Bank of the Ozarks, Inc.

Conference Call – April 11, 2017

Transcript – Prepared Remarks

Good morning, I am Tim Hicks, Executive Vice President and Chief of Staff for Bank of the Ozarks. The purpose of this call is to discuss the Company's results for the quarter just ended and our outlook for upcoming quarters.

During today's call, and in other disclosures and presentations, we may make certain statements about our plans, estimates, strategies and outlook that are forward-looking statements. These statements are based on management's current expectations concerning future events that, by their nature, are subject to risks and uncertainties. Actual results and future events could differ, possibly materially, from those anticipated in our statements and from historical performance due to a variety of risks and other factors. Information about such factors, as well as GAAP reconciliations and other information on non-GAAP financial measures we discuss, is included in today's earnings press release and in our 10-K, 10-Qs and various other SEC filings and investor materials. These are all available on our corporate website, www.bankozarks.com, under "Investor Relations." The Company disclaims any obligation to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information or otherwise.

Finally, the Company is not responsible for, and does not edit or guarantee the accuracy of our earnings teleconference transcripts provided by third parties. The only authorized live and archived webcasts and transcripts are located on our website.

Before I turn the call over to the rest of the team, I want to mention a number of highlights from the quarter just ended. The first quarter is often a challenging quarter due to a number of seasonal factors, but this year's first quarter had numerous highlights, including:

- our record $89.2 million net income, which was a 73% increase from the first quarter of last year;
- our record $0.73 diluted earnings per common share, which was a 28% increase compared to the first quarter of last year;
- our annualized returns on average assets of 1.93% and on average tangible common equity of 17.17%;

- our excellent efficiency ratio of 35.0%, continuing our status as one of the most efficient banks in the industry;
- our record low past due ratio of 16 basis points; and
- our record quarterly trust income.

It was an excellent start to 2017. Now let me turn the call over to our Chairman and Chief Executive Officer, George Gleason.

George Gleason

Asset quality continued to be a highlight in the quarter just ended. Most of our asset quality ratios were at or near record levels.

For example, our annualized net charge-off ratios during the quarter just ended were 5 basis points for non-purchased loans and leases and 9 basis points for total loans and leases. At quarter-end, excluding purchased loans, our nonperforming loans and leases as a percent of total loans and leases were just 11 basis points and our nonperforming assets as a percent of total assets were just 25 basis points. As Tim already mentioned, our loans and leases past due 30 days or more, including past due non-accrual loans and leases, to total loans and leases were a record low 0.16% at March 31, 2017, which was our fifth consecutive quarter of reporting a record low past due ratio.

These ratios reflect our longstanding commitment to conservative underwriting standards and excellent asset quality, which has resulted in our having asset quality consistently better than the industry as a whole. In our almost 20 years as a public company, our net charge-off ratio has averaged about 35% of the industry's net charge-off ratio, and we have beaten the industry's net charge-off ratio in every year. Our outperformance has been even better recently, as evidenced by the fact that our net charge-off ratio for last year was just 13% of the industry's net charge-off ratio.

During the quarter just ended, we continued to focus on originating high quality loans at very low leverage. Of course, the largest component of our loan and lease portfolio is our Real Estate Specialties Group, or RESG, portfolio which accounted for 70% of the funded balance and 93% of the unfunded balance of our total non-purchased loans and leases at March 31, 2017. At quarter-end our average loan-to-cost for the RESG portfolio was a very conservative 48.7% and our average loan to appraised value was even lower at just 41.8%. The extremely low leverage of this portfolio exemplifies our very conservative credit culture and is one of the many reasons we have such confidence in the quality of our loan and lease portfolio.

Even with our very conservative underwriting, our discipline, and our four-fold focus on great properties, strong and capable sponsors, very low leverage and defensive loan structures, we have achieved exceptionally good loan and lease growth. Clearly we are providing our borrowers a compelling value equation in which our expertise and ability to reliably execute transactions with both speed and excellence justify our borrowers accepting conservative loan structures.

In the quarter just ended, the funded balance of our non-purchased loans and leases grew $612 million and our unfunded balance of closed loans grew $1.19 billion. At March 31, 2017 our unfunded balance of closed loans was $11.26 billion, which will be instrumental in achieving our loan growth goals in the remainder of 2017, 2018 and early 2019. While RESG accounted for about 60% of the growth in our funded balance of non-purchased loans and leases in the quarter just ended, we also had nice contributions and positive momentum from indirect consumer lending and various loan groups in community banking.

Given the growth in our customer base, our robust pipeline of transactions currently in underwriting and closing, and our largest ever unfunded balance of closed loans, we continue to expect 2017's growth in the funded balance of non-purchased loans and leases to be between $3.1 billion and $4 billion. As we said in our January conference call, we expect significant variation in loan growth from quarter to quarter in 2017, and, based on our projections, we continue to expect growth in the second half of 2017 to be much better than growth in the first half of 2017.

As a result of our robust level of loan originations in the quarter, at March 31, 2017, we had $47.7 million in net deferred credits, meaning we had $47.7 million more in unamortized deferred loan origination fees than unamortized deferred loan origination costs. This net deferred credit increased $4.0 million during the quarter. This, along with the $147.4 million valuation discount on our purchased loans at March 31, 2017, has favorable implications for future earnings.

For decades our focus has been on real estate lending, and we are one of the largest and most active CRE lenders in the country. Our track record, including our record through the "Great Recession," speaks for itself. Our significant expertise and the conservatism we employ in our CRE lending are significant factors in our asset quality.

