
Section 1: 10-Q (FORM 10-Q)

[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2015

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

For the transition period from _____ to _____.

Commission File Number 0-22759

BANK OF THE OZARKS, INC.

(Exact name of registrant as specified in its charter)

ARKANSAS
(State or other jurisdiction of
incorporation or organization)

71-0556208
(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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

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

<u>Class</u>	<u>Outstanding at July 31, 2015</u>
Common Stock, \$0.01 par value per share	86,813,057

Table of Contents

**BANK OF THE OZARKS, INC.
FORM 10-Q
June 30, 2015**

INDEX

PART I.	<u>Financial Information</u>	
Item 1.	<u>Financial Statements</u>	
	<u>Consolidated Balance Sheets as of June 30, 2015 and 2014 and December 31, 2014</u>	1
	<u>Consolidated Statements of Income for the Three Months Ended June 30, 2015 and 2014 and for the Six Months Ended June 30, 2015 and 2014</u>	2
	<u>Consolidated Statements of Comprehensive Income for the Three Months Ended June 30, 2015 and 2014 and for the Six Months Ended June 30, 2015 and 2014</u>	3
	<u>Consolidated Statements of Stockholders' Equity for the Six Months Ended June 30, 2015 and 2014</u>	4
	<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2015 and 2014</u>	5
	<u>Notes to Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	65
Item 4.	<u>Controls and Procedures</u>	66
PART II.	<u>Other Information</u>	
Item 1.	<u>Legal Proceedings</u>	67
Item 1A.	<u>Risk Factors</u>	68
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	68
Item 3.	<u>Defaults Upon Senior Securities</u>	68
Item 4.	<u>Mine Safety Disclosures</u>	68
Item 5.	<u>Other Information</u>	68
Item 6.	<u>Exhibits</u>	68
	<u>Signature</u>	69
	Exhibit Index	70

[Table of Contents](#)

PART I. FINANCIAL INFORMATION

Item 1. **Financial Statements**

**BANK OF THE OZARKS, INC.
CONSOLIDATED BALANCE SHEETS**

	Unaudited		December 31,
	June 30,		
	2015	2014	2014
(Dollars in thousands, except per share amounts)			
ASSETS			
Cash and due from banks	\$ 512,908	\$ 107,240	\$ 147,751
Interest earning deposits	1,982	3,448	2,452
Cash and cash equivalents	514,890	110,688	150,203
Investment securities - available for sale ("AFS")	782,277	892,129	839,321
Non-purchased loans and leases	4,767,123	3,171,585	3,979,870
Purchased loans	1,826,848	1,404,069	1,147,947
Total loans and leases	6,593,971	4,575,654	5,127,817
Allowance for loan and lease losses	(56,749)	(46,958)	(52,918)
Net loans and leases	6,537,222	4,528,696	5,074,899
Federal Deposit Insurance Corporation ("FDIC") loss share receivable	0	50,679	0
Premises and equipment, net	285,087	265,061	273,591
Foreclosed assets	25,973	56,356	37,775
Accrued interest receivable	26,345	21,143	20,192
Bank owned life insurance ("BOLI")	269,311	179,277	182,052
Intangible assets, net	151,150	108,640	105,576
Other, net	118,180	85,306	82,890
Total assets	<u>\$ 8,710,435</u>	<u>\$ 6,297,975</u>	<u>\$ 6,766,499</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits:			
Demand non-interest bearing	\$ 1,320,779	\$ 1,058,210	\$ 1,145,454
Savings and interest bearing transaction	3,645,551	2,748,929	2,892,989
Time	2,120,969	1,176,758	1,457,939
Total deposits	7,087,299	4,983,897	5,496,382
Repurchase agreements with customers	70,011	55,999	65,578
Other borrowings	161,931	280,875	190,855
Subordinated debentures	117,403	64,950	64,950
FDIC clawback payable	0	26,533	0
Accrued interest payable and other liabilities	61,033	32,063	36,892
Total liabilities	<u>7,497,677</u>	<u>5,444,317</u>	<u>5,854,657</u>
Commitments and contingencies			
Stockholders' equity:			
Preferred stock; \$0.01 par value; 1,000,000 shares authorized; no shares outstanding at June 30, 2015 and 2014 or at December 31, 2014	0	0	0
Common stock; \$0.01 par value; 125,000,000 shares authorized; 86,811,457, 79,662,150 and 79,924,350 shares issued at June 30, 2015, June 30, 2014 and December 31, 2014, respectively	868	797	799
Additional paid-in capital	566,320	315,267	324,354
Retained earnings	633,998	524,134	571,454
Accumulated other comprehensive income	8,068	10,006	14,132
Treasury stock, at cost, none at June 30, 2015 or June 30, 2014, 72,268 shares at December 31, 2014	0	0	(2,349)
Total stockholders' equity before noncontrolling interest	1,209,254	850,204	908,390
Noncontrolling interest	3,504	3,454	3,452
Total stockholders' equity	<u>1,212,758</u>	<u>853,658</u>	<u>911,842</u>
Total liabilities and stockholders' equity	<u>\$ 8,710,435</u>	<u>\$ 6,297,975</u>	<u>\$ 6,766,499</u>

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

BANK OF THE OZARKS, INC.
CONSOLIDATED STATEMENTS OF INCOME
Unaudited

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
(Dollars in thousands, except per share amounts)				
Interest income:				
Non-purchased loans and leases	\$ 56,637	\$36,833	\$107,069	\$ 70,247
Purchased loans	35,762	25,128	68,622	42,013
Investment securities:				
Taxable	3,230	2,790	6,715	5,149
Tax-exempt	4,456	4,974	9,125	9,371
Deposits with banks and federal funds sold	18	35	27	38
Total interest income	<u>100,103</u>	<u>69,760</u>	<u>191,558</u>	<u>126,818</u>
Interest expense:				
Deposits	3,917	1,827	7,454	3,408
Repurchase agreements with customers	19	13	36	25
Other borrowings	1,443	2,692	3,146	5,347
Subordinated debentures	968	427	1,676	840
Total interest expense	<u>6,347</u>	<u>4,959</u>	<u>12,312</u>	<u>9,620</u>
Net interest income	93,756	64,801	179,246	117,198
Provision for loan and lease losses	(4,308)	(5,582)	(10,623)	(6,887)
Net interest income after provision for loan and lease losses	<u>89,448</u>	<u>59,219</u>	<u>168,623</u>	<u>110,311</u>
Non-interest income:				
Service charges on deposit accounts	7,088	6,605	13,715	12,244
Mortgage lending income	1,772	1,126	3,279	2,080
Trust income	1,463	1,364	2,895	2,681
BOLI income	1,785	1,278	5,407	2,408
Net amortization of FDIC loss share receivable and FDIC clawback payable	0	(741)	0	(49)
Other income from purchased loans, net	6,971	3,629	15,879	6,940
Net gains on investment securities	85	18	2,618	23
Gains on sales of other assets	2,557	1,448	5,385	2,422
Gain on merger and acquisition transaction	0	0	0	4,667
Other	1,549	2,661	3,159	4,333
Total non-interest income	<u>23,270</u>	<u>17,388</u>	<u>52,337</u>	<u>37,749</u>
Non-interest expense:				
Salaries and employee benefits	22,646	18,831	45,243	36,520
Net occupancy and equipment	7,344	5,707	14,635	10,751
Other operating expenses	13,734	13,340	34,030	28,062
Total non-interest expense	<u>43,724</u>	<u>37,878</u>	<u>93,908</u>	<u>75,333</u>
Income before taxes	68,994	38,729	127,052	72,727
Provision for income taxes	24,190	12,251	42,330	20,981
Net income	44,804	26,478	84,722	51,746
Earnings attributable to noncontrolling interest	(28)	8	(52)	16
Net income available to common stockholders	<u>\$ 44,776</u>	<u>\$26,486</u>	<u>\$ 84,670</u>	<u>\$ 51,762</u>
Basic earnings per common share	<u>\$ 0.52</u>	<u>\$ 0.35</u>	<u>\$ 0.99</u>	<u>\$ 0.69</u>
Diluted earnings per common share	<u>\$ 0.51</u>	<u>\$ 0.34</u>	<u>\$ 0.98</u>	<u>\$ 0.68</u>
Dividends declared per common share	<u>\$ 0.135</u>	<u>\$ 0.115</u>	<u>\$ 0.265</u>	<u>\$ 0.225</u>

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

BANK OF THE OZARKS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Net income	\$ 44,804	\$26,478	\$84,722	\$51,746
Other comprehensive income (loss):				
Unrealized gains and losses on investment securities AFS	(10,091)	11,199	(7,600)	22,529
Tax effect of unrealized gains and losses on investment securities AFS	3,844	(4,393)	3,157	(8,837)
Reclassification of gains and losses on investment securities AFS included in net income	(85)	(18)	(2,618)	(23)
Tax effect of reclassification of gains and losses on investment securities AFS included in net income	33	7	997	9
Total other comprehensive income (loss)	<u>(6,299)</u>	<u>6,795</u>	<u>(6,064)</u>	<u>13,678</u>
Total comprehensive income	<u>\$ 38,505</u>	<u>\$33,273</u>	<u>\$78,658</u>	<u>\$65,424</u>

