrics.

Strategic Risk Management

Strategic risk is the risk to current or anticipated earnings or capital, or franchise or enterprise value arising from adverse business decisions, poor implementation of business decisions, deteriorations in national or regional macro-economic conditions, or lack of responsiveness to changes in the financial services industry and operating environment. This risk is a function of the compatibility of our strategic goals, business strategies, resources, and quality of implementation. The assessment of strategic risk includes more than an analysis of our written strategic plan. It focuses on opportunity costs and how plans, systems, and implementation affect our franchise or enterprise value. It also incorporates how management analyzes external factors, such as economic, technological, competitive, regulatory, and other environmental changes, that affect our strategic direction. Our strategic risk exposure is measured against our Board-approved strategic risk appetite, which monitors our performance against our strategic objectives in addition to measuring our financial performance against our peer group. Also, as part of our strategic risk monitoring process, the current and expected systemic macroeconomic environment is monitored using a combination of metrics, models and various other tools.

Compliance Risk Management

Compliance risk is the risk of legal or regulatory sanctions, financial loss or damage to reputation resulting from failure to comply with laws, regulations, rules, other regulatory requirements, or codes of conduct and other standards of self-regulatory organizations applicable to us. Compliance risk exposures are actively and primarily managed by our business units in conjunction with our Corporate Compliance group and the associated compliance programs operated under our compliance framework and compliance management system govern the management of compliance risk. Our ERC and BRC oversee our compliance program.

Risks related to compliance matters are heightened by the heavily regulated environment in which we operate. We have designed our processes and systems and provide education of applicable regulatory standards to our employees in an effort to comply with these requirements. Our Corporate Compliance group and various other teams throughout the Bank perform various monitoring and testing activities, and our Internal Audit Group performs periodic reviews of our various compliance programs, including reviews of our Corporate Compliance group.

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

Information required by this Item is included in “Market and Interest Rate Risk Management” in MD&A beginning on page 71 and is hereby incorporated by reference.

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, 2019 and 2018, 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, 2019, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 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, 2019, 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.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses – Subjective Criteria

As described in Notes 1 and 4 to the consolidated financial statements, management assesses the adequacy of the allowance for loan losses based on evaluations of the loan portfolio utilizing objective and subjective criteria. As of December 31, 2019 the Bank had an allowance for loan losses of \$108.5 million on a total loan balance of \$17.53 billion. The objective criteria primarily include an internal grading system and specific allowances for impaired loans. The Bank subjectively assesses the adequacy of the allowance for loan losses and the need for additions thereto, with consideration given to historical loss percentages over various time periods and other subjective criteria such as 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.

The principal considerations for our determination that performing procedures relating to the allowance for loan losses – subjective criteria is a critical audit matter are (i) there was significant judgment by management in assessing the historical loss percentages over various time periods and other subjective criteria used in the determination of the allowance for loan losses, which in turn led to a high degree of auditor judgment and subjectivity in performing procedures relating to the historical loss percentages over various time periods and other subjective criteria; (ii) significant audit effort was necessary in evaluating the historical loss percentages over various time periods and other subjective criteria; and (iii) there was a high degree of auditor judgment in evaluating the audit evidence related to the reasonableness of the historical loss percentages over various time periods and other subjective criteria.

The approach to addressing the matter involved performing procedures and evaluating audit evidence in connection with forming the overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the allowance for loan losses including the subjective criteria. These procedures also included, among others, testing management's process for determining the allowance for loan losses, testing significant data inputs used within the calculation for completeness and accuracy, evaluating the reasonableness of management's historical loss percentages over various time periods and other subjective criteria, and the appropriateness of management's methodology given changes in the current macroeconomic environment and characteristics of the loan portfolio.

/s/PricewaterhouseCoopers LLP
Little Rock, Arkansas
February 28, 2020

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

BANK OZK
CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	(Dollars in thousands, except per share amounts)	
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,495,757	\$ 290,672
Investment securities – available for sale (“AFS”)	2,277,389	2,862,340
Federal Home Loan Bank of Dallas (“FHLB”) and other banker's bank stocks	21,855	25,941
Non-purchased loans	16,224,539	15,073,791
Purchased loans	1,307,504	2,044,032
Allowance for loan losses	(108,525)	(102,264)
Net loans	17,423,518	17,015,559
Premises and equipment, net	711,541	567,189
Foreclosed assets	19,096	16,171
Accrued interest receivable	75,208	81,968
Bank owned life insurance (“BOLI”)	738,860	721,238
Goodwill and intangible assets, net	684,542	696,461
Other, net	107,962	110,491
Total assets	<u>\$ 23,555,728</u>	<u>\$ 22,388,030</u>
<u>LIABILITIES AND STOCKHOLDERS’ EQUITY</u>		
Deposits:		
Demand non-interest bearing	\$ 2,795,251	\$ 2,748,273
Savings and interest bearing transaction	8,307,607	9,682,713
Time	7,371,401	5,507,429
Total deposits	18,474,259	17,938,415
Repurchase agreements with customers	11,249	20,564
Other borrowings	351,387	96,692
Subordinated notes	223,663	223,281
Subordinated debentures	119,916	119,358
Accrued interest payable and other liabilities	221,786	216,355
Total liabilities	19,402,260	18,614,665
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock; \$0.01 par value; 100,000,000 shares authorized; no shares issued or outstanding at December 31, 2019 or 2018	—	—
Common stock; \$0.01 par value; 300,000,000 shares authorized; 128,951,024 and 128,611,049 shares issued and outstanding at December 31, 2019 and 2018, respectively	1,289	1,286
Additional paid-in capital	2,251,824	2,237,948
Retained earnings	1,869,983	1,565,201
Accumulated other comprehensive income (loss)	27,255	(34,105)
Total stockholders’ equity before noncontrolling interest	4,150,351	3,770,330
Noncontrolling interest	3,117	3,035
Total stockholders’ equity	4,153,468	3,773,365
Total liabilities and stockholders’ equity	<u>\$ 23,555,728</u>	<u>\$ 22,388,030</u>

See accompanying notes to the Consolidated Financial Statements.

BANK OZK
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands, except per share amounts)		
Interest income:			
Non-purchased loans	\$ 981,811	\$ 858,102	\$ 607,548
Purchased loans	106,908	173,465	276,499
Investment securities:			
Taxable	52,812	50,021	25,460
Tax-exempt	14,252	16,193	22,430
Deposits with banks and federal funds sold	6,758	3,039	656
Total interest income	1,162,541	1,100,820	932,593
Interest expense:			
Deposits	258,358	186,617	96,083
Repurchase agreements with customers	50	785	132
Other borrowings	1,531	3,017	1,305
Subordinated notes	12,757	12,757	12,620
Subordinated debentures	5,664	6,211	5,024
Total interest expense	278,360	209,387	115,164
Net interest income	884,181	891,433	817,429
Provision for loan losses	26,241	64,398	28,092
Net interest income after provision for loan losses	857,940	827,035	789,337
Non-interest income:			
Service charges on deposit accounts	41,774	39,544	42,853
Trust income	7,554	6,935	6,691
BOLI income:			
Increase in cash surrender value	20,715	20,700	18,246
Death benefits	3,194	3,211	431
Other income from purchased loans	3,684	7,784	13,456
Loan service, maintenance and other fees	17,917	20,354	15,696
Gains on sales of other assets	2,233	2,219	5,553
Net gains on investment securities	713	17	4,033
Other	9,743	7,011	16,899
Total non-interest income	107,527	107,775	123,858
Non-interest expense:			
Salaries and employee benefits	192,851	170,478	152,194
Net occupancy and equipment	59,018	56,362	53,198
Other operating expenses	149,261	153,912	127,280
Total non-interest expense	401,130	380,752	332,672
Income before taxes	564,337	554,058	580,523
Provision for income taxes	138,429	136,977	158,586
Net income	425,908	417,081	421,937
Earnings attributable to noncontrolling interest	(2)	25	(46)
Net income available to common stockholders	\$ 425,906	\$ 417,106	\$ 421,891
Basic earnings per common share	\$ 3.30	\$ 3.24	\$ 3.36
Diluted earnings per common share	\$ 3.30	\$ 3.24	\$ 3.35

See accompanying notes to the Consolidated Financial Statements.

BANK OZK
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Net income	\$ 425,908	\$ 417,081	\$ 421,937
Other comprehensive income (loss):			
Unrealized gains and losses on investment securities AFS	81,691	(27,080)	27,291
Tax effect of unrealized gains and losses on investment securities AFS	(19,793)	5,687	(8,134)
Reclassification of gains on investment securities AFS included in net income	(713)	—	(4,033)
Tax effect of reclassification of gains on investment securities AFS included in net income	175	—	1,492
Total other comprehensive income (loss)	61,360	(21,393)	16,616
Total comprehensive income	<u>\$ 487,268</u>	<u>\$ 395,688</u>	<u>\$ 438,553</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 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>

See accompanying notes to the Consolidated Financial Statements.

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 STOCKHOLDERS' EQUITY (continued)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
	(Dollars in thousands, except per share amounts)					
Balances – December 31, 2018	\$ 1,286	\$ 2,237,948	\$ 1,565,201	\$ (34,105)	\$ 3,035	\$ 3,773,365
Net income	—	—	425,908	—	—	425,908
Earnings attributable to noncontrolling interest	—	—	(2)	—	2	—
Total other comprehensive income	—	—	—	61,360	—	61,360
Common stock dividends paid, \$0.94 per share	—	—	(121,124)	—	—	(121,124)
Noncontrolling interest cash contribution	—	—	—	—	80	80
Issuance of 83,500 shares of common stock for exercise of stock options	1	1,384	—	—	—	1,385
Issuance of 406,074 shares of unvested restricted common stock	4	(4)	—	—	—	—
Repurchase and cancellation of 63,716 shares of common stock	(1)	(1,674)	—	—	—	(1,675)
Stock-based compensation expense	—	14,169	—	—	—	14,169
Forfeiture of 85,883 shares of unvested restricted common stock	(1)	1	—	—	—	—
Balances – December 31, 2019	<u>\$ 1,289</u>	<u>\$ 2,251,824</u>	<u>\$ 1,869,983</u>	<u>\$ 27,255</u>	<u>\$ 3,117</u>	<u>\$ 4,153,468</u>

See accompanying notes to the Consolidated Financial Statements.