Many people tend to lump everyone involved in CRE transactions in the same category without distinguishing between equity, mezzanine lender and senior secured lender priorities and without distinguishing between high-quality low leverage portfolios and lower quality high leverage portfolios. In almost every transaction we do, we are the sole senior secured lender, which means that in the event of default every penny of equity and every penny provided by a mezzanine lender would be lost before we lose even one cent of interest or principal. Simply stated, we have the lowest risk position in the capital stack. Likewise, our extremely low loan-to-cost and loan-to-value ratios are probably more conservative than just about every other CRE lender in the country. Accordingly, we believe our CRE portfolio may be the lowest risk CRE portfolio in the industry.

Let me turn the call over to our Chief Financial Officer, Greg McKinney.

Greg McKinney:

In the quarter just ended, our net interest margin continued to be among the best in the industry, although it was somewhat lower than our net interest margin for the fourth quarter of last year. The declining volume and yield on our portfolio of purchased loans provided headwind to our net interest margin in the first quarter. The yield on our purchased loan portfolio is impacted by the volume and mix of prepayments, and, accordingly, it may vary significantly from quarter to quarter as evident in the substantial difference in the yield on this portfolio in the two most recent quarters.

On the other hand, and more importantly to us, compared to last year's fourth quarter, our yield on non-purchased loans and leases increased 12 basis points to 5.26% in the quarter just ended, while our cost of interest bearing deposits increased only 6 basis points to 0.58% in the quarter just ended. This "core" spread metric has shown an improving trend over the last four quarters. The "core" spread improvement in the quarter just ended was attributable principally to the continued increases in Libor rates during the quarter and the Federal Reserve's increases in the fed funds target rate, which more than off-set increases in our costs of interest bearing deposits.

As we have discussed in our recent quarters, we have been getting better pricing on new loan originations. The benefits of this increased loan pricing should be even more evident in 2017 and 2018 as we fund a greater volume of the loans originated in the last five quarters.

The recent and any further increases in the fed funds target rate combined with the better loan pricing we have recently enjoyed should be beneficial to our net interest margin helping us further increase our "core" spread, but, on the other hand, the declining volume and yield over time of our portfolio of higher yielding purchased loans will provide some headwind to improvement in our net interest margin.

Let me switch to efficiency. Our efficiency ratio has been among the top decile of the industry every year for fifteen consecutive years. In the quarter just ended, our efficiency ratio was an excellent 35.0%. As we have discussed in previous conference calls, our long-term goal is to achieve a sub-30% efficiency ratio.

There are several key factors needed to accomplish our long-term efficiency goals. First, we expect to ultimately utilize a large amount of the excess capacity of our extensive branch network, tapping billions of dollars of additional deposits. This ability to achieve substantial deposit growth with limited additions of overhead has favorable implications for our efficiency ratio. Second, we expect to achieve further efficiencies over time from our recent acquisitions, including efficiencies from the increased benefits of having adopted Community & Southern's consumer and small business lending platform and the ongoing deployment of technology applications from OZRK Labs, which we acquired with C1 and subsequently expanded. By fully leveraging these factors, among others, we hope to achieve an improving efficiency ratio over the next several years and ultimately a sub-30% efficiency ratio.
Of course, as a larger and growing organization, we are constantly increasing our expenditures to expand and enhance our infrastructure for information technology, information systems, cybersecurity, business resilience, enterprise risk management, internal audit, compliance, BSA/AML monitoring, training and other important areas. We are also expanding our human and physical infrastructure to better serve low-to-moderate income and majority-minority markets and customer segments. The increasing costs for such enhanced infrastructure will be a headwind in our efforts to improve our efficiency ratio. However, we believe that our excellent organic growth will generate sufficient additional revenue for us to achieve both our important infrastructure enhancements and our long-term efficiency goal.

Our guidance regarding an improving efficiency ratio in future years does not consider the potential impact of any future acquisitions.

Yesterday our board of directors voted to recommend to our shareholders the merger of our holding company into our bank. If this proposed transaction is approved and effected, it will eliminate our holding company and the resulting oversight by the Federal Reserve Bank. Apart from ownership of the bank, we have not traditionally engaged in any other significant activities within our holding company, and none are planned. This proposal is intended to further improve our efficiency by eliminating redundant corporate infrastructure and the associated duplicative federal regulatory oversight. We have studied this for several months, and we expect the elimination of our holding company will have substantial benefits and no material adverse impact on our combined company, shareholders, customers or employees.

Now, let me turn the call over to our Chief Operating Officer and Chief Banking Officer Tyler Vance.

Tyler Vance:

Let me first discuss capital. Of course, we continue to be well capitalized by all applicable regulatory standards, and our internal policies for capital adequacy are well above the current regulatory requirements. Specifically, our internal policies require that we maintain well capitalized status in accordance with the fully phased-in 2019 Basel III standards, including the capital conservation buffer.

We currently have substantial capital in excess of our self-imposed capital standards to support continued growth, and our strong rate of capital formation through retained earnings should provide even more capital for future growth. Of course, we constantly monitor our capital position, projections for growth, capital market conditions and capital formation alternatives, all with the goal of effectively managing our capital position for the maximum benefit of shareholders while always maintaining well capitalized status.

In regard to liquidity, we have long expected that we could accelerate deposit growth as needed to fund our loan and lease growth. Our experience in recent years has validated that expectation. At least monthly, and more often as needed, we update a comprehensive 36 month projection of our expected loan fundings, loan paydowns and other sources and uses of funds. These detailed monthly projections of needed deposit growth provide the goals for our deposit growth strategies. This has proven to be a very effective process.

Currently we have 41 offices in 28 cities in “spin-up” mode offering various deposit specials along with an enhanced level of marketing activity. Our branch network of approximately 243 deposit offices continues to have substantial untapped capacity, and we believe that capacity is sufficient to fund our expected loan and lease growth over the next several years. Planned *de novo* branch additions and possible future acquisitions should provide additional deposit growth capacity for the future.

We consider net growth in core checking accounts as our most important deposit metric. In the first quarter of 2017, we achieved excellent organic growth in our number of net new core checking accounts with approximately 4,504 net accounts added. Our excellent checking account growth has been an important contributor to our having achieved record service charge income in recent years.