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

BANK OF THE OZARKS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 Unaudited

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Treasury Stock</u>	<u>Non- Controlling Interest</u>	<u>Total</u>
	(Dollars in thousands)						
Balances – January 1, 2014	\$ 737	\$ 143,017	\$ 488,978	\$ (3,672)	\$ 0	\$ 3,470	\$ 632,530
Net income	0	0	51,746	0	0	0	51,746
Earnings attributable to noncontrolling interest	0	0	16	0	0	(16)	0
Total other comprehensive income	0	0	0	13,678	0	0	13,678
Common stock dividends paid	0	0	(16,606)	0	0	0	(16,606)
Issuance of 185,000 shares of common stock for exercise of stock options	2	1,570	0	0	0	0	1,572
Forfeiture of 400 shares of unvested restricted common stock	0	0	0	0	0	0	0
Excess tax benefit on stock-based compensation	0	1,373	0	0	0	0	1,373
Stock-based compensation expense	0	3,050	0	0	0	0	3,050
Issuance of 5,765,846 shares of common stock for acquisition of Summit Bancorp, Inc., net of issuance costs of \$88,000	58	166,257	0	0	0	0	166,315
Balances – June 30, 2014	<u>\$ 797</u>	<u>\$ 315,267</u>	<u>\$ 524,134</u>	<u>\$ 10,006</u>	<u>\$ 0</u>	<u>\$ 3,454</u>	<u>\$ 853,658</u>
Balances – January 1, 2015	\$ 799	\$ 324,354	\$ 571,454	\$ 14,132	\$ (2,349)	\$ 3,452	\$ 911,842
Net income	0	0	84,722	0	0	0	84,722
Earnings attributable to noncontrolling interest	0	0	(52)	0	0	52	0
Total other comprehensive income (loss)	0	0	0	(6,064)	0	0	(6,064)
Common stock dividends paid	0	0	(22,126)	0	0	0	(22,126)
Issuance of 99,050 shares of common stock for exercise of stock options	1	996	0	0	0	0	997
Issuance of 245,300 shares of unvested restricted common stock	2	(2,351)	0	0	2,349	0	0
Excess tax benefit on stock-based compensation	0	791	0	0	0	0	791
Stock-based compensation expense	0	4,220	0	0	0	0	4,220
Forfeiture of 29,875 shares of unvested restricted common stock	0	0	0	0	0	0	0
Issuance of 7,657 shares of common stock to non-employee directors	0	0	0	0	0	0	0
Issuance of 6,637,243 shares of common stock for acquisition of Intervest Bancshares Corporation, net of issuance costs of \$100,000	66	238,310	0	0	0	0	238,376
Balances – June 30, 2015	<u>\$ 868</u>	<u>\$ 566,320</u>	<u>\$ 633,998</u>	<u>\$ 8,068</u>	<u>\$ 0</u>	<u>\$ 3,504</u>	<u>\$ 1,212,758</u>

See accompanying notes to consolidated financial statements

[Table of Contents](#)

BANK OF THE OZARKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Six Months Ended	
	June 30,	
	2015	2014
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	\$ 84,722	\$ 51,746
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,575	3,816
Amortization	3,236	1,932
Earnings attributable to noncontrolling interest	(52)	16
Provision for loan and lease losses	10,623	6,887
Provision for losses on foreclosed assets	2,427	863
Net (accretion) amortization of investment securities AFS	(51)	301
Net gains on investment securities AFS	(2,618)	(23)
Originations of mortgage loans held for sale	(136,267)	(90,110)
Proceeds from sales of mortgage loans held for sale	127,302	83,337
Accretion of purchased loans	(68,622)	(42,013)
Net amortization of FDIC loss share receivable and FDIC clawback payable	0	49
Gains on sales of other assets	(5,385)	(2,422)
Gain on merger and acquisition transaction	0	(4,667)
Prepayment penalty on Federal Home Loan Bank of Dallas advances	2,480	0
Deferred income tax expense (benefit)	2,252	(3,407)
Increase in cash surrender value of BOLI	(3,119)	(2,408)
BOLI death benefits in excess of cash surrender value	(2,289)	0
Stock-based compensation expense	4,220	3,050
Excess tax benefit on stock-based compensation	(791)	(1,373)
Changes in assets and liabilities:		
Accrued interest receivable	(4,420)	(2,049)
Other assets, net	28,658	3,449
Accrued interest payable and other liabilities	(1,951)	13,094
Net cash provided by operating activities	44,930	20,068
Cash flows from investing activities:		
Proceeds from sales of investment securities AFS	32,777	48,394
Proceeds from maturities/calls/paydowns of investment securities AFS	81,532	29,706
Purchases of investment securities AFS	(37,522)	(35,109)
Net increase of non-purchased loans and leases	(800,061)	(539,695)
Payments received on purchased loans	462,027	207,403
Payments received from FDIC under loss share agreements	0	16,076
Other net decreases in assets covered by FDIC loss share agreements and FDIC loss share receivable	0	9,246
Purchases of premises and equipment	(9,720)	(4,586)
Purchase of BOLI	(85,000)	0
Proceeds from BOLI death benefits	3,149	0
Proceeds from sales of other assets	40,018	30,166
Cash invested in unconsolidated investments	(639)	(2,320)
Net cash received in merger and acquisition transactions	274,235	121,918
Net cash used by investing activities	(39,204)	(118,801)
Cash flows from financing activities:		
Net increase in deposits	406,269	41,190
Net repayments of other borrowings	(31,404)	(464)
Net increase (decrease) in repurchase agreements with customers	4,434	(13,619)
Proceeds from exercise of stock options	997	1,572
Excess tax benefit on stock-based compensation	791	1,373
Cash dividends paid on common stock	(22,126)	(16,606)
Net cash provided by financing activities	358,961	13,446
Net increase (decrease) in cash and cash equivalents	364,687	(85,287)
Cash and cash equivalents – beginning of period	150,203	195,975
Cash and cash equivalents – end of period	\$ 514,890	\$ 110,688

See accompanying notes to consolidated financial statements.

Table of Contents

BANK OF THE OZARKS, INC. **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** Unaudited

1. Organization and Principles of Consolidation

Bank of the Ozarks, Inc. (the “Company”) is a bank holding company headquartered in Little Rock, Arkansas, which operates under the rules and regulations of the Board of Governors of the Federal Reserve System. The Company owns a wholly-owned state chartered bank subsidiary – Bank of the Ozarks (the “Bank”), 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”) (collectively, the “Ozark Trusts”), 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 “Intervest Trusts”; and together with Ozark Trusts, the “Trusts”) and, indirectly through the Bank, a subsidiary engaged in the development of real estate, a subsidiary that owns private aircraft and various other entities that hold foreclosed assets or tax credits or engage in other activities. The Company and Bank are subject to the regulation of certain federal and state agencies and undergo periodic examinations by those regulatory authorities. The consolidated financial statements include the accounts of the Company, the Bank, the real estate subsidiary, the aircraft subsidiary and certain of those various other entities in accordance with accounting principles generally accepted in the United States (“GAAP”). Significant intercompany transactions and amounts have been eliminated in consolidation.

At June 30, 2015, the Company had 164 offices, including 80 in Arkansas, 28 in Georgia, 21 in Texas, 16 in North Carolina, 11 in Florida, three in Alabama, two offices each in South Carolina and New York and one office in California.

2. Basis of Presentation

The accompanying consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) in Article 10 of Regulation S-X and in accordance with the instructions to Form 10-Q and GAAP for interim financial information. Certain information, accounting policies and footnote disclosures normally included in complete financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. In the opinion of management, all adjustments considered necessary, consisting of normal recurring items, have been included for a fair presentation of the accompanying consolidated financial statements. Operating results for the three months or six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the full year or future periods.

Certain reclassifications of prior period amounts have been made to conform with the current period presentation. These reclassifications had no impact on previously reported net income.

During the fourth quarter of 2014, the Bank and the Federal Deposit Insurance Corporation (“FDIC”) entered into agreements terminating the loss share agreements for all seven of its FDIC-assisted acquisitions. As a result of entering these termination agreements, the Company reclassified its loans previously reported as covered by FDIC loss share to purchased loans for all periods presented, and it has reclassified all interest income on loans previously reported as covered by FDIC loss share to interest income on purchased loans for all periods presented.