BANK OZK
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	\$ 425,908	\$ 417,081	\$ 421,937
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	22,258	21,920	20,550
Amortization	12,859	13,520	13,520
Earnings attributable to noncontrolling interest	(2)	25	(46)
Provision for loan losses	26,241	64,398	28,092
Provision for losses on foreclosed and other assets	2,419	3,220	3,488
Writedown of signage due to strategic rebranding	—	4,915	—
Net amortization of investment securities AFS	17,800	22,076	15,972
Net gains on investment securities AFS	(713)	(17)	(4,033)
Amortization of operating lease right-of-use assets	7,392	—	—
Originations of mortgage loans held for sale	—	—	(207,166)
Proceeds from sales of mortgage loans held for sale	—	8,313	219,261
Accretion of purchased loans	(25,248)	(43,870)	(78,639)
Gains on sales of other assets	(2,233)	(2,219)	(5,553)
Income tax benefit from revaluation of deferred tax assets and liabilities	—	—	(49,812)
Deferred income tax (benefit) expense	(100,903)	33,057	248,449
Increase in cash surrender value of BOLI	(20,715)	(20,700)	(18,246)
BOLI death benefits in excess of cash surrender value	(3,194)	(3,211)	(431)
Stock-based compensation expense	14,169	14,135	12,329
Changes in assets and liabilities:			
Accrued interest receivable	6,710	(17,360)	(12,689)
Income taxes receivable and other assets, net	33,003	186,683	(221,634)
Accrued interest payable and other liabilities	8,893	3,348	(869)
Net cash provided by operating activities	<u>424,644</u>	<u>705,314</u>	<u>384,480</u>

See accompanying notes to the Consolidated Financial Statements.

BANK OZK
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Cash flows from investing activities:			
Proceeds from sales of investment securities AFS	\$ 97,210	\$ —	\$ 243,282
Proceeds from maturities/calls/paydowns of investment securities AFS	551,633	496,618	244,943
Purchases of investment securities AFS	—	(815,413)	(1,605,321)
Proceeds from sale of FHLB and other bankers' bank stock	30,979	37,975	—
Purchases of FHLB and other bankers' bank stock	(26,893)	(34,992)	(22,768)
Net increase of non-purchased loans	(1,095,383)	(2,178,639)	(2,851,239)
Net payments received on purchased loans	638,276	1,072,735	1,421,951
Purchases of premises and equipment	(98,691)	(86,752)	(38,864)
Proceeds from sales of other assets	46,770	30,970	40,939
Purchases of BOLI	—	(45,000)	(60,000)
Proceeds from BOLI death benefits	4,774	5,820	1,475
Cash invested in unconsolidated investments and noncontrolling interest	(28,044)	(9,781)	(4,795)
Net cash provided (used) by investing activities	120,631	(1,526,459)	(2,630,397)
Cash flows from financing activities:			
Net increase in deposits	535,844	746,070	1,617,467
Repayment of fixed-rate callable FHLB advances	—	(20,000)	(20,000)
Net proceeds from (repayments of) other borrowings	254,695	94,373	417
Net (decrease) increase in repurchase agreements with customers	(9,315)	(48,767)	4,221
Proceeds from exercise of stock options	1,385	5,741	6,849
Proceeds from issuance of common stock	—	—	299,723
Repurchase and cancellation of shares of common stock	(1,675)	(3,770)	—
Cash dividends paid on common stock	(121,124)	(102,218)	(88,732)
Net cash provided by financing activities	659,810	671,429	1,819,945
Net increase (decrease) in cash and cash equivalents	1,205,085	(149,716)	(425,972)
Cash and cash equivalents – beginning of year	290,672	440,388	866,360
Cash and cash equivalents – end of year	<u>\$ 1,495,757</u>	<u>\$ 290,672</u>	<u>\$ 440,388</u>

See accompanying notes to the Consolidated Financial Statements.

Bank OZK
Notes to Consolidated Financial Statements
December 31, 2019, 2018 and 2017

1. Organization and Regulation

Bank OZK (the “Bank”) is headquartered in Little Rock, Arkansas and provides a wide range of retail and commercial banking services. At December 31, 2019 the Bank conducted operations through more than 250 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 available for sale (“AFS”) 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 (“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”), 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, the aircraft subsidiary and various other entities that hold loans, foreclosed assets or tax credits or engage in other activities. 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. All 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 was 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, interest earning deposits with banks, and amounts on deposit with the FRB.

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, 2019 and 2018, the Bank has classified all of its investment securities as 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 in an acquisition 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, 2019 and 2018, the Bank owned shares in the Federal Home Loan Bank of Dallas (“FHLB”), First National Banker’s Bankshares, Inc. and certain other bankers’ bank stock, 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 the credit quality, financial condition and near term prospects of the issuer, the nature and cause of the unrealized loss, the severity and duration of the impairment and various other factors. 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 are included in interest income. Any discount or premium on investment securities is accreted or amortized through maturity, through the earliest call date for investment securities that are callable, or in the case of mortgage-backed securities, over the estimated life of the security. 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, condition 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 provision expense for the reporting period and 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, condition 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 provision expense for the reporting period and 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 calculated pursuant to GAAP under the incurred loss methodology and 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 credit risk. Grades are reviewed on specific loans from time to time by senior management and as part of the Bank's internal credit risk management processes. 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, nature and down payment requirements 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 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, recent trends of charge-offs by loan types and a variety of other 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 provision expense for the reporting period and 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 provision expense for the reporting period and the required level of ALL and may result in an allowance allocation or a partial or full charge-off.

At both December 31, 2019 and 2018, 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 no longer past due, the loan has performed in accordance with its contractual terms for a reasonable period of time (generally at least six months), and is expected to continue to perform in accordance with its contractual terms. If a loan is determined to be uncollectible, the portion of the principal determined to be uncollectible is 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 estimated 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 2016 and state and local tax authorities prior to 2015.

Service charges on deposit accounts – 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.

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.

Goodwill and Intangible assets – Intangible assets consist primarily of goodwill and core deposit 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, 2019 and 2018. The Bank performed its annual impairment test of goodwill as of September 30, 2019. This test indicated no impairment of the Bank’s goodwill. During much of 2019, 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 periodically performed additional goodwill impairment tests during 2019 including a test performed as of December 31, 2019. The tests performed during 2019 as well as the December 31, 2019 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 tests performed during 2019 as well as the December 31, 2019 impairment test indicated no impairment of goodwill.

Core deposit intangibles represent premiums paid for deposits acquired via acquisition and are being amortized over three to seven years. Core deposit intangibles totaled \$75.0 million and \$77.5 million at December 31, 2019 and 2018, respectively, less accumulated amortization of \$51.1 million and \$42.3 million at December 31, 2019 and 2018, respectively.

The aggregate amount of amortization expense for the Bank’s core deposit intangibles is expected to be \$9.1 million in 2020, \$6.4 million in 2021, \$5.5 million in 2022 and \$2.7 million in 2023.

Stock-based compensation – The Bank has an equity incentive plan for officers and employees and non-employee directors. This plan is described more fully in Note 15. 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 (“EPS”) are computed using the two-class method. Basic EPS are computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS 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 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 EPS are included in Note 23.

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 2019, 2018 or 2017.

Recent accounting pronouncements – In February 2016, Financial Accounting Standards Board (“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 are 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 was 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 provided 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 adopted ASU 2016-02 beginning January 1, 2019 and chose not to restate previous periods. As a result of adopting the provisions of ASU 2016-02, the Bank recorded approximately \$60 million of leased assets and related lease liabilities on its balance sheet. The Bank elected certain transition relief provisions whereby it did not 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 method that is utilized in estimating the ALL with a method 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 method is what FASB describes as the current expected credit loss (“CECL”) method, and FASB believes the CECL method will result in more timely recognition of credit losses since the CECL method 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 was effective for interim and annual periods beginning after December 15, 2019. The Bank currently expects that the adoption of ASU 2016-13 will result in an overall increase in our ACL ranging from \$70 million to \$95 million and will be recorded as a cumulative effect adjustment to retained earnings. This expected overall increase will be comprised of an increase in our ACL for the outstanding balance of our loan portfolio expected to range from \$25 million to \$40 million and an ACL for the closed but unfunded portion of our loan portfolio expected to range from \$45 million to \$55 million. The Bank’s adoption of CECL and its estimate of credit losses is still being evaluated and influenced by continued refinement of assumptions, methodologies and judgments. Key drivers in estimating our ACL under the CECL method include individual loan score card results, reasonable and supportable forecast periods, loss reversion estimates and numerous other inputs and assumptions, all of which are subject to significant judgments and estimates that could materially affect the estimated ACL under CECL. Subsequent to the adoption of CECL, the Bank may experience increased volatility in its quarterly provision for ACL.

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. The Bank adopted the provisions of ASU 2017-08 beginning January 1, 2019. The adoption of ASU 2017-08 did not have a material effect on the Bank’s financial position or results of operations.

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 was effective for interim and annual periods beginning after December 15, 2019. The Bank adopted ASU 2018-13 beginning January 1, 2020 and the adoption of the provisions of ASU 2018-13 did not have a significant effect on the Bank’s 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 was effective for interim and annual periods beginning after December 15, 2019. The Bank adopted ASU 2018-15 on a prospective basis beginning January 1, 2020 and will apply the provisions of ASU 2018-15 to cloud computing arrangements entered into on or after January 1, 2020.

In December 2019, FASB issued ASU 2019-12 “*Income Taxes (Topic 740) Simplifying the Accounting for Income Taxes*” which eliminates some exceptions to ACS 740 and simplifies the accounting related to franchise taxes and other taxes partially based

on income. In addition, ASU 2019-12 clarifies when a step-up in basis should be considered as part of a business combination, as well as when entities should recognize enacted changes in tax law. ASU 2019-12 is effective for annual reporting periods beginning after December 15, 2020 with early adoption permitted. The Bank is currently evaluating the effect that ASU 2019-12 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 2019 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.

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
	(Dollars in thousands)			
December 31, 2019:				
Obligations of states and political subdivisions	\$ 503,399	\$ 18,250	\$ (19)	\$ 521,630
U.S. Government agency mortgage-backed securities	1,732,671	19,170	(1,480)	1,750,361
Corporate obligations	5,229	169	—	5,398
Total investment securities AFS	<u>\$ 2,241,299</u>	<u>\$ 37,589</u>	<u>\$ (1,499)</u>	<u>\$ 2,277,389</u>
December 31, 2018:				
Obligations of states and political subdivisions	\$ 615,328	\$ 3,435	\$ (12,147)	\$ 606,616
U.S. Government agency mortgage-backed securities	2,248,065	3,656	(39,175)	2,212,546
Other 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>

The following table shows estimated fair value of investment securities AFS having gross unrealized losses and the amount of such unrealized losses, 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.