As Greg mentioned, our cost of interest-bearing deposits increased 6 basis points in the quarter just ended compared to the fourth quarter of 2016. Given our expectation that our growth in non-purchased loans and leases in 2017 will range between $3.1 and $4 billion, we expect to grow deposits significantly this year. Based on this, combined with our expectation for further increases in the fed funds target rate during 2017, we expect additional increases in our cost of interest bearing deposits this year. Our goal for 2017 is to hold the rate of increase in our cost of interest bearing deposits below, and hopefully well below, the rate of increase in our yield on non-purchased loans and leases. We achieved that goal in the quarter just ended as our yield on non-purchased loans and leases increased 12 basis points, or double the amount of the increase in our cost of interest bearing deposits.

Organic growth of loans, leases and deposits continues to be our top growth priority, and we have demonstrated our ability to achieve substantial growth apart from acquisitions. With that said, M & A continues to be another focus, as we believe M & A provides significant opportunities to augment our robust organic growth. We remain active in identifying and analyzing M & A opportunities, and we continue to believe an active and disciplined M & A strategy will help us create significant additional shareholder value.

Now, let me turn the call back to George Gleason.

George Gleason:

That concludes our prepared remarks. At this time we will entertain questions. Let me ask our operator to once again remind our listeners how to cue in for questions.

<u>Transcript of Q & A</u>

Stephen Scouten - *Sandler O'Neill + Partners, L.P.*

George, I know you gave color around your guidance remaining at that $3.1 billion to $4 billion number. But can you give a little clarity to us about what gives you the level of confidence given the growth we saw this quarter? I mean, how much visibility do you have into the funding time line, I guess, particularly for the closed but unfunded balances and how we can think about that growth in the back half of the year?

George Gleason

Yes, we have tremendous clarity and visibility into the expected funding schedule and for that matter, paydown schedule and payoff schedule of every loan on the books. So I would tell you, we have a high degree of confidence in projecting the growth that we will have from the unfunded balance of closed loans, a very good degree of confidence in projecting the speed and velocity of payoffs and paydowns. There's more variability, but still we feel like we've got pretty good sense of our ability to generate additional loan volume from new originations and so forth. So if you look back at our history, I think in the last five years we've probably met or exceeded our guidance pretty closely every year. I think we had one year where we were light by $3 million, which is essentially nothing, out of the last five or six years. And then last year we gave initial guidance, revised it upward but as payments accelerated we revised it back to our original guidance for the year. So our history of giving guidance is pretty good and it's based on these same abilities to predict.

Stephen Scouten - *Sandler O'Neill + Partners, L.P.*

Okay. Yes, that's really helpful. Definitely. And then kind of thinking about the NIM a little bit, obviously, you guys talked about the move in non-purchased loan yields, which was impressive at 12 basis points higher. Should that movement be even more pronounced moving forward? Because if memory serves me, you only have about $700 million or $800 million remaining in loans that are still at their floors. Can you give me an update there and if you think you will be more asset sensitive moving forward?

George Gleason

Yes. Actually, there's about $1 billion of loans that are variable rate loans at their floors as of March 31. With a quarter move-up, that $1 billion, and it's $1,068,000,000 of loans are still at their floor, with a quarter move-up, the number of loans that would then be at their floor is $355 million. So the vast majority of the non-purchased loans, and that is a non-purchased loan number, the vast majority of those non-purchased loans are already fully variable. $1,068,000,000 are not, but only $355 million of those would remain at the floor after another quarter increase. So the portfolio is highly variable.

Matt Olney – *Stephens Inc.*

George, I wanted to ask about the reorganization this morning, the decision to move out from Fed oversight. Can you talk more about what was behind that decision and what types of approval does that require?

George Gleason

Yes, be happy to. And the decision is simply based on efficiency. As we're currently structured today, we have a holding company that owns 100% of the bank and really doesn't do anything else. That subjects us to Federal Reserve supervision. We have a bank that is an Arkansas state bank that's regulated by the Arkansas State Bank Department and the Federal Deposit Insurance Corporation. And as we looked at that and assessed the efficiency of that structure, what we concluded was this: the Federal Reserve is a very smart bunch of regulators and they're very capable of regulating our bank; the FDIC is a very smart bunch of regulators and they're very capable of providing federal regulation for our bank. It just struck us that it was inefficient from a governmental point of view, as well as a company point of view, for us to have what is virtually duplicate federal oversight. So as we looked at that, we said we could be so much more efficient and the regulatory process from the government side would be so much more efficient if we just had a single federal regulator over the bank or the holding company. So there were two ways to accomplish that. One would be for the bank to become a fed member bank and then we would have Federal Reserve at both the holding company and the bank level, and that was a very viable option. Or the other option, as we ultimately chose, was to propose to shareholders a merger of our holding company into our bank; thus, eliminating our holding company structure. There are a lot of publicly-traded banks, including some larger than us that do not have a holding company structure. I would point to First

Republic Bank in California, and Signature Bank in New York, as examples of publicly-traded banks that do not have a holding company structure who are very highly regarded, well-run banks by all indications.