During the second quarter of 2015, the Company revised its initial estimates and assumptions regarding the recovery of certain acquired loans and acquired deferred tax assets from its acquisition of Intervest Bancshares Corporation (“Intervest”). As a result, certain amounts previously reported in the Company’s consolidated financial statements have been recast.

3. Acquisitions

Intervest

On February 10, 2015, the Company completed its previously announced acquisition of Intervest and its wholly-owned bank subsidiary Intervest National Bank, for an aggregate of 6,637,243 shares of its common stock (plus cash in lieu of fractional shares) in a transaction valued at approximately \$238.5 million. The acquisition of Intervest provided the Company with a banking office in New York City and expanded its service area in Florida by adding five banking offices in Clearwater, Florida and one office in South Pasadena, Florida.

Table of Contents

During the second quarter of 2015, management revised its initial estimates and assumptions regarding the recovery of certain acquired loans and acquired deferred tax assets. Because such revision occurred during the first 12 months following the date of acquisition and was not the result of a change in circumstances, management has recast the first quarter 2015 consolidated financial statements to decrease the goodwill recorded in the Interest acquisition by \$2.7 million to reflect this change in estimate.

The following table provides a summary of the assets acquired and liabilities assumed as recorded by Intervest, the estimates of the fair value adjustments necessary to adjust those acquired assets and assumed liabilities to estimated fair value, the recast adjustment described above and the estimates of the resultant fair values of those assets and liabilities as recorded by the Company. As provided for under GAAP, management has up to 12 months following the date of acquisition to finalize the fair values of the 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"). The fair value adjustments and the resultant fair values shown in the following table continue to be evaluated by management and may be subject to further adjustment.

	February 10, 2015			As Recorded by the Company⁽¹⁾
	As Recorded by Intervest	Fair Value Adjustments⁽¹⁾	Recast Adjustment	
	(Dollars in thousands)			
Assets acquired:				
Cash, due from banks and interest earning deposits	\$ 274,343	\$ 0	\$ 0	\$ 274,343
Investment securities	21,495	321 a	0	21,816
Loans	1,108,439	(33,868) b	4,393	1,078,964
Allowance for loan losses	(25,208)	25,208 b	0	0
Premises and equipment	4,357	2,256 c	0	6,613
Foreclosed assets	2,350	(1,710) d	0	640
Accrued interest receivable and other assets	34,076	(4,091) e	(689)	29,296
Core deposit intangible asset	0	4,595 f	0	4,595
Deferred income taxes	11,758	8,082 g	(985)	18,855
Total assets acquired	<u>1,431,610</u>	<u>793</u>	<u>2,719</u>	<u>1,435,122</u>
Liabilities assumed:				
Deposits	1,162,437	22,211 h	0	1,184,648
Subordinated debentures	56,702	(4,463) i	0	52,239
Accrued interest payable and other liabilities	3,608	358 j	0	3,966
Total liabilities assumed	<u>1,222,747</u>	<u>18,106</u>	<u>0</u>	<u>1,240,853</u>
Net assets acquired	<u>\$ 208,863</u>	<u>\$ (17,313)</u>	<u>\$ 2,719</u>	194,269
Consideration paid:				
Cash in lieu of fractional shares				(7)
Stock				(238,476)
Total consideration paid				<u>(238,483)</u>
Goodwill				<u>\$ 44,214</u>

- (1) Management is continuing to evaluate each of these fair value adjustments and may revise one or more of such fair value adjustments in future periods. To the extent that any of these fair value adjustments are revised in future periods, the resultant fair values and the amount of goodwill may be subject to further adjustment.

Explanation of preliminary fair value adjustments

- a- Adjustment reflects the fair value adjustment based on the pricing of the acquired investment securities portfolio.
- b- Adjustment reflects the fair value adjustment based on the evaluation of the acquired loan portfolio and to eliminate the recorded allowance for loan losses.
- c- Adjustment reflects the fair value adjustment based on the evaluation of the premises and equipment acquired.
- d- Adjustment reflects the fair value adjustment based on the evaluation of the acquired foreclosed assets.
- e- Adjustment reflects the fair value adjustment based on the evaluation of accrued interest receivable and other assets.
- f- Adjustment reflects the fair value adjustment for the core deposit intangible asset recorded as a result of the acquisition.
- g- This adjustment reflects the differences in the carrying values of acquired assets and assumed liabilities for financial reporting purposes and their basis for federal income tax purposes.
- h- Adjustment reflects the fair value adjustment based on the evaluation of the acquired deposits.
- i- Adjustment reflects the fair value adjustment of these assumed liabilities based on a valuation of such instruments by an independent, third party valuation firm.
- j- Adjustment reflects the amount needed to adjust other liabilities to estimated fair value and to record certain liabilities directly attributable to the Interest acquisition.

Table of Contents

As a result of the recast adjustment described above, certain amounts previously reported in the Company's consolidated financial statements as of March 31, 2015 have been recast. The following is a summary of those financial statement captions that have been impacted by the recast adjustment.

	As Previously Reported	Recast Adjustment	As Recast
		(Dollars in thousands)	
Purchased loans	\$2,042,164	\$ 4,393	\$2,046,557
Net deferred tax asset	63,483	(985)	62,498
Goodwill	125,603	(2,719)	122,884
Income taxes receivable	689	(689)	0

Goodwill of \$44.2 million, which is the excess of the merger consideration over the fair value of net assets acquired, was recorded in the Interwest acquisition and is the result of expected operational synergies, expansion of full service banking in New York City and other factors. This goodwill is not expected to be deductible for tax purposes. To the extent that management further revises any of the above fair value adjustments as a result of its continuing evaluation, the amount of goodwill recorded in the Interwest acquisition may be subject to further adjustment.

The Company's consolidated results of operations include the operating results of Interwest beginning February 11, 2015 through the end of the reporting period. For the three months ended June 30, 2015, Interwest contributed \$14.9 million of net interest income and \$8.6 million of net income to the Company's operating results. For the six months ended June 30, 2015, Interwest contributed \$23.8 million of net interest income and \$13.5 million of net income to the Company's operating results.

The following unaudited supplemental pro forma information is presented to show the estimated results assuming Interwest was acquired as of the beginning of the earliest period presented, adjusted for estimated potential costs savings. These unaudited pro forma results are not necessarily indicative of the operating results that the Company would have achieved had it completed the acquisition as of January 1, 2014 or 2015 and should not be considered as representative of future operating results.

	Six Months Ended June 30,	
	2015	2014
	(Dollars in thousands, except per share amounts)	
Net interest income – pro forma (unaudited)	\$ 186,428	\$ 143,484
Net income – pro forma (unaudited)	\$ 88,745	\$ 62,949
Diluted earnings per common share – pro forma (unaudited)	\$ 1.01	\$ 0.76

Summit Bancorp, Inc.

On May 16, 2014, the Company completed the acquisition of Summit Bancorp, Inc. ("Summit") and Summit Bank, its wholly-owned bank subsidiary, for an aggregate of \$42.5 million in cash and 5,765,846 shares of its common stock. The acquisition of Summit expanded its service area in Central, South and Western Arkansas by adding 23 banking locations and one loan production office in nine Arkansas counties. During the second quarter of 2014, the Company closed one of the banking offices and the one loan production office acquired in the Summit acquisition. During the fourth quarter of 2014 and the second quarter of 2015, the Company closed eight additional banking offices, including six that were acquired from Summit, in markets where the Company had excess branches as a result of the Summit acquisition. Goodwill of \$73.4 million, which is the excess of the merger consideration over the fair value of net assets acquired, was recorded in the Summit acquisition and is the result of expected operational synergies and other factors. This goodwill is not expected to be deductible for tax purposes.

Bancshares, Inc.

On March 5, 2014, the Company completed its acquisition of Bancshares, Inc. ("Bancshares") and OMNIBANK, N.A., its wholly-owned bank subsidiary, for an aggregate of \$21.5 million in cash. The Company recognized a bargain purchase gain of \$4.7 million during the first quarter of 2014 as a result of the Bancshares acquisition. The acquisition of Bancshares expanded the Company's service area in South Texas by adding three offices in Houston and one office each in Austin, Cedar Park, Lockhart, and San Antonio.

4. Earnings Per Common Share ("EPS")

Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is 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 outstanding common stock options using the treasury stock method. No options to purchase shares of common stock for the three months ended June 30, 2015 and 2014 or the six

Table of Contents

months ended June 30, 2014 were excluded from the diluted EPS calculations as all options were dilutive. Options to purchase 531,500 shares of the Company's common stock at a weighted-average exercise price of \$40.34 were outstanding but not included in the computation of diluted EPS for the six months ended June 30, 2015 because the options exercise price was greater than the average market price of the common shares and inclusion would have been antidilutive.