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>
	(Dollars in thousands)					
December 31, 2019:						
Obligations of states and political subdivisions	\$ 997	\$ 2	\$ 4,945	\$ 17	\$ 5,942	\$ 19
U.S. Government agency mortgage-backed securities	176,631	387	280,526	1,093	457,157	1,480
Total temporarily impaired investment securities	<u>\$ 177,628</u>	<u>\$ 389</u>	<u>\$ 285,471</u>	<u>\$ 1,110</u>	<u>\$ 463,099</u>	<u>\$ 1,499</u>
December 31, 2018:						
Obligations of states and political subdivisions	\$ 198,351	\$ 3,255	\$ 249,761	\$ 8,892	\$ 448,112	\$ 12,147
U.S. Government agency mortgage-backed securities	242,951	2,004	1,440,618	37,171	1,683,569	39,175
Other 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>

At December 31, 2019 and 2018, 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 considers these unrealized losses to be temporary in nature. While the Bank primarily evaluates its investment strategy relative to current economic and business conditions and may reposition its investment securities portfolio from time to time, at the present time, the Bank does not have the intent to sell these investment securities and, with unrealized losses, more likely than not, would not be required to sell these investment securities before fair value recovers to amortized cost.

The following table shows the amortized cost and estimated fair value of investment securities AFS by maturity on estimated date of repayment as of December 31, 2019.

	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
One year or less	\$ 440,726	\$ 445,342
After one year to five years	1,088,415	1,099,740
After five years to ten years	318,838	326,702
After ten years	393,320	405,605
Total	<u>\$ 2,241,299</u>	<u>\$ 2,277,389</u>

For purposes of this maturity or estimated repayment distribution, all investment securities AFS are shown based on their contractual maturity date or estimated date of repayment, except (i) U. S. Government agency 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 (ii) callable investment securities for which the Bank has received notification of call are included in the maturity or repayment 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,		
	2019	2018	2017
	(Dollars in thousands)		
Sales proceeds	\$ 97,210	\$ —	\$ 243,282
Gross realized gains	\$ 1,071	\$ 17	\$ 4,836
Gross realized losses	(358)	—	(803)
Net gains on investment securities	<u>\$ 713</u>	<u>\$ 17</u>	<u>\$ 4,033</u>

Investment securities with carrying values of \$661 million and \$797 million at December 31, 2019 and 2018, respectively, were pledged to secure public funds and trust deposits and for other purposes required or permitted by law.

At December 31, 2019 and 2018, the Bank had no holdings of investment securities of any one issuer, other than U.S. Government agency 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,			
	2019		2018	
	(Dollars in thousands)			
Real estate:				
Residential 1-4 family	\$ 998,632	5.7%	\$ 1,049,460	6.1%
Non-farm/non-residential	3,956,579	22.6	4,319,388	25.2
Construction/land development	6,391,429	36.4	6,562,185	38.4
Agricultural	230,076	1.3	165,088	1.0
Multifamily residential	1,194,192	6.8	1,116,026	6.5
Total real estate	<u>12,770,908</u>	<u>72.8</u>	<u>13,212,147</u>	<u>77.2</u>
Commercial and industrial	661,952	3.8	823,417	4.8
Consumer	2,934,534	16.8	2,345,863	13.7
Other	1,164,649	6.6	736,396	4.3
Total loans	<u>\$ 17,532,043</u>	<u>100.0%</u>	<u>\$ 17,117,823</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,			
	2019		2018	
(Dollars in thousands)				
Real estate:				
Residential 1-4 family	\$ 745,924	4.6%	\$ 703,197	4.7%
Non-farm/non-residential	3,288,130	20.3	3,306,994	21.9
Construction/land development	6,356,893	39.2	6,411,631	42.5
Agricultural	228,331	1.4	161,780	1.1
Multifamily residential	1,161,514	7.1	1,050,987	7.0
Total real estate	<u>11,780,792</u>	<u>72.6</u>	<u>11,634,589</u>	<u>77.2</u>
Commercial and industrial	637,573	3.9	772,470	5.1
Consumer	2,645,574	16.3	1,935,592	12.8
Other	1,160,600	7.2	731,140	4.9
Total non-purchased loans	<u>\$ 16,224,539</u>	<u>100.0%</u>	<u>\$ 15,073,791</u>	<u>100.0%</u>

The above table includes deferred costs, net of deferred fees, that totaled \$58.1 million at December 31, 2019 and \$19.4 million at December 31, 2018.

Non-purchased loans on which the accrual of interest has been discontinued totaled \$23.2 million and \$34.8 million at December 31, 2019 and 2018, respectively. Interest income collected and recognized during 2019, 2018 and 2017 for nonaccrual loans at December 31, 2019, 2018 and 2017 was \$0.5 million, \$2.2 million and \$0.3 million, respectively. Under the original terms, these loans would have reported \$2.4 million, \$4.3 million and \$0.9 million of interest income during 2019, 2018 and 2017, 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,			
	2019		2018	
(Dollars in thousands)				
Real estate:				
Residential 1-4 family	\$ 252,708	19.3%	\$ 346,263	16.9%
Non-farm/non-residential	668,449	51.1	1,012,394	49.5
Construction/land development	34,536	2.6	150,554	7.4
Agricultural	1,745	0.1	3,308	0.2
Multifamily residential	32,678	2.5	65,039	3.2
Total real estate	<u>990,116</u>	<u>75.6</u>	<u>1,577,558</u>	<u>77.2</u>
Commercial and industrial	24,379	1.9	50,947	2.5
Consumer	288,960	22.1	410,271	20.1
Other	4,049	0.4	5,256	0.2
Total purchased loans	<u>\$ 1,307,504</u>	<u>100.0%</u>	<u>\$ 2,044,032</u>	<u>100.0%</u>
Purchased loans without evidence of credit deterioration at date of acquisition	\$ 1,226,305	93.8%	\$ 1,916,382	93.8%
Purchased loans with evidence of credit deterioration at date of acquisition	81,199	6.2	127,650	6.2
Total purchased loans	<u>\$ 1,307,504</u>	<u>100.0%</u>	<u>\$ 2,044,032</u>	<u>100.0%</u>

Purchased loans on which the accrual of interest has been discontinued totaled \$20.6 million and \$21.4 million at December 31, 2019 and 2018, respectively. Interest income collected and recognized during 2019, 2018 and 2017 for nonaccrual purchased loans at December 31, 2019, 2018 and 2017 was \$1.2 million, \$1.5 million and \$1.5 million, respectively. Under the original terms, these loans would have reported \$2.7 million of interest income in each of 2019, 2018 and 2017.

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,		
	2019	2018	2017
	(Dollars in thousands)		
Balance – beginning of year	\$ 127,650	\$ 175,221	\$ 241,619
Accretion	15,060	24,459	38,925
Transfer to foreclosed assets	(436)	(1,621)	(2,678)
Net payments received	(59,741)	(69,325)	(98,815)
Loans sold	—	—	(1,717)
Net charge-offs	(1,327)	(1,095)	(918)
Other activity, net	(7)	11	(1,195)
Balance – end of year	<u>\$ 81,199</u>	<u>\$ 127,650</u>	<u>\$ 175,221</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,		
	2019	2018	2017
	(Dollars in thousands)		
Accretable difference – beginning of year	\$ 36,002	\$ 45,182	\$ 65,152
Accretion	(15,060)	(24,459)	(38,925)
Adjustments to accretable difference due to:			
Loans transferred to foreclosed assets	(48)	(114)	(300)
Loans paid off	—	—	(352)
Cash flow revisions as a result of renewals and/or modifications	2,918	15,393	19,607
Accretable difference – end of year	<u>\$ 23,812</u>	<u>\$ 36,002</u>	<u>\$ 45,182</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,		
	2019	2018	2017
	(Dollars in thousands)		
Balance – beginning of year	\$ 102,264	\$ 94,120	\$ 76,541
Non-purchased loans charged off	(15,346)	(54,361)	(8,654)
Recoveries of non-purchased loans previously charged off	1,807	1,559	1,733
Net charge-offs – non-purchased loans	(13,539)	(52,802)	(6,921)
Purchased loans charged off	(8,997)	(5,647)	(6,119)
Recoveries of purchased loans previously charged off	2,556	2,195	2,527
Net charge-offs – purchased loans	(6,441)	(3,452)	(3,592)
Net charge-offs – total loans	(19,980)	(56,254)	(10,513)
Provision for loan losses:			
Non-purchased loans	19,800	60,946	24,500
Purchased loans	6,441	3,452	3,592
Total provision	26,241	64,398	28,092
Balance – end of year	<u>\$ 108,525</u>	<u>\$ 102,264</u>	<u>\$ 94,120</u>
ALL Allocated to non-purchased loans	\$ 106,925	\$ 100,664	\$ 92,520
ALL Allocated to purchased loans	1,600	1,600	1,600
Total ALL	<u>\$ 108,525</u>	<u>\$ 102,264</u>	<u>\$ 94,120</u>

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)				
Year ended December 31, 2019:					
Real estate:					
Residential 1-4 family	\$ 13,754	\$ (514)	\$ 174	\$ 594	\$ 14,008
Non-farm/non-residential	18,456	(4,590)	38	3,385	17,289
Construction/land development	27,103	(528)	117	(397)	26,295
Agricultural	1,343	(46)	7	415	1,719
Multifamily residential	6,208	—	—	(731)	5,477
Commercial and industrial	9,256	(2,194)	301	(1,402)	5,961
Consumer	20,382	(3,839)	427	13,896	30,866
Other	4,162	(3,635)	743	4,040	5,310
Purchased loans	1,600	(8,997)	2,556	6,441	1,600
Total	<u>\$ 102,264</u>	<u>\$ (24,343)</u>	<u>\$ 4,363</u>	<u>\$ 26,241</u>	<u>\$ 108,525</u>
Year ended December 31, 2018:					
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>
Year ended December 31, 2017:					
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>

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 ⁽¹⁾	Individually Evaluated Impaired Loans	All Other Loans	Total Loans
(Dollars in thousands)						
December 31, 2019:						
Real estate:						
Residential 1-4 family	\$ 1,272	\$ 12,736	\$ 14,008	\$ 9,886	\$ 736,038	\$ 745,924
Non-farm/non-residential	159	17,130	17,289	6,439	3,281,691	3,288,130
Construction/land development	6	26,289	26,295	3,469	6,353,424	6,356,893
Agricultural	2	1,717	1,719	998	227,333	228,331
Multifamily residential	—	5,477	5,477	—	1,161,514	1,161,514
Commercial and industrial	234	5,727	5,961	1,533	636,040	637,573
Consumer	190	30,676	30,866	1,177	2,644,397	2,645,574
Other	—	5,310	5,310	375	1,160,225	1,160,600
Total	<u>\$ 1,863</u>	<u>\$ 105,062</u>	<u>\$ 106,925</u>	<u>\$ 23,877</u>	<u>\$16,200,662</u>	<u>\$16,224,539</u>
December 31, 2018:						
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>

(1) Excludes \$1.6 million of ALL allocated to the Bank's purchased loans at both December 31, 2019 and 2018.