So in pondering that decision, the breaking point for our decision came down to the fact that just over my 38 years as CEO and a shorter number of years for most of the rest of our executive staff, we've had a more engaged and active working relationship with the FDIC than the Federal Reserve, just because the Federal Reserve tends to rely on the FDIC somewhat in a simple holding company structure such as we have. So based on that long working relationship with the FDIC, we opted to go with the strategy of merging the holding company into the bank. State Bank Department and the FDIC approval of that transaction are required. We've been working closely in the preplanning on this with both the Arkansas State Bank Department and the FDIC, so we don't expect any surprises there. A Federal Reserve approval is not required. In order to accomplish this, we spent a considerable amount of time in the last several months working with the Arkansas Senate and the Arkansas House of Representatives, the Governor's office and the Arkansas State Bank Department to present various changes to the Arkansas Banking Code and the Arkansas Corporation Act that would essentially allow our bank to have articles, bylaws and operating practices that mirror those that we now have as holding company. So when we present this to our shareholders, which it will go to the company shareholders for a vote in the next couple of months, there'll be very little, if any, structural change that our shareholders will realize in the transaction because we've worked very hard to line up the State Banking laws with the State Corporation Act to allow for a very smooth, seamless transition there. So we believe that this will reduce our regulatory allocation of man hours. We believe this will eliminate a number of other duplicative processes and procedures and so forth that really add no value, and that the result is we'll be a more efficient company, post accomplishing this transaction. We hope to have a vote on this, this quarter with shareholders in a special shareholders' meeting. And our goal, I think it's reasonable, is to try to accomplish the transaction before the end of June.

Matt Olney – *Stephens Inc.*
Okay, well, that's great details. I appreciate that George. And then, secondly, I was going to ask you about the deposits this quarter. It looked like the end-of-period deposit balance growth was pretty modest, but pretty good growth on the average deposits. Is there any commentary you can give us

about deposits kind of throughout the quarter? Any ebbs and flows within that? And then the deposit costs were up seven basis points. What are the expectations for deposit costs from here over the course of 2017?

George Gleason

Yes, I think by our calculation, it was up six basis points, Tyler, cost of interest-bearing deposits?

Tyler Vance

Yes.

George Gleason

And as Tyler said in his prepared remarks, we expect that cost will continue to go up over the course of the year. As --number one, we have more offices in spin-up mode achieving the deposit growth from our existing infrastructure -- branch infrastructure to fund our loan and lease growth, which we're very comfortable with. And the second point Tyler made is our goal, and we talked about this a little bit in Q1 and we're a little more clear on it today, but our goal is to just maintain that growth in our cost of interest-bearing deposits at a rate below, or well below hopefully, our rate of growth in our non-purchased loans. So in the quarter just ended, our cost of interest-bearing deposits went up 6 basis points. Our yield on non-purchased loans went up 12 basis points. That's a nice expansion in what we're referring to as our core spread, just the difference in those two numbers. And we've had a positive trend on that now for, Tyler, of four or five quarters?

Tyler Vance

Yes.

George Gleason

Yes. So that number, the yield on our purchased loans is going to bounce around considerably based on not just the volume of prepayments, but what specific loans in that portfolio prepay. So that number is sort of hard to predict even for us, very hard to predict. But what we are focused on and what's much more important, as Tyler said long-term, is that we get that core spread expanding, which we have, that we keep that expanding and that would be very positive. So we do expect further increases in cost of interest-bearing deposits, but we are feeling very good about our ability to keep those below and hopefully well below, the rate of increase in non-purchased loan yields.

Michael Rose – *Raymond James & Associates, Inc.*

Just wanted to dig into the expense increase this quarter. If I exclude the $1.2 million in merger-related costs last quarter, you were up $1 million, a little over $1 million. How much of that was related to kind of seasonal factors, like FICA and bonus payouts? And then if I tie that back to the verbiage in the 10-K, it looks like you guys spent about a little over $42 million in capital expenditures in 2016, but that number is going to be a lot lower in 2017 potentially. So just trying to get a sense for expense run rate and then how we should think about the expenses trending from here.

George Gleason

Well, Michael, and I would take you back to the comments we made in our October conference call. In our October conference call, we said that we expected our Q4 and Q1 non-interest expense to be roughly in line with our Q3. So we were rounding off to the nearest $100,000, $78.8 million in Q3, $78.4 million in Q4, $78.3 million in Q1. So we actually are -- in Q4 and Q3, were $400,000 and $500,000 better than we were in Q3. And what we said at that time was that we were going to achieve substantial cost savings from our CSB and C1 acquisitions that would flow through in Q4 and Q1, but that those cost savings would be offset by our buildup of infrastructure as we increased a number of risk management, compliance, BSA/AML, internal audit, IS/IT, cybersecurity. I think Greg gave a listing of those sorts of things that we're really building up with the idea of building the infrastructure to ultimately, in a few years be a $50 billion bank. So that's exactly what has happened in Q4 and Q1. I'm really proud of the guidance we gave in the October call last year because we've been pretty much spot on with that guidance. We have realized a lot of cost saves from those acquisitions. We've also been building this infrastructure in those. There've been very dynamic cross currents of reductions in expense and increases in expense.

The Q1 expense level looks like a pretty good base and we expect to grow the company from there. Obviously, we had -- Q1 is a 90-day quarter, whereas Q4 is a 92-day quarter and Q2 is a 91-day quarter and Q3 will be a 92-day quarter. So we'll have another day or 2 of expense in the remaining quarters of the year as compared to Q1, and we will continue to add corporate infrastructure. So we would expect a continued increase from the Q1 level in non-interest expense. But as Greg commented in his remarks, we expect that rate of increase to be commensurate with our goal of improving our efficiency ratio going forward. So we expect revenue growth is going to outrun that rate of expense growth going forward. I'll give you one other data point; you didn't ask for it. But at the end of the year, we had 2,315 full-time equivalent employees. At March 31, we had 2,343.5 equivalent employees. So we increased our number of FTEs about 28.5 people over the course of the first quarter. And if you look at the details of non-interest expense, you can see that salary and benefits line going up. That went up because of the increase in FTEs as we continue to build both production and risk management elements of the company. It went up because we absorbed 100% of the cost of our health insurance increase, with respect to January 1, so that our employees wouldn't have to absorb that. And it went up because we gave appropriate raises to a large number of well-deserved -- deserving employees at the beginning of the year. But, we were able to take out costs in the occupancy and other operating lines that actually offset those increases in the quarter in the cost of our salaries and employee benefits. So we felt very good about the work we did there.