The following table presents the computation of basic and diluted EPS for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
(In thousands, except per share amounts)				
Numerator:				
Distributed earnings allocated to common stockholders	\$11,713	\$ 8,497	\$22,126	\$16,606
Undistributed earnings allocated to common stockholders	<u>33,063</u>	<u>17,989</u>	<u>62,544</u>	<u>35,156</u>
Net income available to common stockholders	<u>\$44,776</u>	<u>\$26,486</u>	<u>\$84,670</u>	<u>\$51,762</u>
Denominator:				
Denominator for basic EPS – weighted-average common shares	86,786	76,743	85,251	75,281
Effect of dilutive securities – stock options	<u>729</u>	<u>723</u>	<u>750</u>	<u>700</u>
Denominator for diluted EPS – weighted-average common shares and assumed conversions	<u>87,515</u>	<u>77,466</u>	<u>86,001</u>	<u>75,981</u>
Basic EPS	<u>\$ 0.52</u>	<u>\$ 0.35</u>	<u>\$ 0.99</u>	<u>\$ 0.69</u>
Diluted EPS	<u>\$ 0.51</u>	<u>\$ 0.34</u>	<u>\$ 0.98</u>	<u>\$ 0.68</u>

5. Investment Securities

At June 30, 2015 and 2014 and at December 31, 2014, the Company classified all of its investment securities portfolio as AFS. Accordingly, investment securities are stated at estimated fair value in the consolidated financial statements with unrealized gains and losses, net of related income tax, reported as a separate component of stockholders' equity and included in accumulated other comprehensive income (loss).

The following table presents the amortized cost and estimated fair value of investment securities AFS as of the dates indicated. The Company's investment in the "CRA qualified investment fund" includes shares held in a mutual fund that qualifies under the Community Reinvestment Act of 1977 for community reinvestment purposes. The Company's holdings of equity securities in Federal Home Loan Bank of Dallas ("FHLB") and First National Banker's Bankshares, Inc. ("FNBB") do not have readily determinable fair values and are carried at cost.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(Dollars in thousands)				
June 30, 2015:				
Obligations of state and political subdivisions	\$ 496,777	\$ 11,768	\$ (1,630)	\$ 506,915
U.S. Government agency securities	257,849	4,627	(1,723)	260,753
Corporate obligations	3,574	0	0	3,574
CRA qualified investment fund	1,028	0	(8)	1,020
FHLB and FNBB equity securities	<u>10,015</u>	<u>0</u>	<u>0</u>	<u>10,015</u>
Total	<u>\$ 769,243</u>	<u>\$ 16,395</u>	<u>\$ (3,361)</u>	<u>\$ 782,277</u>
December 31, 2014:				
Obligations of state and political subdivisions	\$ 555,335	\$ 18,267	\$ (393)	\$ 573,209
U.S. Government agency securities	245,854	6,144	(765)	251,233
Corporate obligations	654	0	0	654
FHLB and FNBB equity securities	<u>14,225</u>	<u>0</u>	<u>0</u>	<u>14,225</u>
Total	<u>\$ 816,068</u>	<u>\$ 24,411</u>	<u>\$ (1,158)</u>	<u>\$ 839,321</u>
June 30, 2014:				
Obligations of state and political subdivisions	\$ 603,533	\$ 15,536	\$ (2,504)	\$ 616,565
U.S. Government agency securities	254,878	5,613	(2,180)	258,311
Corporate obligations	685	0	0	685
FHLB and FNBB equity securities	<u>16,568</u>	<u>0</u>	<u>0</u>	<u>16,568</u>
Total	<u>\$ 875,664</u>	<u>\$ 21,149</u>	<u>\$ (4,684)</u>	<u>\$ 892,129</u>

Table of Contents

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.

	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
(Dollars in thousands)						
June 30, 2015:						
Obligations of state and political subdivisions	\$ 104,621	\$ 1,532	\$ 7,515	\$ 98	\$ 112,136	\$ 1,630
U.S. Government agency securities	76,252	1,534	7,181	189	83,433	1,723
CRA qualified investment fund	1,020	8	0	0	1,020	8
Total temporarily impaired securities	<u>\$ 181,893</u>	<u>\$ 3,074</u>	<u>\$ 14,696</u>	<u>\$ 287</u>	<u>\$ 196,589</u>	<u>\$ 3,361</u>
December 31, 2014:						
Obligations of state and political subdivisions	\$ 29,174	\$ 75	\$ 34,414	\$ 318	\$ 63,588	\$ 393
U.S. Government agency securities	9,630	25	47,626	740	57,256	765
Total temporarily impaired securities	<u>\$ 38,804</u>	<u>\$ 100</u>	<u>\$ 82,040</u>	<u>\$ 1,058</u>	<u>\$ 120,844</u>	<u>\$ 1,158</u>
June 30, 2014:						
Obligations of state and political subdivisions	\$ 60,769	\$ 386	\$ 79,000	\$ 2,118	\$ 139,769	\$ 2,504
U.S. Government agency securities	15,227	67	58,608	2,113	73,835	2,180
Total temporarily impaired securities	<u>\$ 75,996</u>	<u>\$ 453</u>	<u>\$ 137,608</u>	<u>\$ 4,231</u>	<u>\$ 213,604</u>	<u>\$ 4,684</u>

In evaluating the Company's unrealized loss positions for other-than-temporary impairment of its investment securities portfolio, management considers the credit quality of the issuer, the nature and cause of the unrealized loss, the severity and duration of the impairments and other factors. At June 30, 2015 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. The Company does not have the intent to sell these investment securities with unrealized losses and, more likely than not, will 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 or estimated date of repayment as of the date indicated.

Maturity or Estimated Repayment	June 30, 2015	
	Amortized Cost	Estimated Fair Value
(Dollars in thousands)		
One year or less	\$ 36,133	\$ 36,619
After one year to five years	139,079	140,690
After five years to ten years	189,702	192,251
After ten years	404,329	412,717
Total	<u>\$ 769,243</u>	<u>\$ 782,277</u>

For purposes of this maturity distribution, all investment securities AFS are shown based on their contractual maturity date or estimated date of repayment, except (i) FHLB and FNBB equity securities and the CRA qualified investment fund with no contractual maturity date are shown in the longest maturity category and (ii) U.S. Government agency securities and municipal housing authority securities backed by residential mortgages 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 the measurement date. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Table of Contents

The following table is a summary of sales activities in the Company's investment securities AFS for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Sales proceeds	<u>\$2,660</u>	<u>\$47,170</u>	<u>\$32,777</u>	<u>\$48,394</u>
Gross realized gains	\$ 85	\$ 18	\$ 2,619	\$ 23
Gross realized losses	<u>0</u>	<u>0</u>	<u>(1)</u>	<u>0</u>
Net gains on investment securities	<u>\$ 85</u>	<u>\$ 18</u>	<u>\$ 2,618</u>	<u>\$ 23</u>

6. Allowance for Loan and Lease Losses (“ALLL”) and Credit Quality Indicators

Allowance for Loan and Lease Losses

The following table is a summary of activity within the ALLL for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Beginning balance	\$54,147	\$43,861	\$52,918	\$42,945
Non-purchased loans and leases charged off	(1,496)	(1,650)	(5,575)	(2,569)
Recoveries of non-purchased loans and leases previously charged off	198	247	506	982
Net non-purchased loans and leases charged off	(1,298)	(1,403)	(5,069)	(1,587)
Purchased loans charged off, net	<u>(408)</u>	<u>(1,082)</u>	<u>(1,723)</u>	<u>(1,287)</u>
Net charge-offs – total loans and leases	(1,706)	(2,485)	(6,792)	(2,874)
Provision for loan and lease losses:				
Non-purchased loans and leases	3,900	4,500	8,900	5,600
Purchased loans	<u>408</u>	<u>1,082</u>	<u>1,723</u>	<u>1,287</u>
Total provision	<u>4,308</u>	<u>5,582</u>	<u>10,623</u>	<u>6,887</u>
Ending balance	<u>\$56,749</u>	<u>\$46,958</u>	<u>\$56,749</u>	<u>\$46,958</u>

As of June 30, 2015, the Company had identified purchased loans where it had determined it was probable that the Company 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 its 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, the Company recorded partial charge-offs totaling \$0.4 million and \$1.1 million during the second quarter of 2015 and 2014, respectively, and \$1.7 million and \$1.3 million during the first six months of 2015 and 2014, respectively. The Company also recorded provision for loan and lease losses of \$0.4 million and \$1.1 million during the second quarter of 2015 and 2014, respectively, and \$1.7 million and \$1.3 million during the first six months of 2015 and 2014, respectively. At June 30, 2015, the Company had \$12.3 million of impaired purchased loans compared to \$21.2 million at June 30, 2014 and \$14.0 million at December 31, 2014.

Table of Contents

The following tables are a summary of the Company's ALLL for the periods indicated.