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)				
As of and for the year ended December 31, 2019:					
Impaired loans for which there is a related ALL:					
Real estate:					
Residential 1-4 family	\$ 8,799	\$ —	\$ 8,799	\$ 1,272	\$ 6,714
Non-farm/non-residential	3,175	—	3,175	159	2,392
Construction/land development	94	—	94	6	382
Agricultural	35	—	35	2	63
Multifamily residential	—	—	—	—	1,043
Commercial and industrial	1,324	—	1,324	234	935
Consumer	1,177	—	1,177	190	603
Other	6	—	6	—	13
Total impaired loans with a related ALL	14,610	—	14,610	1,863	12,145
Impaired loans for which there is not a related ALL:					
Real estate:					
Residential 1-4 family	1,244	(279)	965	—	896
Non-farm/non-residential	3,601	(337)	3,264	—	8,479
Construction/land development	3,948	(573)	3,375	—	5,494
Agricultural	992	(29)	963	—	1,143
Multifamily residential	133	(133)	—	—	40
Commercial and industrial	296	(87)	209	—	440
Other	388	(19)	369	—	230
Total impaired loans without a related ALL	10,602	(1,457)	9,145	—	16,722
Total impaired loans	<u>\$ 25,212</u>	<u>\$ (1,457)</u>	<u>\$ 23,755</u>	<u>\$ 1,863</u>	<u>\$ 28,867</u>
As of and for the year ended December 31, 2018:					
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	860
Consumer	353	—	353	57	309
Other	—	—	—	—	35
Total impaired loans with a related ALL	8,745	—	8,745	1,201	6,657
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>

Management has determined that certain of the Bank's impaired loans do not require any specific allowance at December 31, 2019 and 2018 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, 2019, 2018 and 2017 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.

	Satisfactory	Moderate	Watch	Substandard	Total
	(Dollars in thousands)				
December 31, 2019:					
Real estate:					
Residential 1-4 family ⁽¹⁾	\$ 727,237	\$ —	\$ 8,418	\$ 10,269	\$ 745,924
Non-farm/non-residential	2,215,171	1,016,861	40,352	15,746	3,288,130
Construction/land development	5,706,437	580,359	9,071	61,026	6,356,893
Agricultural	21,616	199,239	5,242	2,234	228,331
Multifamily residential	1,075,692	83,308	1,559	955	1,161,514
Commercial and industrial	162,040	470,397	1,509	3,627	637,573
Consumer ⁽¹⁾	2,642,236	—	2,216	1,122	2,645,574
Other ⁽¹⁾	1,101,260	58,904	13	423	1,160,600
Total	<u>\$13,651,689</u>	<u>\$ 2,409,068</u>	<u>\$ 68,380</u>	<u>\$ 95,402</u>	<u>\$16,224,539</u>
December 31, 2018:					
Real estate:					
Residential 1-4 family ⁽¹⁾	\$ 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 ⁽¹⁾	1,934,567	—	873	152	1,935,592
Other ⁽¹⁾	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>

- (1) The Bank does not risk rate its residential 1-4 family loans (including consumer construction loans on 1-4 family properties), 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 ⁽¹⁾	90 Days or More ⁽²⁾	Total Past Due	Current ⁽³⁾	Total
	(Dollars in thousands)				
December 31, 2019:					
Real estate:					
Residential 1-4 family	\$ 10,651	\$ 3,230	\$ 13,881	\$ 732,043	\$ 745,924
Non-farm/non-residential	3,882	2,516	6,398	3,281,732	3,288,130
Construction/land development	180	3,375	3,555	6,353,338	6,356,893
Agricultural	77	997	1,074	227,257	228,331
Multifamily residential	—	—	—	1,161,514	1,161,514
Commercial and industrial	1,031	991	2,022	635,551	637,573
Consumer	2,677	256	2,933	2,642,641	2,645,574
Other	7	366	373	1,160,227	1,160,600
Total	<u>\$ 18,505</u>	<u>\$ 11,731</u>	<u>\$ 30,236</u>	<u>\$16,194,303</u>	<u>\$16,224,539</u>
December 31, 2018:					
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>

(1) Includes \$4.2 million and \$2.2 million of loans on nonaccrual status at December 31, 2019 and 2018, respectively.

(2) All loans greater than 90 days past due were on nonaccrual status at December 31, 2019 and 2018.

(3) Includes \$7.3 million and \$4.4 million of loans on nonaccrual status at December 31, 2019 and 2018, 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					Purchased Loans With		Total Purchased Loan
	Evidence of Credit Deterioration at Date of Acquisition					Evidence of Credit Deterioration at Date of Acquisition		
	FV 33	FV 44	FV 55	FV 36	FV 77	FV 66	FV 88	
(Dollars in thousands)								
December 31, 2019:								
Real estate:								
Residential 1-4 family	\$ 31,198	\$ 137,825	\$ 31,652	\$22,454	\$ 677	\$ 27,722	\$ 1,180	\$ 252,708
Non-farm/non-residential	76,392	410,455	133,680	221	6,066	39,940	1,695	668,449
Construction/land development	2,221	23,794	3,754	339	912	3,439	77	34,536
Agricultural	177	828	13	35	—	692	—	1,745
Multifamily residential	4,333	26,928	19	484	—	914	—	32,678
Commercial and industrial	2,659	13,794	2,323	72	—	5,508	23	24,379
Consumer	133,874	135,190	19,486	121	280	9	—	288,960
Other	3,333	658	58	—	—	—	—	4,049
Total	<u>\$254,187</u>	<u>\$ 749,472</u>	<u>\$190,985</u>	<u>\$23,726</u>	<u>\$ 7,935</u>	<u>\$ 78,224</u>	<u>\$ 2,975</u>	<u>\$1,307,504</u>
December 31, 2018:								
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>

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 ⁽¹⁾	90 Days or More ⁽²⁾	Total Past Due	Current ⁽³⁾	Total Purchased Loans
	(Dollars in thousands)				
December 31, 2019:					
Real estate:					
Residential 1-4 family	\$ 6,577	\$ 2,353	\$ 8,930	\$ 243,778	\$ 252,708
Non-farm/non-residential	4,909	14,975	19,884	648,565	668,449
Construction/land development	91	1,063	1,154	33,382	34,536
Agriculture	219	120	339	1,406	1,745
Multifamily residential	—	—	—	32,678	32,678
Commercial and industrial	—	812	812	23,567	24,379
Consumer	3,794	506	4,300	284,660	288,960
Other	—	—	—	4,049	4,049
Total	<u>\$ 15,590</u>	<u>\$ 19,829</u>	<u>\$ 35,419</u>	<u>\$ 1,272,085</u>	<u>\$ 1,307,504</u>
Purchased loans without evidence of credit deterioration at date of acquisition	\$ 13,074	\$ 12,762	\$ 25,836	\$ 1,200,469	\$ 1,226,305
Purchased loans with evidence of credit deterioration at date of acquisition	2,516	7,067	9,583	71,616	81,199
Total	<u>\$ 15,590</u>	<u>\$ 19,829</u>	<u>\$ 35,419</u>	<u>\$ 1,272,085</u>	<u>\$ 1,307,504</u>
December 31, 2018:					
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>

(1) Includes \$2.3 million and \$1.5 million of loans on nonaccrual status at December 31, 2019 and 2018, respectively.

(2) Includes \$12.8 million and \$10.2 million of loans on nonaccrual status at December 31, 2019 and 2018, respectively.

(3) Includes \$5.1 million and \$9.7 million of loans on nonaccrual status at December 31, 2019 and 2018, respectively.

5. Foreclosed Assets

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

	December 31,	
	2019	2018
	(Dollars in thousands)	
Real estate:		
Residential 1-4 family	\$ 2,201	\$ 823
Non-farm/non-residential	3,989	4,407
Construction/land development	12,153	10,628
Agricultural	—	164
Total real estate	18,343	16,022
Commercial and industrial	4	31
Consumer	749	118
Total foreclosed assets	<u>\$ 19,096</u>	<u>\$ 16,171</u>

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

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Balance – beginning of year	\$ 16,171	\$ 25,357	\$ 43,702
Loans and other assets transferred into foreclosed assets	31,709	11,540	17,193
Sales of foreclosed assets	(26,365)	(17,891)	(32,050)
Writedowns of foreclosed assets	(2,419)	(2,835)	(3,488)
Balance – end of year	<u>\$ 19,096</u>	<u>\$ 16,171</u>	<u>\$ 25,357</u>

6. Premises and Equipment

The following table is a summary of premises and equipment as of the dates indicated.

	December 31,	
	2019	2018
	(Dollars in thousands)	
Land	\$ 146,404	\$ 147,199
Construction in process	119,733	48,289
Buildings and improvements	362,269	354,133
Leasehold improvements	16,803	16,825
Equipment	121,536	117,561
Lease right-of-use assets	71,316	—
Gross premises and equipment	838,061	684,007
Accumulated depreciation	(126,520)	(116,818)
Premises and equipment, net	<u>\$ 711,541</u>	<u>\$ 567,189</u>

The Bank capitalized interest on construction projects totaling \$1.8 million, \$0.6 million and \$0.2 million during 2019, 2018 and 2017, respectively. Included in occupancy expense is rent of \$10.9 million, \$8.6 million and \$8.7 million incurred under noncancelable operating leases in 2019, 2018 and 2017, respectively, for leases of real estate, buildings and premises. These leases contain certain renewal and purchase options according to the terms of the agreements. Rental income recognized for leases of buildings and premises under operating leases was \$3.4 million during 2019, \$3.0 million during 2018 and \$2.8 million during 2017.