Now you asked about capital expenditures. We will have a meaningful level of capital expenditures in 2017, 2018 and 2019. We're going to open probably a dozen to two dozen new branches over the next three years as just part of our normal growth infrastructure. And then we are totally out of room at our corporate headquarters. We, last year remodeled our corporate headquarters, cut all of our double-sized executive offices into two offices, cut our board room into nine offices, took my executive office area and executive waiting space and so forth there, and cut that into offices, creating about 60 to 70 additional offices and workstations in our existing headquarters, and we're already essentially full. We've moved leasing out to rented space away from our headquarters. We're negotiating the rent on additional space to move another 60 to 70 folks over the next year out. And we are jammed in at our headquarters, so we're going to build a new headquarters. The planning for that has been in the works for some time. We'll actually have an official announcement of that project in the next month or so and we will move into that project in mid-2019. So we will be -- you will see some increase in capex related to that, and that depreciation on that new facility will hit the income statement in late 2019 and 2020 as we move in there. Of course, trying to project that at this point is pretty much a fool's game because we'll have massive increases in revenue over that period of time, we would expect, that would make that a non-event.

Michael Rose – *Raymond James & Associates, Inc.*

I appreciate the color. Maybe just two quick housekeeping questions maybe for Greg. Can you quantify the pay downs in the quarter? I think they were about $1 billion each in the third and fourth quarter. And then I think the accretion income in the fourth quarter is about $10.4 million, looking at the K**.** Can you quantify that for the first quarter? And then maybe just a longer-term question for

George. What are you now looking at acquisitions, like what are -- any changes in kind of size or structure or pricing? I know you're looking for triple accretive, but any comments on M&A from here would be appreciated.

Greg McKinney

Michael, your question on pay downs, and George may want to also shed some color on this. I think pay downs have continued in the first quarter. We don't have -- I don't have an exact number in front of me to be able to give you exactly what that number was and how it compares to Q3 and Q4. But, they do remain elevated in the first quarter relative to what we might would have thought 12 months or so ago. So that -- it continues to drive net loan growth and is impacting net loan growth for us in the first quarter. With respect to the accretion income, again, I don't have that number in front of me. That number should be generally in line with about where it was in Q4. It may be up or down a little bit, Michael, but it should not be significantly different than what's there in Q4. So, I would expect once we're able to get all the details of that analyzed, fully reconciled and make sure that we've got the breakout between the accretion piece and just what goes through the contractual piece, I don't expect there to be any significant difference in that amount from Q4 to Q1.

George Gleason

And Michael, I would add to what Greg said. There were no real surprises in prepayment velocity in Q1. We mentioned a quarter or 2 ago that based on the accelerating prepayments we were experiencing throughout last year, we were now really modeling all of the RESG loans to pay off pretty much within a month or so of Certificate of Occupancy. That has been the case, so the payoffs we had at quarter end were very much in line with what we had modeled. And you mentioned $1 billion quarter in payoffs, which was kind of a normal run rate last year. And we would expect that to be a minimum every quarter going forward just because the portfolio is getting bigger and everything continues to pay off really quickly at Certificate of Occupancy for the most part, so we don't -- that's not an abnormal number anymore. That's what we've got modeled and that number growing is projected in our guidance for $3.1 to $4.0 billion in growth this year.

On the M&A question, I think Tyler mentioned we continue to be active. And looking at that, we've been very active at looking at a lot of opportunities this past quarter. There've been a couple of interesting opportunities we looked at that would have worked, would have been triple accretive, would have been nice things for us to do, but they just didn't have the magnitude of impact that we would've liked for those transactions to have, so we elected to not pursue those. There have been a couple of transactions that would have been very nice transactions for us to do at the right price, but the seller's expectations and market expectations for how those deals were going to be priced was very high. And we didn't think it was prudent for us to pursue them at that price.

So Tyler, in his prepared remarks, used the word disciplined and active, those two words to describe our M&A strategy. And certainly, in a world where seller's expectations are very high, it's a prudent thing to continue to maintain your discipline and make appropriate decisions on what to pursue and what not to pursue. So we continue to be very active. We expect M&A to be a part of our strategy going forward. I will say this: every acquisition we do takes manpower and it distracts Tyler and Greg and Tim and mine and dozens of other people's attention from other things that we could do as a corporation. So part of the analysis of every M&A is if we devote that same amount of energy and resources to our organic growth, will we get better results than we'll get with an acquisition? And as I mentioned there are couple of deals that we saw this last quarter that would've worked, that we could've put together and put together in an announcement and had a triple accretive deal. But as we did that analysis, we said if we devote the same time and energy and attention to internal efforts that we would devote to making these acquisitions work, we'll get more results for shareholders that way. So that will continue, it always has been and will certainly continue to be an important part of the decision. And with rising prices on transactions, that becomes a more probative test.

Timur Braziler - *Wells Fargo Securities, LLC*
Maybe first, just circling back to the conference call in January, where you highlighted the importance that California is going to play starting, really in 2017. I guess, what's the traction that's been made there in the first quarter? Maybe talk a little bit about the type of deals that you're seeing in California and how that contributed to the overall growth during the quarter.

George Gleason
I don't have a breakdown of how much actual originations we had in California. But I can tell you, since I sit on loan committee, that we had a lot of transactions from California in committee this quarter -- this past quarter, and a number of those transactions were approved and there is some excellent business there. There are several pretty sizable metropolitan areas in California, as we all know, and those are very complex geographies, Los Angeles area particularly. And there are just a number of markets in that L.A. market where you really do have really good development opportunities because

there is a real shortage of apartments or condos or other types of products in some of these more infill areas of the state. So there are a lot of opportunities there; we're excited to be doing more business there, and feel that is very beneficial to us. Tim, do you have some color? You might have some details on that.