	<u>Beginning Balance</u>	<u>Charge-offs</u>	<u>Recoveries</u>	<u>Provision</u>	<u>Ending Balance</u>
	(Dollars in thousands)				
Three months ended June 30, 2015:					
Real estate:					
Residential 1-4 family	\$ 5,657	\$ (92)	\$ 10	\$ 26	\$ 5,601
Non-farm/non-residential	17,766	(119)	5	580	18,232
Construction/land development	17,580	(469)	0	2,037	19,148
Agricultural	2,526	0	0	(66)	2,460
Multifamily residential	2,423	(208)	0	671	2,886
Commercial and industrial	3,301	(93)	23	18	3,249
Consumer	824	(24)	21	4	825
Direct financing leases	3,258	(155)	7	444	3,554
Other	812	(336)	132	186	794
Purchased loans	0	(408)	0	408	0
Total	<u>\$ 54,147</u>	<u>\$ (1,904)</u>	<u>\$ 198</u>	<u>\$ 4,308</u>	<u>\$ 56,749</u>

Six months ended June 30, 2015:

Real estate:					
Residential 1-4 family	\$ 5,482	\$ (621)	\$ 21	\$ 719	\$ 5,601
Non-farm/non-residential	17,190	(324)	17	1,349	18,232
Construction/land development	15,960	(771)	37	3,922	19,148
Agricultural	2,558	(13)	0	(85)	2,460
Multifamily residential	2,147	(208)	0	947	2,886
Commercial and industrial	4,873	(2,540)	39	877	3,249
Consumer	818	(69)	42	34	825
Direct financing leases	2,989	(341)	13	893	3,554
Other	901	(688)	337	244	794
Purchased loans	0	(1,723)	0	1,723	0
Total	<u>\$ 52,918</u>	<u>\$ (7,298)</u>	<u>\$ 506</u>	<u>\$ 10,623</u>	<u>\$ 56,749</u>

Year ended December 31, 2014:

Real estate:					
Residential 1-4 family	\$ 4,701	\$ (577)	\$ 135	\$ 1,223	\$ 5,482
Non-farm/non-residential	13,633	(1,357)	33	4,881	17,190
Construction/land development	12,306	(638)	11	4,281	15,960
Agricultural	3,000	(214)	14	(242)	2,558
Multifamily residential	2,504	0	0	(357)	2,147
Commercial and industrial	2,855	(720)	808	1,930	4,873
Consumer	917	(222)	80	43	818
Direct financing leases	2,266	(602)	49	1,276	2,989
Other	763	(793)	266	665	901
Purchased loans	0	(3,215)	0	3,215	0
Total	<u>\$ 42,945</u>	<u>\$ (8,338)</u>	<u>\$ 1,396</u>	<u>\$ 16,915</u>	<u>\$ 52,918</u>

Table of Contents

	<u>Beginning Balance</u>	<u>Charge-offs</u>	<u>Recoveries</u>	<u>Provision</u>	<u>Ending Balance</u>
	(Dollars in thousands)				
Three months ended June 30, 2014:					
Real estate:					
Residential 1-4 family	\$ 4,622	\$ (142)	\$ 49	\$ 231	\$ 4,760
Non-farm/non-residential	14,013	(1,181)	1	2,003	14,836
Construction/land development	12,828	(14)	0	2,650	15,464
Agricultural	3,018	0	6	(116)	2,908
Multifamily residential	2,429	0	0	(657)	1,772
Commercial and industrial	2,738	(48)	135	23	2,848
Consumer	831	(56)	18	133	926
Direct financing leases	2,438	(121)	8	247	2,572
Other	944	(88)	30	(14)	872
Purchased loans	0	(1,082)	0	1,082	0
Total	<u>\$ 43,861</u>	<u>\$ (2,732)</u>	<u>\$ 247</u>	<u>\$ 5,582</u>	<u>\$ 46,958</u>

Six months ended June 30, 2014:

Real estate:					
Residential 1-4 family	\$ 4,701	\$ (341)	\$ 71	\$ 329	\$ 4,760
Non-farm/non-residential	13,633	(1,254)	4	2,453	14,836
Construction/land development	12,306	(14)	8	3,164	15,464
Agricultural	3,000	(15)	11	(88)	2,908
Multifamily residential	2,504	0	0	(732)	1,772
Commercial and industrial	2,855	(422)	763	(348)	2,848
Consumer	917	(97)	36	70	926
Direct financing leases	2,266	(267)	14	559	2,572
Other	763	(159)	75	193	872
Purchased loans	0	(1,287)	0	1,287	0
Total	<u>\$ 42,945</u>	<u>\$ (3,856)</u>	<u>\$ 982</u>	<u>\$ 6,887</u>	<u>\$ 46,958</u>

Table of Contents

The following table is a summary of the Company's ALLL and recorded investment in non-purchased loans and leases as of the dates indicated.

	ALLL			Non-Purchased Loans and Leases		
	ALLL for Individually Evaluated Impaired Loans and Leases	ALLL for All Other Loans and Leases	Total ALLL	Individually Evaluated Impaired Loans and Leases	All Other Loans and Leases	Total Loans and Leases
(Dollars in thousands)						
June 30, 2015:						
Real estate:						
Residential 1-4 family	\$ 345	\$ 5,256	\$ 5,601	\$ 1,908	\$ 316,328	\$ 318,236
Non-farm/non-residential	3	18,229	18,232	809	1,687,994	1,688,803
Construction/land development	49	19,099	19,148	9,065	1,890,960	1,900,025
Agricultural	470	1,990	2,460	1,450	49,333	50,783
Multifamily residential	0	2,886	2,886	345	296,529	296,874
Commercial and industrial	487	2,762	3,249	547	259,073	259,620
Consumer	3	822	825	33	25,499	25,532
Direct financing leases	0	3,554	3,554	0	137,146	137,146
Other	0	794	794	7	90,097	90,104
Total	<u>\$ 1,357</u>	<u>\$ 55,392</u>	<u>\$56,749</u>	<u>\$ 14,164</u>	<u>\$4,752,959</u>	<u>\$ 4,767,123</u>
December 31, 2014:						
Real estate:						
Residential 1-4 family	\$ 356	\$ 5,126	\$ 5,482	\$ 2,734	\$ 280,519	\$ 283,253
Non-farm/non-residential	18	17,172	17,190	2,507	1,501,034	1,503,541
Construction/land development	68	15,892	15,960	14,304	1,397,534	1,411,838
Agricultural	6	2,552	2,558	365	46,870	47,235
Multifamily residential	0	2,147	2,147	0	211,156	211,156
Commercial and industrial	644	4,229	4,873	623	287,084	287,707
Consumer	3	815	818	34	25,635	25,669
Direct financing leases	0	2,989	2,989	0	115,475	115,475
Other	0	901	901	8	93,988	93,996
Total	<u>\$ 1,095</u>	<u>\$ 51,823</u>	<u>\$52,918</u>	<u>\$ 20,575</u>	<u>\$3,959,295</u>	<u>\$ 3,979,870</u>
June 30, 2014:						
Real estate:						
Residential 1-4 family	\$ 411	\$ 4,349	\$ 4,760	\$ 3,245	\$ 263,252	\$ 266,497
Non-farm/non-residential	13	14,823	14,836	2,363	1,287,811	1,290,174
Construction/land development	2	15,462	15,464	9,738	1,039,420	1,049,158
Agricultural	200	2,708	2,908	845	44,696	45,541
Multifamily residential	0	1,772	1,772	491	136,462	136,953
Commercial and industrial	553	2,295	2,848	689	166,195	166,884
Consumer	3	923	926	42	28,632	28,674
Direct financing leases	0	2,572	2,572	0	98,768	98,768
Other	0	872	872	9	88,927	88,936
Total	<u>\$ 1,182</u>	<u>\$ 45,776</u>	<u>\$46,958</u>	<u>\$ 17,422</u>	<u>\$3,154,163</u>	<u>\$ 3,171,585</u>

Table of Contents

The following table is a summary of impaired non-purchased loans and leases as of and for the three months and six months ended June 30, 2015.