7. Leases

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” which required lessees to recognize on the lessee’s balance sheet a right-of-use asset and lease liability related to their leasing agreements. The Bank adopted ASU 2016-02 effective January 1, 2019 and, as a result, recorded an operating lease right-of-use asset and operating lease liability of \$59.6 million at adoption. The Bank’s right-of-use asset is included in premises and equipment, net and the Bank’s lease liability is included in accrued interest payable and other liabilities on the Bank’s consolidated balance sheets. At December 31, 2019, the Bank’s leases

were comprised primarily of building and ground leases associated with certain of its branch locations or loan production offices. A portion of the Bank's leases are tied to the consumer price index and rent escalations associated with these leases are measured on a periodic basis. The majority of the Bank's lease agreements do not contain residual value guarantees or restricted covenants. In addition, many of the Bank's ground leases contain renewal options. The Bank is reasonably certain that such options will be exercised; thus, the Bank has included the effects of extending these ground leases in the determination of the lease term.

ASU 2016-02 also requires that lessees evaluate other contracts to determine whether any embedded leases are included in such contracts. In evaluating such contracts for potential embedded leases, the Bank considered whether a contract contained an identified asset, did the Bank have the right to obtain substantially all of the economic benefits from the use of the identified asset, and did the Bank have the right to direct how and for what purposes the identified asset is used.

For the year ended December 31, 2019, the Bank incurred \$10.9 million in operating cost that is included in net occupancy and equipment expense in the Bank's consolidated statements of income. The Bank's variable lease costs were not material for the year ended December 31, 2019. At December 31, 2019, the Bank's weighted average remaining lease term and weighted average interest rate for its lease liabilities were 16.5 years and 3.4%, respectively.

The following table is a summary of future amounts due under these non-cancelable leases at December 31, 2019.

	<u>December 31, 2019</u>	
	(Dollars in thousands)	
2020	\$	8,508
2021		7,435
2022		7,230
2023		7,168
2024		5,626
Thereafter		<u>55,492</u>
Total minimum lease payments		91,459
Less imputed interest		<u>(26,940)</u>
Total operating lease liabilities	\$	<u>64,519</u>

For leases whose term is less than one year, the Bank elected to apply the short-term measurement and recognition exception provided under Topic 842. Additionally, the Bank elected certain transition relief provisions whereby the Bank did not reassess (i) whether any expired or existing contract is a lease or contains a lease, (ii) the lease classification of any expired or existing lease, and (iii) initial direct costs for any existing leases. Also, the Bank elected not to restate previous periods as a result of adoption.

8. Deposits

The following table is a summary of the scheduled maturities of time deposits as of the dates indicated.

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	(Dollars in thousands)	
Up to one year	\$ 7,045,274	\$ 4,778,460
Over one to two years	227,043	502,966
Over two to three years	55,708	90,344
Over three to four years	28,324	78,761
Over four to five years	14,989	46,750
Thereafter	63	10,148
Total time deposits	<u>\$ 7,371,401</u>	<u>\$ 5,507,429</u>

The aggregate amount of time deposits that meet or exceed \$250,000 was \$1.94 billion and \$1.40 billion at December 31, 2019 and 2018, respectively.

9. Repurchase Agreements With Customers

At December 31, 2019 and 2018, securities sold under agreements to repurchase (“repurchase agreements”) totaled \$11.2 million and \$20.6 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.

10. 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,	
	2019	2018
	(Dollars in thousands)	
Average annual balance	\$ 92,923	\$ 164,925
December 31 balance	350,000	95,000
Maximum month-end balance during year	500,000	550,000
Interest rate:		
Weighted-average – year	2.56%	2.19%
Weighted-average – December 31	1.35%	2.70%

At December 31, 2019, the Bank had fixed rate FHLB advances with original maturities exceeding one year of \$1.4 million. These fixed rate advances bear interest at rates ranging from 1.30% to 4.54% at December 31, 2019, 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, 2019, the Bank had \$2.8 billion of unused FHLB borrowing availability.

11. 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 carrying value of the Notes was \$223.7 million and \$223.3 million at December 31, 2019 and 2018, respectively.

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.

12. Subordinated Debentures

At December 31, 2019, 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	4.84%	September 29, 2033
Ozark III	14,434	—	14,434	14,000	4.94	September 25, 2033
Ozark IV	15,464	—	15,464	15,000	4.13	September 28, 2034
Ozark V	20,619	—	20,619	20,000	3.49	December 15, 2036
Intervest II	15,464	(277)	15,187	15,000	4.85	September 17, 2033
Intervest III	15,464	(321)	15,143	15,000	4.69	March 17, 2034
Intervest IV	15,464	(584)	14,880	15,000	4.31	September 20, 2034
Intervest V	10,310	(554)	9,756	10,000	3.54	December 15, 2036
Total	<u>\$ 121,652</u>	<u>\$ (1,736)</u>	<u>\$ 119,916</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, 2019, the Bank had an aggregate of \$121.7 million of subordinated debentures outstanding (with an aggregate carrying value of \$119.9 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, 2019 and 2018, 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.

13. 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,		
	2019	2018	2017
	(Dollars in thousands)		
Current:			
Federal	\$ 172,851	\$ 75,889	\$ (32,788)
State	66,481	28,031	(7,263)
Total current	<u>239,332</u>	<u>103,920</u>	<u>(40,051)</u>
Deferred:			
Federal	(72,388)	21,931	156,460
State	(28,515)	11,126	42,177
Total deferred	<u>(100,903)</u>	<u>33,057</u>	<u>198,637</u>
Provision for income taxes	<u>\$ 138,429</u>	<u>\$ 136,977</u>	<u>\$ 158,586</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,		
	2019	2018	2017
Statutory federal income tax rate	21.0%	21.0%	35.0%
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal benefit	5.1	5.6	4.1
Effect of tax-exempt interest income	(0.6)	(0.7)	(1.4)
Effect of BOLI and other tax-exempt income	(0.9)	(0.9)	(1.1)
Deferred tax adjustment related to reduction of statutory federal income tax rate	—	—	(8.6)
Other, net	(0.1)	(0.3)	(0.7)
Effective income tax rate	<u>24.5%</u>	<u>24.7%</u>	<u>27.3%</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.

In accordance with ASU 2016-09, income tax (expense) benefit from the exercise of stock options and vesting of common stock under the Bank's restricted stock and incentive plan in the amount of \$(0.7) million, \$2.0 million and \$2.1 million were recorded as income tax (expense) benefit in 2019, 2018 and 2017, respectively.

At December 31, 2019, current income taxes payable of \$18.0 million were included in other liabilities. At December 31, 2018, current income taxes receivable of \$33.6 million 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,	
	2019	2018
	(Dollars in thousands)	
Deferred tax assets:		
Differences in amounts reflected in the financial statements and income tax basis for loans	\$ 19,525	\$ —
Operating lease liability	17,455	—
Stock-based compensation	10,081	8,795
Deferred compensation	2,323	2,201
Foreclosed assets	1,189	1,334
Net operating loss and tax credit carryforwards	15,543	17,110
Investment securities AFS	—	8,619
Other, net	4,328	4,821
Total gross deferred tax assets	70,444	42,880
Less valuation allowance	(265)	(265)
Deferred tax asset, net of valuation allowance	70,179	42,615
Deferred tax liabilities:		
Differences in amounts reflected in the financial statements and income tax basis for loans	—	88,529
Accelerated depreciation on premises and equipment	36,374	32,929
Deferred loan costs	49,419	43,255
Acquired intangible assets	3,040	4,900
Investment securities AFS	9,767	—
Operating lease right-of-use asset	17,293	—
Total gross deferred tax liabilities	115,893	169,613
Net deferred tax liabilities	\$ (45,714)	\$ (126,998)

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 \$51.2 million remained to be utilized as of December 31, 2019 and will expire at various dates beginning in 2029 to 2034.

State net operating loss carryforwards were acquired in previous acquisitions. Such state net operating loss carryforwards acquired totaled \$116.2 million, of which \$38.2 million remained to be utilized as of December 31, 2019 and will expire at various dates beginning in 2025 to 2031.

At December 31, 2019 and 2018, 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.

14. 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 2019, 2018 and 2017 of \$5.6

million, \$4.9 million and \$4.6 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 and is considered a general obligation of the Bank. 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, 2019 and 2018, respectively, the Bank had Plan assets, along with an equal amount of liabilities, totaling \$6.3 million and \$6.2 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. The Bank accrued \$0.3 million during each of the years ended December 31, 2019, 2018 and 2017 for the future benefits payable under the SERP. The SERP is an unfunded plan and is considered a general contractual obligation of the Bank.

15. Stock-Based Compensation

On May 6, 2019 (the “Effective Date”), the Bank’s shareholders approved the Bank OZK 2019 Omnibus Equity Incentive Plan (the “Omnibus Plan”). The Omnibus Plan replaces the Nonqualified Stock Option Plan for officers and employees (“Option Plan”), the Restricted Stock and Incentive Plan for officers and employees (“2009 Plan”) and the Non-Employee Director Stock Plan (“Director Plan” and together with the Option Plan and the 2009 Plan, the “Prior Plans”). After the Effective Date of the Omnibus Plan, no new awards may be granted under the Prior Plans, it being understood that (i) outstanding awards will continue to be governed by the terms and conditions of the Prior Plan under which they were granted, and (ii) to the extent that any outstanding award under the Prior Plans is forfeited, terminates, expires or lapses without shares being issued, the shares subject to such award not delivered as a result thereof will be available for awards under the Omnibus Plan. Directors, executive officers and employees are eligible to participate in the Omnibus Plan, and the total number of shares available for grant is 3,400,000, subject to adjustment as described in the Omnibus Plan. Awards granted under the Omnibus Plan may be in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, or other stock based awards and must contain a minimum vesting period of at least one year from the date of grant (provided that awards for up to 5% of the shares of common stock authorized for issuance under the Omnibus Plan may provide for a shorter vesting period at the time of grant). The Omnibus Plan provides that a non-employee director may not receive stock awards with a grant date fair market value in excess of \$100,000 worth of shares during any calendar year. The benefits received by or allocated to directors, executive officers or employees under the Omnibus Plan are determined within the discretion of the Personnel and Compensation Committee (“P&C Committee”) of the Board of Directors.