Tim Hicks

Yes. I think for originations, I think what you also need to keep in mind is the difference between our funded balance and our unfunded balance. So as you look at our growth in our unfunded balance for the first quarter, we did have 8 deals from California, George, in total commitments of $644 million that were closed in the quarter.

George Gleason

Yes. So I mean that's pretty good contribution to our average -- it accounted for $644 million in funded and unfunded closings in the quarter. So very consistent with our expectations, and I think that area will become even more significant as time goes on.

Timur Braziler – *Wells Fargo Securities, LLC*

Okay, that's good color. And then kind of switching coasts. Looking at the New York commercial real estate landscape, there's been some headlines more recently, specifically in the retail space. But you guys obviously have a good insight into what's going on in that market. Maybe just provide a color as to what you're seeing as far as deal structure, deal activity and your appetite going forward in New York.

George Gleason

We continue to have a very open mind and a positive appetite for transactions in New York that are done at the right leverage with the right sponsor in the right sub-markets in the right micro-markets. There is very high quality, good business to be done in New York. And we continue to be very positively disposed toward that market. The key is what's your project, who's your sponsor and what are their capabilities? What sub-market and micro-market is it in? What are your leverage points and your cost per square foot points, and are you building a project in a market at a cost that is going to be readily marketable and there's enough demand to justify that product? We're still finding a lot of opportunities in New York that fit that criteria. I know when someone cuts their prices 3% or 8% on the listing prices on condos, and that gets a big article in Barron's or Investor's Business Daily, or The

Wall Street Journal or Crain's or some place, it tends to freak folks out. But the reality is we're typically in the 40s to 50% loan-to-cost and the 40s to 50% loan-to-value on those projects, and if somebody cuts their prices 4% or 8%, there's still -- the sponsors are still making a profit. They may not be making as much profit if they were getting full list price, but they're still making a profit, the mezzanine lenders are still getting paid off, and we're still getting paid off. One can read these headline articles about the price came down 4%, or I read one the other day that said sales of condos in this part of New York were taking 103 days on the market versus 89 days a year ago. And that's true, but that hardly is a crisis. Yes, if you're selling, you'd rather have your money two weeks earlier than not, but a two-week extension of time on the market, and it's -- these are relatively modest issues that seem to get a disproportionate amount of attention. So one has to really look at the data and the analytics and make smart decisions based on that and not get carried away by headlines that says the properties are down 4% from where they were a year ago, and they're all in the market 14 days longer than they were a year ago, and the sponsor is making an 18% return instead of a 22% return on its money. So keep it in perspective.

Timur Braziler – *Wells Fargo Securities, LLC*

No, that's good color. And maybe just one more, if I can, just circling back to M&A. Appreciate the color surrounding the magnitude of the deals and the ability to generate greater returns focusing inward. But just looking at deal size, given the larger balance sheet today, would you be willing to do a transaction that gets you closer to that $50 billion threshold or maybe a couple of deals that have you crossing it? Or is the infrastructure not quite in place to accelerate at that level yet?

George Gleason

We're real pleased with the progress we're making, building corporate infrastructure and the progress and development of our company. But I would not expect to see us be a $50 billion organization for several years. That would really be quite a leap. We're $19 billion and change now, and going from $19 billion to $50 billion, that's a big leap. We're at least 3 years away from getting there, and that would be a fastest case scenario, I would think.

Jennifer Demba – *SunTrust Robinson Humphrey, Inc.*

Just a follow-up on the geographic growth question. George, are there any markets or submarkets that you're getting a little nervous about? I know you're very project-specific. But are there any markets that you kind of want to maybe cool off on for a little while and see what happens?

George Gleason

Jennifer, I would just reiterate what we've said a number of times about that, and that we are very project-specific. It really depends on the market, the sub-market, the micro-market, the supply/demand metrics of that market or sub-market or micro-market, the sponsor, the -- if there are other members of the cap stack, preferred equity or mezzanine lenders, their skills and capabilities, our leverage point. There are just a variety of factors that go into every one of those decisions. We're really trying to take all factors thoroughly into account; make very conservative, very good decisions. And it is not really driven so much by product type or market. I mean, those are certainly factors that one takes into account, but they're just factors that one takes into account if you're making a really prudent, informed decision.

Catherine Mealor – *Keefe, Bruyette & Woods, Inc.*

I wanted to circle back on one question on the margin. And George, you made a comment about the prepayment speed, saying that the billion in prepayments a quarter is basically the new norm. And so is it fair to say -- because the way I've been thinking about your non-purchased yield was as the volume started to improve from here, then we may see -- rates aside, that we may see some pull-back in the margin or at least on loan yields because you would have less benefit from the acceleration in prepayments. But is really the way to think about that is that prepayment level isn't really going to change, and so we won't see that pull-back. But really, from here, what we will see in this non-purchased loan yield is just an improvement from LIBOR and the Fed hikes moving that yield higher.

George Gleason

I think, yes, we should see an improvement, continued improvement, in non-purchased loan yields as LIBOR and fed funds rates increase, which we would expect, based on what the Fed has said to continue to do so. So I think that does help us in the yield on non-purchased loans. The prepayment impact on that will vary from quarter-to-quarter because we can have a billion dollars of prepays in the quarter that occurred pretty much at the maturity of the loans and generates very little extra income. We can have prepays that occurred early in a loan cycle that generate more income as a result of prepayment, so, that number will depend, and depending on the yield maintenance and minimum interest, prepayment penalties, yield protection on those loans that can move around a little bit from quarter-to-quarter. But that's going to be small pluses and small minuses quarter-to-quarter. You're correct, the primary driver of yield on those non-purchased loans deltas from quarter-to-quarter is just going to be fed funds and LIBOR rate moves and our ability to just get better pricing, which we're constantly trying to do, but it's a competitive world out there.