	<u>Principal Balance</u>	<u>Net Charge-offs to Date</u>	<u>Principal Balance, Net of Charge-offs</u>	<u>Specific ALLL</u>	<u>Weighted Average Carrying Value – Three Months Ended June 30, 2015</u>	<u>Weighted Average Carrying Value – Six Months Ended June 30, 2015</u>
(Dollars in thousands)						
Impaired loans and leases for which there is a related ALLL:						
Real estate:						
Residential 1-4 family	\$ 3,147	\$ (1,859)	\$ 1,288	\$ 345	\$ 1,299	\$ 1,362
Non-farm/non-residential	145	(142)	3	3	22	196
Construction/land development	115	0	115	49	66	1,414
Agricultural	1,148	0	1,148	470	574	413
Commercial and industrial	672	(185)	487	487	244	343
Consumer	40	(23)	17	3	18	18
Total impaired loans and leases with a related ALLL	<u>5,267</u>	<u>(2,209)</u>	<u>3,058</u>	<u>1,357</u>	<u>2,223</u>	<u>3,746</u>
Impaired loans and leases for which there is not a related ALLL:						
Real estate:						
Residential 1-4 family	731	(111)	620	0	910	1,022
Non-farm/non-residential	999	(193)	806	0	651	1,089
Construction/land development	9,440	(490)	8,950	0	9,174	9,514
Agricultural	518	(215)	303	0	304	293
Multifamily residential	686	(341)	345	0	173	115
Commercial and industrial	158	(98)	60	0	95	90
Consumer	19	(5)	14	0	15	15
Other	8	0	8	0	8	8
Total impaired loans and leases without a related ALLL	<u>12,559</u>	<u>(1,453)</u>	<u>11,106</u>	<u>0</u>	<u>11,330</u>	<u>12,146</u>
Total impaired loans and leases	<u>\$ 17,826</u>	<u>\$ (3,662)</u>	<u>\$ 14,164</u>	<u>\$ 1,357</u>	<u>\$ 13,553</u>	<u>\$ 15,892</u>

Table of Contents

The following table is a summary of impaired non-purchased loans and leases as of and for the year ended December 31, 2014.

	<u>Principal Balance</u>	<u>Net Charge-offs to Date</u>	<u>Principal Balance, Net of Charge-offs</u>	<u>Specific ALLL</u>	<u>Weighted Average Carrying Value – Year Ended December 31, 2014</u>
	(Dollars in thousands)				
Impaired loans and leases for which there is a related ALLL:					
Real estate:					
Residential 1-4 family	\$ 3,163	\$ (1,674)	\$ 1,489	\$ 356	\$ 1,457
Non-farm/non-residential	762	(220)	542	18	211
Construction/land development	4,656	(545)	4,111	68	1,040
Agricultural	105	(12)	93	6	217
Commercial and industrial	1,233	(691)	542	644	554
Consumer	41	(23)	18	3	20
Total impaired loans and leases with a related ALLL	<u>9,960</u>	<u>(3,165)</u>	<u>6,795</u>	<u>1,095</u>	<u>3,499</u>
Impaired loans and leases for which there is not a related ALLL:					
Real estate:					
Residential 1-4 family	1,373	(128)	1,245	0	1,581
Non-farm/non-residential	2,676	(711)	1,965	0	1,988
Construction/land development	10,378	(185)	10,193	0	7,600
Agricultural	474	(202)	272	0	383
Multifamily residential	133	(133)	0	0	123
Commercial and industrial	264	(183)	81	0	75
Consumer	81	(65)	16	0	18
Other	8	0	8	0	8
Total impaired loans and leases without a related ALLL	<u>15,387</u>	<u>(1,607)</u>	<u>13,780</u>	<u>0</u>	<u>11,776</u>
Total impaired loans and leases	<u>\$ 25,347</u>	<u>\$ (4,772)</u>	<u>\$ 20,575</u>	<u>\$ 1,095</u>	<u>\$ 15,275</u>

Table of Contents

The following table is a summary of impaired non-purchased loans and leases as of and for the three months and six months ended June 30, 2014.

	<u>Principal Balance</u>	<u>Net Charge-offs to Date</u>	<u>Principal Balance, Net of Charge-offs</u>	<u>Specific ALLL</u>	<u>Weighted Average Carrying Value – Three Months Ended June 30, 2014</u>	<u>Weighted Average Carrying Value – Six Months Ended June 30, 2014</u>
(Dollars in thousands)						
Impaired loans and leases for which there is a related ALLL:						
Real estate:						
Residential 1-4 family	\$ 3,294	\$ (1,721)	\$ 1,573	\$ 411	\$ 1,505	\$ 1,642
Non-farm/non-residential	186	(142)	44	13	52	50
Construction/land development	38	(22)	16	2	16	16
Agricultural	336	(12)	324	200	336	380
Commercial and industrial	838	(278)	560	553	562	579
Consumer	102	(79)	23	3	23	23
Other	0	0	0	0	0	5
Total impaired loans and leases with a related ALLL	<u>4,794</u>	<u>(2,254)</u>	<u>2,540</u>	<u>1,182</u>	<u>2,494</u>	<u>2,695</u>
Impaired loans and leases for which there is not a related ALLL:						
Real estate:						
Residential 1-4 family	2,094	(421)	1,673	0	2,023	2,059
Non-farm/non-residential	3,444	(1,125)	2,319	0	1,942	1,999
Construction/land development	9,803	(81)	9,722	0	5,015	3,417
Agricultural	554	(33)	521	0	494	468
Multifamily residential	624	(133)	491	0	246	164
Commercial and industrial	288	(159)	129	0	95	88
Consumer	33	(14)	19	0	22	24
Other	8	0	8	0	9	9
Total impaired loans and leases without a related ALLL	<u>16,848</u>	<u>(1,966)</u>	<u>14,882</u>	<u>0</u>	<u>9,846</u>	<u>8,228</u>
Total impaired loans and leases	<u>\$ 21,642</u>	<u>\$ (4,220)</u>	<u>\$ 17,422</u>	<u>\$ 1,182</u>	<u>\$ 12,340</u>	<u>\$ 10,923</u>

Management has determined that certain of the Company's impaired non-purchased loans and leases do not require any specific allowance at June 30, 2015 and 2014 or at December 31, 2014 because (i) management's analysis of such individual loans and leases resulted in no impairment or (ii) all identified impairment on such loans and leases has previously been charged off.

Interest income on impaired non-purchased loans and leases is recognized on a cash basis when and if actually collected. Total interest income recognized on impaired non-purchased loans and leases for the three months and six months ended June 30, 2015 and 2014 and for the year ended December 31, 2014 was not material.

Table of Contents

Credit Quality Indicators

Non-Purchased Loans and Leases

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

	<u>Satisfactory</u>	<u>Moderate</u>	<u>Watch</u>	<u>Substandard</u>	<u>Total</u>
	(Dollars in thousands)				
June 30, 2015:					
Real estate:					
Residential 1-4 family ⁽¹⁾	\$ 308,914	\$ 0	\$ 3,830	\$ 5,492	\$ 318,236
Non-farm/non-residential	1,442,958	169,776	67,722	8,347	1,688,803
Construction/land development	1,653,991	223,812	10,207	12,015	1,900,025
Agricultural	24,997	14,457	9,088	2,241	50,783
Multifamily residential	252,433	40,802	1,646	1,993	296,874
Commercial and industrial	185,737	70,305	2,092	1,486	259,620
Consumer ⁽¹⁾	25,022	0	214	296	25,532
Direct financing leases	136,605	297	100	144	137,146
Other ⁽¹⁾	84,271	5,648	93	92	90,104
Total	<u>\$ 4,114,928</u>	<u>\$ 525,097</u>	<u>\$94,992</u>	<u>\$ 32,106</u>	<u>\$4,767,123</u>
December 31, 2014:					
Real estate:					
Residential 1-4 family ⁽¹⁾	\$ 271,576	\$ 0	\$ 4,082	\$ 7,595	\$ 283,253
Non-farm/non-residential	1,300,582	142,688	53,863	6,408	1,503,541
Construction/land development	1,190,005	192,046	11,135	18,652	1,411,838
Agricultural	22,446	12,375	10,226	2,188	47,235
Multifamily residential	171,806	37,886	713	751	211,156
Commercial and industrial	208,054	59,967	18,310	1,376	287,707
Consumer ⁽¹⁾	25,267	0	141	261	25,669
Direct financing leases	114,586	715	117	57	115,475
Other ⁽¹⁾	89,364	4,312	286	34	93,996
Total	<u>\$ 3,393,686</u>	<u>\$ 449,989</u>	<u>\$98,873</u>	<u>\$ 37,322</u>	<u>\$3,979,870</u>
June 30, 2014:					
Real estate:					
Residential 1-4 family ⁽¹⁾	\$ 258,098	\$ 0	\$ 2,620	\$ 5,779	\$ 266,497
Non-farm/non-residential	1,090,525	139,080	53,478	7,091	1,290,174
Construction/land development	846,365	176,977	12,078	13,738	1,049,158
Agricultural	22,766	9,785	10,388	2,602	45,541
Multifamily residential	105,366	29,954	385	1,248	136,953
Commercial and industrial	127,935	35,769	1,768	1,412	166,884
Consumer ⁽¹⁾	28,244	0	132	298	28,674
Direct financing leases	97,967	727	34	40	98,768
Other ⁽¹⁾	85,684	3,036	189	27	88,936
Total	<u>\$ 2,662,950</u>	<u>\$ 395,328</u>	<u>\$81,072</u>	<u>\$ 32,235</u>	<u>\$3,171,585</u>

- (1) The Company does not risk rate its residential 1-4 family loans, its consumer loans, and certain "other" loans. However, for purposes of the above table, the Company 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 Company.