The Bank previously had a nonqualified stock option plan for non-employee directors. No options were granted under this plan during 2019 or 2018. All options previously granted under this plan were exercisable immediately and expire ten years after issuance.

All employee options previously granted under the Option Plan and outstanding at December 31, 2019 were issued with a vesting date three years after issuance and an expiration date seven years after issuance.

The following table summarizes stock option activity for the period indicated.

	Options	Weighted-Average Exercise Price/Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding – January 1, 2019	1,877,123	\$ 46.68		
Granted	280,558	31.66		
Exercised	(83,500)	16.60		
Forfeited	(216,969)	48.05		
Outstanding – December 31, 2019	<u>1,857,212</u>	<u>45.60</u>	<u>4.1</u>	<u>\$ 805 (1)</u>
Fully vested and exercisable at December 31, 2019	<u>730,646</u>	<u>\$ 43.26</u>	<u>2.6</u>	<u>\$ 805 (1)</u>

(1) Based on closing price of \$30.51 per share on December 31, 2019.

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 2019, 2018 and 2017 was \$1.1 million, \$5.6 million and \$7.0 million, respectively.

Options to purchase 280,558 shares, 573,143 shares and 603,614 shares, respectively, were granted during 2019, 2018 and 2017 with a weighted-average grant date fair value of \$7.72, \$12.52 and \$15.49, 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,		
	2019	2018	2017
Risk-free interest rate	2.58%	2.42%	1.93%
Expected dividend yield	3.10%	1.59%	1.40%
Expected stock volatility	33.7%	28.5%	35.6%
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 2019, 2018 and 2017 was \$0.2 million, \$6.3 million and \$2.9 million, respectively. Stock-based compensation expense for stock options included in non-interest expense was \$3.9 million, \$5.6 million and \$4.9 million for 2019, 2018 and 2017, respectively. Total unrecognized compensation cost related to non-vested stock option grants was \$3.5 million at December 31, 2019 and is expected to be recognized over a weighted-average period of 1.4 years.

During 2019, the Bank issued 383,874 shares of restricted common stock under the 2009 Plan. These grants of restricted stock cliff vest 100% three years after issuance, assuming continuous employment by the participant during this period.

During 2019, the Bank issued 22,200 shares, or \$50,000 worth of shares per recipient rounded down to the nearest whole share, of restricted common stock under the Director Plan. The restricted stock awarded to each non-employee director under the Director Plan contained a one-year vesting period.

The following table summarizes non-vested restricted stock activity related to the 2009 Plan and Director Plan for the year indicated.

	Shares
Outstanding – January 1, 2019	543,999
Granted	406,074
Forfeited	(85,883)
Earned and issued	(181,990)
Outstanding – December 31, 2019	682,200
Weighted-average grant date fair value	\$ 40.89

Restricted stock awards totaling 406,074 shares with a weighted-average grant date fair value of \$31.77 were granted pursuant to the 2009 Plan and the Director Plan during 2019. 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 \$8.6 million, \$8.5 million and \$6.6 million for 2019, 2018 and 2017, respectively. Unrecognized compensation expense for non-vested restricted stock awards was \$10.7 million at December 31, 2019 and is expected to be recognized over a weighted-average period of 1.7 years.

In January 2019, pursuant to the 2009 Plan, the P&C Committee awarded its executive officers an aggregate of 170,003 performance-based restricted stock units ("PSUs"), based on target performance, with each PSU representing the right to receive one share of common stock at a future date. The PSUs granted 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 25th percentile compared to the applicable peer group, no PSUs for that metric would be earned; (ii) at threshold performance (26th percentile), 4% of the target would be earned; (iii) at target performance (50th percentile), 100% of the target would be earned; (iv) at the 75th percentile, 150% of the target would be earned; and (v) at maximum performance (95th 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.

Compensation expense for PSU awards included in non-interest expense was \$1.7 million for 2019 and none in 2018. Unrecognized compensation expense for non-vested PSU awards was \$3.8 million at December 31, 2019 and is expected to be recognized over a weighted-average period of 2.1 years.

The fair value of the PSUs granted is amortized to compensation expense over the vesting period. In determining PSUs fair value, since the PSUs granted contain a one-year post-vest hold period, an estimated discount for illiquidity was applied to the market price of the Bank’s stock. The fair value of each PSU grant is estimated on the date of grant using various valuation and liquidity models. The following table is a summary of the key assumptions used in those models.

	Year Ended December 31, 2019
Risk-free interest rate	2.57%
Expected dividend yield	2.79%
Expected stock volatility	45.06%
Post-vest hold period	1 year

The following table summarizes non-vested PSU activity related to the PSUs granted during 2019.

	PSUs
Outstanding – January 1, 2019	—
Granted	170,003
Forfeited	(28,133)
Outstanding – December 31, 2019	<u>141,870</u>

The Valuation Date Stock price index was 122% for the TSR component and 100% for the ROAE and ROAA component. The weighted average PSU grant date fair values were \$32.47 for TSR and \$26.69 for both ROAE and ROAA.

On January 22, 2020, the Bank’s P&C Committee approved the issuance of restricted stock awards for 447,085 shares of restricted common stock that vest on January 22, 2023. Total compensation expense for the restricted stock awards is expected to be approximately \$12.6 million and is expected to be recognized ratably over the three-year vesting period. In addition, the Bank’s P&C Committee awarded its executive officers an aggregate of 175,065 PSUs. The PSUs granted contain both performance and market conditions. The PSUs will be earned and vest depending on the Bank’s relative performance with respect to TSR, ROAE and ROAA, over a three-year period, compared to the companies that comprise the KRX at January 1, 2020 (for the TSR component) and compared to the Bank’s 2019 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 25th percentile compared to the applicable peer group, no PSUs for that metric would be earned; (ii) at threshold performance (26th percentile), 4% of the target would be earned; (iii) at target performance (50th percentile), 100% of the target would be earned; (iv) at the 75th percentile, 150% of the target would be earned; and (v) at maximum performance (95th 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. The total compensation expense for the PSUs granted is expected to be approximately \$4.4 million and is expected to be recognized over the three year vesting period.

16. 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, 2019 and 2018 is \$10.8 million and \$21.4 million, respectively. The Bank holds collateral to support letters of credit when deemed necessary. Collateralized commitments at December 31, 2019 and 2018 totaled \$10.0 million and \$19.5 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, 2019, the Bank had outstanding commitments totaling \$11.33 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, 2019</u>
	(Dollars in thousands)
2020	\$ 1,643,861
2021	3,066,987
2022	3,187,612
2023	2,324,876
2024	876,827
Thereafter	225,435
Total	<u>\$ 11,325,598</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.

17. Related Party Transactions

The Bank has, in the ordinary course of business, lending transactions with certain of its officers, directors 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>2019</u>	<u>2018</u>	<u>2017</u>
	(Dollars in thousands)		
Balance – beginning of year	\$ 922	\$ 1,024	\$ 731
New loans and advances	180	382	2,070
Repayments	(761)	(484)	(1,777)
Effect of changes in composition of related parties	(120)	—	—
Balance – end of year	<u>\$ 221</u>	<u>\$ 922</u>	<u>\$ 1,024</u>

The Bank had outstanding commitments to extend credit to related parties totaling \$0.3 million and \$1.7 million at December 31, 2019 and 2018, respectively.

18. Regulatory Capital and Other 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 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 increased each year until fully implemented at 2.5% on January 1, 2019. As of January 1, 2019, the fully phased-in Basel III Rules requires 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%, (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%. 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, based on the then current phase-in provisions of the Basel III Rules. The minimum required capital amounts presented as of December 31, 2019 are the minimum capital levels as of January 1, 2019 when the Basel III Rules were 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, 2019 and 2018, capital levels exceeded all minimum capital requirements under the Basel III Rules on a fully phased-in basis.

	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)								
December 31, 2019:								
Common equity tier 1 to risk-weighted assets	\$3,422,832	13.76%	\$1,741,897	7.00%	\$1,741,897	7.00%	\$1,617,475	6.50%
Tier 1 capital to risk-weighted assets	3,422,832	13.76	2,115,160	8.50	2,115,160	8.50	1,990,739	8.00
Total capital to risk-weighted assets	3,874,357	15.57	2,612,845	10.50	2,612,845	10.50	2,488,424	10.00
Tier 1 leverage to average assets	3,422,832	15.36	891,109	4.00	891,109	4.00	1,113,887	5.00
December 31, 2018:								
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

As of December 31, 2019 and 2018, 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, 2019 and 2018, respectively, approximately \$434 million and \$453 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 \$412 million and \$377 million at December 31, 2019 and 2018, respectively.

19. 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 on a periodic basis, typically at least quarterly, or on a non-recurring basis to evaluate certain assets and liabilities for impairment or for disclosure purposes. At December 31, 2019 and 2018, the Bank had no material 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)		
December 31, 2019:				
Investment securities AFS:				
U.S. Government agency mortgage-backed securities	\$ —	\$ 1,750,361	\$ —	\$ 1,750,361
Obligations of state and political subdivisions	—	507,527	14,103	521,630
Corporate obligations	—	5,398	—	5,398
Total investment securities AFS	—	2,263,286	14,103	2,277,389
Impaired non-purchased loans	—	—	22,014	22,014
Impaired purchased loans	—	—	10,910	10,910
Foreclosed assets	—	—	19,096	19,096
Total assets at fair value	\$ —	\$ 2,263,286	\$ 66,123	\$ 2,329,409
December 31, 2018:				
Investment securities AFS:				
U.S. Government agency mortgage-backed securities	\$ —	\$ 2,212,546	\$ —	\$ 2,212,546
Obligations of state and political subdivisions	—	591,380	15,236	606,616
Other 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

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, 2019	Technique	Unobservable Inputs
		(Dollars in thousands)	
Impaired non-purchased loans	\$ 22,014	Third party appraisal ⁽¹⁾ or discounted cash flows	1. Management discount based on underlying collateral characteristics and market conditions 2. Life of Loan
Impaired purchased loans	\$ 10,910	Third party appraisal ⁽¹⁾ and/or discounted cash flows	1. Management discount based on underlying collateral characteristics and market conditions 2. Life of Loan
Foreclosed assets	\$ 19,096	Third party appraisal, ⁽¹⁾ 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, 2019 and 2018. 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 \$14.1 million and \$15.2 million at December 31, 2019 and 2018, 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, 2019 and 2018, the third party pricing matrices valued the Bank's total portfolio of private placement bonds at approximately \$14.1 million and \$15.2 million, respectively, which was approximately the same as the par value of the private placement bonds. Accordingly, at December 31, 2019 and 2018 the Bank reported the private placement bonds at \$14.1 million and \$15.2 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 estimated 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 \$22.0 million and \$34.2 million, respectively, for such loans at December 31, 2019 and 2018. These adjustments to reduce the carrying value of impaired non-purchased loans to estimated fair value at December 31, 2019 and 2018 consisted of \$1.5 million and \$46.9 million, respectively, of partial or full charge-offs and \$1.9 million and \$1.2 million, respectively, of specific loan loss allocations. Impaired non-purchased loans at December 31, 2019 and 2018, respectively, included \$0.7 million and \$0.6 million 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, 2019 and 2018, 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 \$6.4 million during 2019 and \$3.5 million during 2018 for such loans. The Bank recorded \$6.4 million during 2019 and \$3.5 million during 2018 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 \$10.9 million of impaired purchased loans at December 31, 2019 and \$7.8 million of impaired purchased loans at December 31, 2018.