Catherine Mealor – *Keefe, Bruyette & Woods, Inc.*

And is there any way to quantify that, just an average over time of how much of the yield is impacted by that?

George Gleason

I can't, Catherine, and I wouldn't. I couldn't make an intelligent comment on that. I'm sorry. I would if I could, but I can't.

Blair Brantley – *Brean Capital, LLC*

Just a couple of questions, I guess, first on M&A. Can you speak to kind of maybe the -- is there more of a geographic focus one way or the other in looking at potential deals? Are you looking more within the community bank footprint or maybe looking to expand where some of the real estate specialty group offices are?

George Gleason

I think we're open-minded about that. One of the factors that we're taking into account Blair, is I really -- we made big acquisitions in Georgia and Florida last year, and I'm really comfortable with the team of bankers that I've got in place in Georgia and Florida, and of course, we've been in North Carolina for a long time. I'm extremely comfortable with the excellent team of bankers we've got in the Carolinas, particularly North Carolina, although they run all of the Carolinas; we don't have much in South Carolina. But what I would not want to do is do an acquisition where we were -- embedded into that acquisition was a premium value for a management team that would be redundant or even contradictory to the management teams that we now have in Florida, Georgia and North Carolina. So there was a transaction we looked at that did have some significant market overlap, but we actually penalized that transaction in our internal valuation because I really like the people that I've got running those markets for me now. And embedded in the new acquisition was a premium for a really good team they had, and I couldn't mix those teams together; it would be one or the other, and so we take that into account. So in some respects, doing a transaction in New York or California, or Colorado or Illinois, or Arizona or Washington state, a market where we don't have much of any retail banking presence, is simpler than doing one now in the states where I have finally got our teams really well developed there and couldn't really see a situation where I would want to trade my management team for somebody else's. I really like the guys we got running those states for us, and I could say the same, of course, of Arkansas and Texas. And I could say the same of Alabama to the extent we're in Alabama, but we've only got a little toehold there. I like my team, so we're going to take that into account in our evaluating acquisitions. If it's -- you could have situations where the selling bank has a really good management team, but that becomes a problem instead of an asset in the valuation of the transaction because you wouldn't want to replace your existing team. So we are spending a lot of time looking at markets where we have a lot of RESG loan growth, thinking that the value of a franchise there that has a strong management culture and so forth, could really be accretive to our company there where it could be problematic in a market where we had a real management overlap.

Blair Brantley – *Brean Capital, LLC*

Okay, great. Thank you. And then on a different note. With the reorg that you're proposing, how does that impact like the trust preferreds you have right now and future capital plans and also the sub-debt you recently issued?

George Gleason

Yes, the sub-debt and the trust preferreds will become debts of the bank. They will just drop down into the bank level as part of the merger. They will continue to count as Tier 2 capital there. Our trust preferreds are grandfathered in under applicable Federal Reserve guidelines as Tier 2 capital at the holding company level. We have verified and documented with the FDIC that they will continue to have that same Tier 2 grandfather status at the bank level once the merger is complete. So we will, because of changes that we've made to the state banking laws, have the capability to issue common stock, preferred stock, sub-debt, various other debt type securities from the bank just as we would from the holding company. The common parts and other Tier 1 components will count as Tier 1 Capital. The sub-debt, preferred, trust preferreds would count as Tier 2 at the bank level. So there really is no change there.

Blair Brantley – *Brean Capital, LLC*

Okay, and then if I could just ask one quick question. On the purchased loan kind of run-off this quarter, was that as expected? And how do you view that going forward?

George Gleason

It was in the range of expectations. I would tell you it was at the high end of our range of expectations, but that was within our range of expectations. And we're okay with that. We like those purchased loans the way we've got them marked and the yields that are assigned to them, but a large part of those purchased loans, as they run off, we feel we're replacing with higher quality originated loans on average, so we're okay with that.

Brian Martin – *FIG Partners, LLC*

Can you just comment on going back to the reorganization, just if you could give any color on the kind of the savings that you expect out of that and then just how quickly that materializes? And then kind of maybe lastly, I mean, does this decision to reorganize also assist with your future acquisition process at all? Is it purely an efficiency play?

George Gleason

It is purely an efficiency play, and it's hard to quantify that. And certainly, we'll actually have some cost in executing the transaction. We'll have a special shareholders meeting and regulatory applications and some consulting work and so forth in Q2 for that. It'll be a negligible cost, probably won't move our efficiency ratio in a meaningful way either way. And then we'll start getting cost saves out of that in Q3 and Q4. But, you're talking about over time, the elimination of a few jobs and not that we're really going to eliminate anybody from it. No one's going to lose their job because of this. It's just guys that were filing a call report with the State Bank Department and a holding company report with the Federal Reserve. We'll quit filing that holding company report, that will let them do more things that would result from a normal growth in our business. So we're not going to cut anybody or eliminate any positions at all as a result of this, but it will create more capacity to absorb the natural growth and volume of activity of our company as we go forward. So let's say it's a subtle thing in improving our efficiency long-term, but a meaningful thing. And as we get to -- someone asked a question about in future years way out there, or several years or more in the future, when we get to $50 billion. The understanding we have on the current state of regulatory structure is that will be significant savings and us not having to address certain tests that the Federal Reserve applies to bank holding companies at $50 billion, that there is a less rigorous process related to banks at $50 billion. So it's a very forward-looking thought process.

Brian Martin – *FIG Partners, LLC*

Got you. Okay, that's helpful. And just maybe two other things for me. Just the -- maybe it's more for Greg. But just the fee income in the quarter. Was there any -- other than the normal seasonality that you guys have first quarter, was there anything unusual in this quarter's numbers? Or is that kind of a pretty clean run rate to think of going forward absent the seasonality?