Satisfactory – Loans and leases in this category are considered to be a satisfactory credit risk and are generally considered to be collectible in full.

Moderate – Loans and leases in this category are considered to be a marginally satisfactory credit risk and are generally considered to be collectible in full.

Watch – Loans and leases 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 and leases in this category are characterized by deterioration in quality exhibited by a number of weaknesses requiring corrective action and posing risk of some loss.

Table of Contents

The following table is an aging analysis of past due non-purchased loans and leases as of the dates indicated.

	<u>30-89 Days Past Due (1)</u>	<u>90 Days or More (2)</u>	<u>Total Past Due</u>	<u>Current (3)</u>	<u>Total</u>
	(Dollars in thousands)				
June 30, 2015:					
Real estate:					
Residential 1-4 family	\$ 4,642	\$ 1,031	\$ 5,673	\$ 312,563	\$ 318,236
Non-farm/non-residential	2,672	1,180	3,852	1,684,951	1,688,803
Construction/land development	906	9,119	10,025	1,890,000	1,900,025
Agricultural	516	1,426	1,942	48,841	50,783
Multifamily residential	1,042	0	1,042	295,832	296,874
Commercial and industrial	737	115	852	258,768	259,620
Consumer	225	35	260	25,272	25,532
Direct financing leases	140	106	246	136,900	137,146
Other	98	85	183	89,921	90,104
Total	<u>\$ 10,978</u>	<u>\$ 13,097</u>	<u>\$ 24,075</u>	<u>\$ 4,743,048</u>	<u>\$ 4,767,123</u>
December 31, 2014:					
Real estate:					
Residential 1-4 family	\$ 6,352	\$ 1,536	\$ 7,888	\$ 275,365	\$ 283,253
Non-farm/non-residential	2,708	1,445	4,153	1,499,388	1,503,541
Construction/land development	3,520	12,881	16,401	1,395,437	1,411,838
Agricultural	1,680	304	1,984	45,251	47,235
Multifamily residential	0	0	0	211,156	211,156
Commercial and industrial	586	94	680	287,027	287,707
Consumer	161	55	216	25,453	25,669
Direct financing leases	39	54	93	115,382	115,475
Other	58	12	70	93,926	93,996
Total	<u>\$ 15,104</u>	<u>\$ 16,381</u>	<u>\$ 31,485</u>	<u>\$ 3,948,385</u>	<u>\$ 3,979,870</u>
June 30, 2014:					
Real estate:					
Residential 1-4 family	\$ 2,890	\$ 1,521	\$ 4,411	\$ 262,086	\$ 266,497
Non-farm/non-residential	1,714	1,693	3,407	1,286,767	1,290,174
Construction/land development	49	10,060	10,109	1,039,049	1,049,158
Agricultural	269	436	705	44,836	45,541
Multifamily residential	491	0	491	136,462	136,953
Commercial and industrial	674	0	674	166,210	166,884
Consumer	139	54	193	28,481	28,674
Direct financing leases	10	30	40	98,728	98,768
Other	0	0	0	88,936	88,936
Total	<u>\$ 6,236</u>	<u>\$ 13,794</u>	<u>\$ 20,030</u>	<u>\$ 3,151,555</u>	<u>\$ 3,171,585</u>

- (1) Includes \$0.7 million, \$0.9 million and \$1.8 million at June 30, 2015, December 31, 2014 and June 30, 2014, respectively, of loans and leases on nonaccrual status.
- (2) All loans and leases greater than 90 days past due were on nonaccrual status at June 30, 2015 and 2014 and December 31, 2014.
- (3) Includes \$2.5 million, \$0.4 million and \$2.8 million of loans and leases on nonaccrual status at June 30, 2015, December 31, 2014 and June 30, 2014, respectively.

Table of Contents

Purchased Loans

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

	Purchased Loans Without Evidence of Credit Deterioration at Acquisition					Purchased Loans With Evidence of Credit Deterioration at Acquisition		Total Purchased Loans
	FV 33	FV 44	FV 55	FV 36	FV 77	FV 66	FV 88	
	(Dollars in thousands)							
June 30, 2015:								
Real estate:								
Residential 1-4 family	\$ 61,886	\$ 88,824	\$ 30,228	\$ 58,905	\$ 83	\$ 85,917	\$ 1,888	\$ 327,731
Non-farm/non-residential	209,433	702,962	119,491	3,780	255	119,406	6,778	1,162,105
Construction/land development	18,084	9,638	3,397	8,724	0	19,420	2,695	61,958
Agricultural	6,903	13,465	1,901	865	108	6,377	0	29,619
Multifamily residential	23,260	117,586	25,968	706	65	12,555	0	180,140
Total real estate	319,566	932,475	180,985	72,980	511	243,675	11,361	1,761,553
Commercial and industrial	10,126	17,812	4,316	5,722	20	8,179	449	46,624
Consumer	793	261	213	7,775	2	310	4	9,358
Other	4,247	3,558	288	462	0	758	0	9,313
Total	<u>\$334,732</u>	<u>\$954,106</u>	<u>\$185,802</u>	<u>\$ 86,939</u>	<u>\$ 533</u>	<u>\$252,922</u>	<u>\$11,814</u>	<u>\$1,826,848</u>
December 31, 2014:								
Real estate:								
Residential 1-4 family	\$ 73,196	\$ 81,840	\$ 30,180	\$ 71,687	\$ 151	\$ 96,752	\$ 1,899	\$ 355,705
Non-farm/non-residential	166,754	180,522	32,157	4,906	505	114,217	5,828	504,889
Construction/land development	21,803	26,858	4,312	13,708	0	28,497	4,598	99,776
Agricultural	10,444	25,187	2,409	1,525	0	8,331	92	47,988
Multifamily residential	22,731	11,646	1,971	884	67	4,823	312	42,434
Total real estate	294,928	326,053	71,029	92,710	723	252,620	12,729	1,050,792
Commercial and industrial	20,340	23,048	4,900	10,659	22	9,297	559	68,825
Consumer	1,605	272	420	12,538	3	426	4	15,268
Other	4,845	5,830	597	945	0	845	0	13,062
Total	<u>\$321,718</u>	<u>\$355,203</u>	<u>\$ 76,946</u>	<u>\$116,852</u>	<u>\$ 748</u>	<u>\$263,188</u>	<u>\$13,292</u>	<u>\$1,147,947</u>
June 30, 2014:								
Real estate:								
Residential 1-4 family	\$ 81,102	\$ 84,839	\$ 32,286	\$ 79,449	\$ 10	\$111,106	\$ 2,306	\$ 391,098
Non-farm/non-residential	211,896	198,937	40,193	3,704	0	148,491	10,249	613,470
Construction/land development	32,850	37,840	12,447	10,878	9	36,031	6,032	136,087
Agricultural	15,058	29,337	3,185	1,744	0	10,984	323	60,631
Multifamily residential	10,505	13,418	7,453	1,030	67	8,754	1,090	42,317
Total real estate	351,411	364,371	95,564	96,805	86	315,366	20,000	1,243,603
Commercial and industrial	27,269	49,175	9,702	14,637	0	11,371	1,119	113,273
Consumer	3,215	1,165	670	20,204	0	615	0	25,869
Other	5,762	9,292	935	4,391	0	944	0	21,324
Total	<u>\$387,657</u>	<u>\$424,003</u>	<u>\$106,871</u>	<u>\$136,037</u>	<u>\$ 86</u>	<u>\$328,296</u>	<u>\$21,119</u>	<u>\$1,404,069</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 minimal to 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 aggregate 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.

Table of Contents

FV 66 – Loans in this category are performing in accordance with or exceeding management’s performance expectations established in conjunction with the determination of 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.

The Company had no allowance at June 30, 2015 and 2014 or December 31, 2014 for its (i) purchased loans without evidence of credit deterioration at the date of acquisition as management’s analysis of such individual loans resulted in no impairment or all identified impairment on such loans had been charged off, or (ii) purchased loans with evidence of credit deterioration at the date of acquisition as all such loans were performing in accordance with management’s expectations established in conjunction with the determination of the Day 1 Fair Values or all losses had been charged off on such loans whose performance had deteriorated from management’s expectations established in conjunction with the determination of the Day 1 Fair Values.

The following table is an aging analysis of past due purchased loans as of the dates indicated.