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.

	Investment Securities AFS
	(Dollars in thousands)
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	15,236
Total realized gains included in earnings	—
Total unrealized gains/(losses) included in other comprehensive income	250
Paydowns and maturities	(1,383)
Sales	—
Transfers in and/or out of Level 3	—
Balances – December 31, 2019	<u>\$ 14,103</u>

20. 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, 2019 and 2018.

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,			
		2019		2018	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(Dollars in thousands)					
Financial assets:					
Cash and cash equivalents	Level 1	\$ 1,495,757	\$ 1,495,757	\$ 290,672	\$ 290,672
Investment securities AFS	Levels 1, 2 and 3	2,277,389	2,277,389	2,862,340	2,862,340
Loans, net of ALL	Level 3	17,423,518	17,487,910	17,015,559	16,735,923
Financial liabilities:					
Demand, savings and interest bearing transaction deposits	Level 1	\$ 11,102,858	\$ 11,102,858	\$ 12,430,986	\$ 12,430,986
Time deposits	Level 2	7,371,401	7,372,832	5,507,429	5,532,908
Repurchase agreements with customers	Level 1	11,249	11,249	20,564	20,564
Other borrowings	Level 2	351,387	351,392	96,692	96,686
Subordinated notes	Level 2	223,663	224,651	223,281	217,571
Subordinated debentures	Level 2	119,916	106,494	119,358	107,712

21. Supplemental Cash Flow Information

The following is a summary of supplemental cash flow information for the periods indicated:

	2019	Year Ended December 31,	
		2018	2017
(Dollars in thousands)			
Cash paid during the period for:			
Interest	\$ 275,351	\$ 204,863	\$ 114,765
Income taxes	182,215	90,476	172,890
Supplemental schedule of non-cash investing and financing activities:			
Loans and other assets transferred to foreclosed assets	31,709	11,540	17,193
Loans advanced for sales of foreclosed assets	—	1,068	—
Net change in unrealized gains and losses on investment securities AFS	80,978	(28,268)	23,258
Lease liabilities recorded for right-of-use assets	71,310	—	—

22. Other Operating Expenses

The following is a summary of other operating expenses for the periods indicated.

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Professional and outside services	\$ 33,030	\$ 35,867	\$ 32,441
Software and data processing	19,535	13,729	10,126
Deposit insurance and assessments	13,425	14,740	13,114
Travel and meals	11,230	9,650	8,477
Telecommunication services	10,583	13,080	13,935
Postage and supplies	8,684	9,144	7,769
Advertising and public relations	7,242	11,557	5,989
ATM expense	4,626	4,227	5,725
Loan collection and repossession expense	2,818	3,302	5,303
Writedowns of foreclosed assets	2,419	2,996	3,488
Writedown of signage due to strategic rebranding	—	4,915	—
Amortization of intangible assets	11,918	12,579	12,580
Other	23,751	18,126	8,333
Total other operating expenses	<u>\$ 149,261</u>	<u>\$ 153,912</u>	<u>\$ 127,280</u>

23. 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,		
	2019	2018	2017
	(In thousands, except per share amounts)		
Numerator:			
Distributed earnings allocated to common stockholders	\$ 121,124	\$ 102,218	\$ 88,732
Undistributed earnings allocated to common stockholders	304,782	314,888	333,159
Net earnings allocated to common stockholders	<u>\$ 425,906</u>	<u>\$ 417,106</u>	<u>\$ 421,891</u>
Denominator:			
Denominator for basic EPS – weighted-average common shares	128,926	128,595	125,465
Effect of dilutive securities – stock options and restricted stock units	80	145	344
Denominator for diluted EPS – weighted-average common shares and assumed conversions	<u>129,006</u>	<u>128,740</u>	<u>125,809</u>
Basic EPS	<u>\$ 3.30</u>	<u>\$ 3.24</u>	<u>\$ 3.36</u>
Diluted EPS	<u>\$ 3.30</u>	<u>\$ 3.24</u>	<u>\$ 3.35</u>

Options to purchase 1,815,500 shares, 1,493,384 shares and 1,109,870 shares, respectively, of the Bank’s common stock at a weighted-average exercise price of \$47.27 per share, \$51.98 per share and \$52.51 per share, respectively, were outstanding during 2019, 2018 and 2017, 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.

24. 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,		
	2019	2018	2017
	(Dollars in thousands)		
Beginning balance of AOCI – unrealized gains and losses on investment securities AFS	\$ (34,105)	\$ (12,712)	\$ (25,920)
Cumulative effect of change in accounting principal	—	—	(3,408)
Beginning balance of AOCI, as adjusted – unrealized gains and losses on investment securities AFS	(34,105)	(12,712)	(29,328)
Other comprehensive income (loss):			
Unrealized gains and losses on investment securities AFS	81,691	(27,080)	27,291
Tax effect of unrealized gains and losses on investment securities AFS	(19,793)	5,687	(8,134)
Amounts reclassified from AOCI	(713)	—	(4,033)
Tax effect of amounts reclassified from AOCI	175	—	1,492
Total other comprehensive income (loss)	61,360	(21,393)	16,616
Ending balance of AOCI – unrealized gains and losses on investment securities AFS	<u>\$ 27,255</u>	<u>\$ (34,105)</u>	<u>\$ (12,712)</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 (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, have evaluated any changes in the Bank's internal control over financial reporting that occurred during the Bank's fourth quarter ended December 31, 2019 and have concluded that there was no change during the Bank's fourth quarter ended December 31, 2019 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 28, 2020

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, has assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2019, 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, 2019, 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, 2019. 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
(principal executive officer)

/s/ Greg McKinney

Greg McKinney
Chief Financial Officer
(principal financial officer)

Item 9B. OTHER INFORMATION

On February 23, 2020, the Personnel and Compensation Committee (“Compensation Committee”) of the Board of Directors of the Bank approved the 2020 Executive Management Cash-Based Performance Plan (“2020 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 2020 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 2020 Cash Incentive Plan is set forth below. Awards under the 2020 Cash Incentive Plan will be calculated based on the Bank’s consolidated financial results for the period beginning on January 1, 2020 and ending on December 31, 2020 (the “Performance Period”).

<u>2020 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 2020 Cash Incentive Plan will be settled solely in cash. All awards received by any participant pursuant to the 2020 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, including the principal executive officer, principal financial officer and principal accounting officer. The code of ethics is posted on the Bank's Investor Relations website at <http://ir.ozk.com> under "Corporate Governance Documents." For more information about the Bank's code of ethics, see "Available Information under Part I, Item 1."

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 which immediately follows Item 16 below.

(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

None.

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. 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
- 4.3 Description of Bank OZK's common stock registered under Section 12 of the Securities Exchange Act of 1934, filed herewith
- 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* 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)
- 10.14* 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)
- 10.15* 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)
- 10.16* 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)
- 10.17* 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)
- 10.18* 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)
- 10.19* Form of 2019 Performance Based Restricted Stock Unit Award Agreement for Executive Officers (“2019 LTIP Award”)(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)
- 10.20* Bank OZK 2019 Executive Management Cash-Based Performance Plan (previously filed as Exhibit 10.24 to the Bank’s Annual Report on Form 10-K filed with the FDIC on February 27, 2019, and incorporated herein by reference)
- 10.21* Bank OZK 2019 Omnibus Equity Incentive Plan dated May 6, 2019 (previously filed as Exhibit 10.1 to the Bank’s Current Report on Form 8-K filed with the FDIC on May 7, 2019, and incorporated herein by reference)
- 10.22* Form of Restricted Stock Award Agreement for Employees under the 2019 Omnibus Equity Incentive Plan (previously filed as Exhibit 10.2 to the Bank’s Current Report on Form 8-K filed with the FDIC on May 7, 2019, and incorporated herein by reference)
- 10.23* Form of Restricted Stock Award Agreement for Non-Employee Directors under the 2019 Omnibus Equity Incentive Plan (previously filed as Exhibit 10.3 to the Bank’s Current Report on Form 8-K filed with the FDIC on May 7, 2019, and incorporated herein by reference)
- 10.24* Form of Stock Option Award Agreement for Employees under the 2019 Omnibus Equity Incentive Plan (previously filed as Exhibit 10.4 to the Bank’s Current Report on Form 8-K filed with the FDIC on May 7, 2019, and incorporated herein by reference)
- 10.25* Form of 2020 Performance Based Restricted Stock Unit Award Agreement for Executive Officers (“2020 LTIP Award”), filed herewith
- 10.26* Bank OZK 2020 Executive Management Cash-Based Performance Plan, filed herewith
- 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, 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 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
 (Principal Financial Officer and Authorized Officer)

Date: February 28, 2020

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.