Greg McKinney

Brian, I think it was all seasonality. The first quarter is always the most difficult quarter for us from that standpoint. We gave guidance to that, and thoughts on that on the January conference call. So I don't think that -- the results we achieved were really in line with our thoughts, our guidance and taking into account the seasonality impact of that.

George Gleason

Yes. And I would agree with that with one additional comment, and that is mortgage was down about 25% more or less, I don't know the exact number, from Q4 to Q1 and has been down the last couple of quarters. And that's just because the 10-year rates rising and refinance activity is way down, refinance activity in mortgage in the quarter just ended was 34% of our volume, and new originations were 66%. When rates were lower, that refi percentage was higher.

Brian Martin – *FIG Partners, LLC*

Okay, cool. And just the last thing was just on the organic growth this quarter, George. Outside of the -- as you kind of think about the target range you guys were giving, the piece of the growth this year that comes from kind of the community bank or kind of the non-RESG group, can you just give some thought? I mean, how much of the growth that you anticipate this year do you expect to kind of come from that non-RESG piece?

George Gleason

Yes. Well, RESG in the quarter just ended was $368 million of the $612 million in growth. Community banking, that includes SBA and poultry and consumer small business, various things, was $120 million. Our indirect marine and RV business that we continue to really, really like was $134 million. We actually had some shrinkage in our leasing division a couple of million dollars, and our Corporate Loan Specialties Group was a $9 million shrinkage. So community banking and indirect marine and RV were nice positive stories for us there and we would expect growth from those units to continue to grow and would expect the Corporate Loan Specialties Group and the leasing groups to get positive in future quarters as well. So, we were pretty pleased with positive traction and momentum in a couple of those units this quarter.

Stephen Scouten – *Sandler O'Neill + Partners, L.P.*
I just want -- I don't want to beat a dead horse on the structure change. I know you said it's obviously for efficiency purposes. But, will it have a near-term effect from an M&A standpoint? Will you need to get this change completed first before you'd want to announce any deal so you didn't have to get Fed approval on any M&A transaction? And would this make M&A approval easier down the line potentially in your view?

George Gleason
Stephen, again, we said we expect and hope to have the applications filed, a special shareholders meeting and have this transaction wrapped up before the end of the current quarter. If we got in a situation where we wanted to announce an M&A transaction before that, I think we would just structure that in a way that would acknowledge that this change in our corporate structure was pending, and the transaction would be structured to account for that. So I don't think it would create any impediment in the short run to an acquisition. And your second question there, will this speed M&A approvals longer term? I would say probably so, because in our current structure, we've got to get state approval, we've got to get FDIC approval and we've got to get Federal Reserve approval. And since the FDIC is our primary federal regulator at the bank level, and the Federal Reserve is at the holding company level and really sort of secondarily, in sort of a secondary role there. In our prior transactions, there's been a tendency, for example, our two deals last year for the Federal Reserve, to wait to see what the FDIC did; for example, on that CRA protest. And then after the Federal Reserve saw what the FDIC did, they reviewed the matter kind of at that point forward, and it created kind of a step-by-step-by-step process that added an extra step, that cost us, frankly, probably two or three months on the approval of our two deals last year. So yes, I think just having one primary federal regulator looking at it, as opposed to two, will facilitate the timing approval and completion of future M&A transactions.

Peyton Green – *Piper Jaffray Companies*

George, I was just wondering if you could comment on the competitive conditions with regard to the Real Estate Specialties Group in terms of lending. And I know going back to the third or fourth quarter of 2015 from that point forward, you saw a bit of capacity leave the system, and you were able to get pricing spread improvement on a lot of your loans. If you could comment maybe what the competitive conditions are like today and how you see that unfolding over the next year, that would be great. And then also, maybe just how you see -- certainly, I know you're optimistic about the non-RESG growth, but maybe talk about any shifting patterns in RESG growth.

George Gleason

Yes. Peyton, I don't know that we have seen any real material change in our RESG growth prospects or pricing in the last several months since we last talked about this issue on the conference call or publicly at conferences or something. Post-election with the expectation that the economy may do better and there may be tax relief and there was a bit of euphoria in the markets and so forth, I think probably a few banks that had exited the CRE space kind of reallocated some resources and energy and effort to the CRE space. So that probably has created a little bit of incremental competition in some sectors. I will tell you a factor that is putting a bit of a lid on some volume growth, and that is that we've seen several sponsors walk away from pursuing projects where increased material and labor costs made those projects not feasible to pursue. So you can tell we're getting closer to a full employment economy and resource utilization rates are higher than they were and cost of materials in some markets, cost of subcontractor labor in some markets is in short supply and rising. And it's not just a demand for a particular product in a market that makes a project feasible, you've got to be able to build it at a feasible cost structure. So we are watching that very closely. And our project cost analyses and so forth on the cost of projects, that's something that's getting a lot of attention in our underwriting area, because we realized that there is some upward pressure on certain labor and material costs in certain sub-markets that's on the margin. I mean, this is not a widespread thing. But on the margin, it's knocking a few deals out of the feasibility category that would have been built in a very feasible way at last year's cost basis. There are always moving parts - supply and demand of labor and materials is one of them, but those revolve in pretty much things around the margin so far. And it has not changed our expectations for RESG growth or pricing for this year or next at this point, but we'll continue to monitor those carefully.

Peyton Green – *Piper Jaffray Companies*

Okay. And then as you monitor your existing projects that are at various stages of construction and development, are you seeing anything that would cause you to pull back from geographies or use types?

George Gleason

No. Those projects are by and large running at, or ahead of the projections that we proforma them at, so we're not really seeing any sources of emerging concerns there at all.

George Gleason

All right, guys. Thank you so much for participating in our call today. There being no further questions, that concludes our call. I look forward to talking with you in about 90 days or so. Thank you very much. Goodbye.