SIGNATURE	TITLE	DATE
<u>/s/ George Gleason</u> George Gleason	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 28, 2020
<u>/s/ Greg McKinney</u> Greg McKinney	Chief Financial Officer (Principal Financial Officer)	February 28, 2020
<u>/s/ Stan Thomas</u> Stan Thomas	Chief Accounting Officer (Principal Accounting Officer)	February 28, 2020
<u>/s/ Nicholas Brown</u> Nicholas Brown	Director	February 28, 2020
<u>/s/ Paula Cholmondeley</u> Paula Cholmondeley	Director	February 28, 2020
<u>/s/ Beverly Cole</u> Beverly Cole	Director	February 28, 2020
<u>/s/ Robert East</u> Robert East	Director	February 28, 2020
<u>/s/ Kathleen Franklin</u> Kathleen Franklin	Director	February 28, 2020
<u>/s/ Catherine B. Freedberg</u> Catherine B. Freedberg	Director	February 28, 2020
<u>/s/ Jeff Gearhart</u> Jeff Gearhart	Director	February 28, 2020
<u>/s/ Peter Kenny</u> Peter Kenny	Director	February 28, 2020
<u>/s/ William Koefoed</u> William Koefoed	Director	February 28, 2020
<u>/s/ Jack Mullen</u> Jack Mullen	Director	February 28, 2020
<u>/s/ Chris Orndorff</u> Chris Orndorff	Director	February 28, 2020

<u>/s/ Robert Proost</u> Robert Proost	Director	February 28, 2020
<u>/s/ John Reynolds</u> John Reynolds	Director	February 28, 2020
<u>/s/ Steven Sadoff</u> Steven Sadoff	Director	February 28, 2020
<u>/s/ Ross Whipple</u> Ross Whipple	Director	February 28, 2020

DESCRIPTION OF SECURITIES REGISTERED UNDER SECTION 12 OF THE SECURITIES EXCHANGE ACT

As of December 31, 2019, Bank OZK (“we,” “our” or “Bank”) has one class of securities registered under the Securities Exchange Act of 1934, as amended, consisting of our common stock, par value \$0.01 per share (“Common Stock”). The following description of our Common Stock is a summary only, does not purport to be complete, and is subject to and qualified in its entirety by reference to our Amended and Restated Articles of Incorporation, as amended (“Articles”), and our Second Amended and Restated Bylaws (“Bylaws”), which are incorporated by reference as Exhibits 3.1, 3.2 and 3.3 to the Annual Report on Form 10-K.

The rights of the Bank’s shareholders are governed by the Arkansas Banking Code and (to the extent it does not conflict with the provisions of the Arkansas Banking Code) the Arkansas Business Corporation Act (the “ABCA”), as well as the Articles and Bylaws. We encourage you to read the Articles, the Bylaws and the applicable provisions of relevant law for additional information.

Authorized Shares

The Articles authorize the issuance of 300,000,000 shares of Common Stock and 100,000,000 shares of preferred stock, \$0.01 par value. All issued and outstanding shares of Common Stock are fully paid and non-assessable. As of December 31, 2019, no shares of preferred stock were outstanding.

The Board of Directors (“Board”) may authorize the issuance of authorized but unissued shares of Common Stock without shareholder approval, unless such approval is required in a particular case by applicable laws or regulations or requirements of any national securities exchange on which the Common Stock is traded. The authorized but unissued shares of Common Stock are issuable from time to time for any corporate purpose, including, without limitation, stock splits, stock dividends, employee benefit and compensation plans, acquisitions, and public or private sales for cash as a means of raising capital. These shares could be used to dilute the stock ownership of persons seeking to obtain control of the Bank. In addition, the sale of a substantial number of shares of Common Stock to persons who have an understanding with the Bank concerning the voting of such shares, or the distribution or declaration of a Common Stock dividend to the shareholders, may have the effect of discouraging or increasing the cost of unsolicited attempts to acquire control of the Bank.

As permitted under Arkansas law, the Articles allow the Board to issue preferred stock from time to time in one or more series with such designations, powers, preferences and rights as the Board may from time to time determine. The Board can, without shareholder approval (but only with the approval of the Arkansas State Bank Department), issue preferred stock with voting, dividend, liquidation and conversion rights that could dilute the voting strength of the Common Stock and may assist management in impeding an unfriendly takeover or attempted takeover. The approval of the Arkansas State Bank Commissioner is required in order for us to repurchase shares of our capital stock (other than payments to shareholders who have perfected dissenters’ rights in connection with a transaction).

Dividend and Liquidation Rights

Holder of Common Stock are entitled to receive such dividends, if any, as may be declared by the Board out of legally available funds in compliance with the provisions of the Arkansas Banking Code and the ABCA, subject to the rights of holders of any senior securities then outstanding (including trust preferred securities, subordinated debentures, subordinated notes and preferred stock), and the regulations and other restrictions of the appropriate regulatory authorities, including regulations of the FDIC and the Arkansas State Bank Department that limit our ability to pay dividends to our shareholders without such agencies’ prior approval.

In the event of the liquidation, dissolution or winding up of the Bank, holders of Common Stock are entitled to receive a ratable distribution of the assets of the Bank remaining after payment of liabilities, including but not limited to the liquidation preference of any then outstanding preferred stock or other senior security.

Voting Rights

Holder of Common Stock are entitled to one vote for each share of record held on all matters properly submitted to the shareholders for their vote or other action, including the election of directors, except as otherwise required by law. The Articles expressly prohibit cumulative voting for the election of directors.

Shareholder action on a proposal to increase the Bank's capital stock or bonded indebtedness may be taken without a meeting if one or more written consents, setting forth the action so taken, shall be signed by all of the shareholders. Any other action required or permitted to be taken at a meeting of shareholders may be taken without a meeting if one or more written consents, setting forth the action so taken, shall be signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

Preemptive and Other Rights

Holders of Common Stock are not entitled to any preemptive, subscription, redemption, exchange or conversion rights, and no sinking fund is applicable to the Common Stock.

No Director Classification

The Articles do not authorize the Board to divide the directors into staggered classes. Under Arkansas law, the number of directors may be fixed or changed by the shareholders or by the directors if so authorized by the Articles or Bylaws. The Articles and Bylaws provide that the number of directors shall be fixed from time to time by resolution of the Board and shall not be less than three (3) nor more than twenty (20).

Amendment of Corporate Charter and Bylaws

Under the Arkansas Banking Code and the Bylaws, any amendment to the Articles must be approved first by the Board, and thereafter by a majority of each class of stock entitled to vote on the proposed amendment; provided, that the affirmative vote of the holders of at least two-thirds of the shares entitled to vote on the matter, voting together as a single class, as well as such additional vote of any preferred stock, if then issued and outstanding, as may be required by the provisions thereof, is required to amend provisions of the Articles relating to the number, election and removal of directors. Any amendment to the Articles must also be approved by the Arkansas State Banking Board and the Arkansas State Bank Commissioner.

The Bylaws may be amended by the Board or the shareholders. Amendment of the Bylaws by the Board requires the affirmative vote of a majority of the directors then in office. Shareholders can amend the Bylaws at an annual meeting at which a quorum is present. A shareholder amendment of the Bylaws requires the affirmative vote of a majority of the shares voted thereon.

Listing

Our Common Stock is listed for trading on the Nasdaq Global Select Market under the trading symbol "OZK."

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. Hughes Meadows Apartments, LP, a 99.99% owned Arkansas subsidiary of Summit Real Estate Investments, Inc.
23. Keiser Apartments Limited Partnership, a 99% owned Arkansas subsidiary of Summit Real Estate Investments, Inc.

24. Ridgecrest Limited Partnership, a 95% owned Arkansas subsidiary of Summit Real Estate Investments, Inc.
25. East Atlantic Properties, LLC, a 100% owned North Carolina subsidiary of BOTO NC Properties, LLC
26. BOTC, LLC, a 100% owned North Carolina subsidiary of Bank OZK
27. Twin Points Road Clubhouse Properties, LLC, a 100% owned Arkansas subsidiary of Bank OZK
28. Highway 7 Properties, LLC, a 100% owned Arkansas subsidiary of Bank OZK
29. BOTO Bankmobile, LLC, a 100% owned Florida subsidiary of Bank OZK
30. Deltona Inn Properties, LLC, a 100% owned Florida subsidiary of Bank OZK
31. Elizabeth Station, LLC, a 33.34% owned Georgia subsidiary of Bank OZK

CERTIFICATION

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 28, 2020

/s/ George Gleason

George Gleason

Chairman and Chief Executive Officer

CERTIFICATION

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 28, 2020

/s/ Greg McKinney

Greg McKinney
Chief Financial 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, 2019 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 28, 2020

/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, 2019 as filed with the Federal Deposit Insurance Corporation (the FDIC) on the date hereof (the Report), I, Greg McKinney, Chief Financial 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 28, 2020

/s/ Greg McKinney

Greg McKinney
Chief Financial 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.

A History of Excellence

2020

Top Fintechs to Work For,
American Banker, 2020

Forbes Best Banks, 2020

2019

Best Bank in the South,
2019–2020 *Money.com*

Top Fintechs to Work For,
American Banker, 2019

World's Best Banks, *Forbes*, 2019

**50 Most Important Leaders in
Commercial Real Estate Finance,**
The Commercial Observer, 2019

2018

Top Performing Bank, *Bank
Director Magazine*, 2018

Assets: \$5 Billion–\$50 Billion

**Nation's Top Performing
Regional Bank,** *S&P Global
Market Intelligence*, 2018

Assets: \$10 Billion–\$50 Billion

Top Fintechs to Work For,
American Banker, 2018

World's Best Employers,
Forbes, 2018

**50 Most Important Leaders
in Commercial Real Estate
Finance,** *The Commercial
Observer*, 2018

2017

**Nation's Top Performing
Regional Bank,** *S&P Global
Market Intelligence*, 2017

Assets: \$10 Billion–\$50 Billion

Best Bank in North Carolina,
Money Magazine, 2017

Top Performing Bank, *Bank
Director Magazine*, 2017

Assets: \$5 Billion–\$50 Billion

2016

Top Performing Bank, *Bank
Director Magazine*, 2016

Assets: \$5 Billion–\$50 Billion

Top Performing Regional Bank,
S&P Global Market Intelligence, 2016

2015

Top Performing Bank, *Bank
Director Magazine*, 2015

Assets: \$5 Billion–\$50 Billion

Top Performing Regional Bank,
S&P Global Market Intelligence, 2015

2014

Top Performing Bank, *Bank
Director Magazine*, 2014

Assets: \$1 Billion–\$5 Billion

2013

Top Performing Bank, *Bank
Director Magazine*, 2013

Assets: \$1 Billion–\$5 Billion

2012

Top Performing Regional Bank,
S&P Global Market Intelligence, 2012

Top Performing Bank, *ABA
Banking Journal*, 2012

Assets: \$1 Billion–\$10 Billion

2011

Top Performing Bank, *ABA
Banking Journal*, 2011

Assets: over \$3 Billion

2010

**Community Banker of the
Year,** *American Banker*, 2010



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