	<u>30-89 Days Past Due</u>	<u>90 Days or More</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Purchased Loans</u>
	(Dollars in thousands)				
June 30, 2015:					
Real estate:					
Residential 1-4 family	\$ 6,476	\$ 5,975	\$12,451	\$ 315,280	\$ 327,731
Non-farm/non-residential	16,737	9,191	25,928	1,136,177	1,162,105
Construction/land development	1,045	2,715	3,760	58,198	61,958
Agriculture	291	166	457	29,162	29,619
Multifamily residential	408	709	1,117	179,023	180,140
Commercial and industrial	936	611	1,547	45,077	46,624
Consumer	111	68	179	9,179	9,358
Other	40	11	51	9,262	9,313
Total	<u>\$ 26,044</u>	<u>\$19,446</u>	<u>\$45,490</u>	<u>\$1,781,358</u>	<u>\$1,826,848</u>
December 31, 2014:					
Real estate:					
Residential 1-4 family	\$ 8,088	\$ 9,043	\$17,131	\$ 338,574	\$ 355,705
Non-farm/non-residential	8,907	12,439	21,346	483,543	504,889
Construction/land development	1,197	5,464	6,661	93,115	99,776
Agriculture	237	875	1,112	46,876	47,988
Multifamily residential	515	67	582	41,852	42,434
Commercial and industrial	863	751	1,614	67,211	68,825
Consumer	199	103	302	14,966	15,268
Other	0	31	31	13,031	13,062
Total	<u>\$ 20,006</u>	<u>\$28,773</u>	<u>\$48,779</u>	<u>\$1,099,168</u>	<u>\$1,147,947</u>
June 30, 2014:					
Real estate:					
Residential 1-4 family	\$ 10,866	\$14,074	\$24,940	\$ 366,158	\$ 391,098
Non-farm/non-residential	4,929	25,570	30,499	582,971	613,470
Construction/land development	1,146	9,766	10,912	125,175	136,087
Agriculture	165	2,260	2,425	58,206	60,631
Multifamily residential	0	2,594	2,594	39,723	42,317
Commercial and industrial	392	1,733	2,125	111,148	113,273
Consumer	170	183	353	25,516	25,869
Other	16	19	35	21,289	21,324
Total	<u>\$ 17,684</u>	<u>\$56,199</u>	<u>\$73,883</u>	<u>\$1,330,186</u>	<u>\$1,404,069</u>

Table of Contents

At June 30, 2015 and 2014 and December 31, 2014, a portion of the Company's purchased loans with evidence of credit deterioration at the date of acquisition were past due, including many that were 90 days or more past due. Such delinquencies were included in the Company's performance expectations in determining the Day 1 Fair Values. Additionally, in accordance with GAAP, the Company continues to accrete into earnings income on such loans.

7. Income Taxes

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

	<u>June 30,</u>		<u>December 31,</u>
	<u>2015</u>	<u>2014</u>	<u>2014</u>
	(Dollars in thousands)		
Deferred tax assets:			
Allowance for loan and lease losses	\$21,617	\$18,116	\$ 20,324
Differences in amounts reflected in the financial statements and income tax basis of purchased loans not previously covered by FDIC loss share agreements	28,605	26,024	20,444
Differences in amounts reflected in the financial statements and income tax basis for deposits assumed in acquisitions	7,703	2,405	1,337
Stock-based compensation	4,477	3,364	3,268
Deferred compensation	2,092	1,890	1,991
Foreclosed assets	3,111	5,624	3,503
Deferred fees and costs on loans and leases	6,405	2,059	4,785
Differences in amounts reflected in the financial statements and income tax basis of assets acquired and liabilities assumed in FDIC-assisted acquisitions	8,032	7,397	8,098
Acquired net operating losses	13,456	13,662	13,332
Other, net	1,949	1,486	2,568
Total gross deferred tax assets	97,447	82,027	79,650
Less valuation allowance	(474)	(474)	(474)
Net deferred tax asset	96,973	81,553	79,176
Deferred tax liabilities:			
Accelerated depreciation on premises and equipment	18,921	18,028	18,653
Investment securities AFS	3,798	5,022	7,692
Acquired intangible assets	10,407	10,847	9,743
Total gross deferred tax liabilities	33,126	33,897	36,088
Net deferred tax assets	\$63,847	\$47,656	\$ 43,088

Net operating losses were acquired in the Bancshares, Summit and Interwest acquisitions and the Company's 2013 acquisition of The First National Bank of Shelby ("FNB Shelby"). The net operating losses from the Bancshares transaction total \$15.7 million at June 30, 2015 and will expire at various dates from 2030 through 2034. The net operating losses acquired from the Summit transaction were utilized during 2014. The net operating losses acquired in the Interwest transaction totaled \$6.3 million at June 30, 2015 and will expire at various dates from 2030 through 2035. The net operating losses from the FNB Shelby transaction totaled \$20.0 million at June 30, 2015, of which \$12.5 million will expire in 2032 and \$7.5 million will expire in 2033.

At June 30, 2015 and 2014 and December 31, 2014, the Company had a deferred tax valuation allowance of approximately \$0.5 million to reflect its assessment that the realization of the benefits from the recovery of certain acquired net operating losses are expected to be subject to limitations under section 382 of the Internal Revenue Code.

To the extent that additional information becomes available regarding the settlement or recovery of acquired net operating loss carryforwards or assets with built-in losses acquired in any of the Company's previous acquisitions, management may be required to make adjustments to its deferred tax asset valuation allowance, which adjustments could affect goodwill or deferred income tax expense (benefit).

Table of Contents

8. Supplemental Data for Cash Flows

The following table provides supplemental cash flow information for the periods indicated.

	Six Months Ended	
	June 30,	
	2015	2014
	(Dollars in thousands)	
Cash paid during the period for:		
Interest	\$ 13,031	\$ 9,808
Taxes	34,024	17,690
Supplemental schedule of non-cash investing and financing activities:		
Net change in unrealized gains/losses on investment securities AFS	(10,218)	22,506
Loans and premises and equipment transferred to foreclosed assets	9,797	31,013
Loans advanced for sales of foreclosed assets	0	258
Unsettled AFS investment security purchases	4,453	1,465
Unsettled AFS investment security sales	0	1,815
Unsettled loan sales	14,361	0
Unsettled loan purchases	18,269	0
Common stock issued in merger and acquisition transactions	238,476	166,315

9. Guarantees and Commitments

Outstanding standby letters of credit are contingent commitments issued by the Company generally to guarantee the performance of a customer in third party arrangements. The maximum amount of future payments the Company could be required to make under these guarantees at June 30, 2015 was \$13.3 million. The Company holds collateral to support guarantees when deemed necessary. Collateralized commitments at June 30, 2015 totaled \$13.2 million.

At June 30, 2015, the Company had outstanding commitments to extend credit, excluding mortgage interest rate lock commitments, totaling \$4.0 billion. The following table shows the contractual maturities of outstanding commitments to extend credit as of the date indicated.

Contractual Maturities at	
June 30, 2015	
<u>Maturity</u>	<u>Amount</u>
	(Dollars in thousands)
2015	\$ 91,624
2016	358,317
2017	1,715,962
2018	1,356,777
2019	170,419
Thereafter	312,844
Total	<u>\$4,005,943</u>

Table of Contents

10. Subordinated Debentures

At June 30, 2015, the Company had the following issues of trust preferred securities and subordinated debentures owed to the Trusts.

	<u>Subordinated Debentures Owed to Trust</u>	<u>Unamortized Discount at June 30, 2015</u>	<u>Carrying Value of Subordinated Debentures at June 30, 2015</u>	<u>Trust Preferred Securities of the Trusts</u>	<u>Contractual Interest Rate at June 30, 2015</u>
			(Dollars in thousands)		
Ozark II	\$ 14,433	\$ 0	\$ 14,433	\$ 14,000	3.18%
Ozark III	14,434	0	14,434	14,000	3.24
Ozark IV	15,464	0	15,464	15,000	2.50
Ozark V	20,619	0	20,619	20,000	1.89
Intervest II	15,464	(678)	14,786	15,000	3.23
Intervest III	15,464	(785)	14,679	15,000	3.07
Intervest IV	15,464	(1,428)	14,036	15,000	2.68
Intervest V	10,310	(1,358)	8,952	10,000	1.94
	<u>\$ 121,652</u>	<u>\$ (4,249)</u>	<u>\$ 117,403</u>	<u>\$ 118,000</u>	

On February 10, 2015, in conjunction with the Intervest acquisition, the Company acquired the Intervest Trusts with outstanding subordinated debentures totaling \$56.7 million and related trust preferred securities totaling \$55.0 million. On the date of such acquisition, the Company recorded the assumed subordinated debentures owed to the Intervest Trusts 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 owed to the Intervest Trusts. In addition to the subordinated debentures of the Intervest Trusts, the Company also acquired \$1.7 million of trust common equity issued by the Intervest Trusts.

The trust preferred securities issued by Intervest Trust II and the related subordinated debentures bear interest, adjustable quarterly, at 90-day London Interbank Offered Rates ("LIBOR") plus 2.95% and contain a final maturity of September 17, 2033. The trust preferred securities issued by Intervest Trust III and the related subordinated debentures bear interest, adjustable quarterly, at 90-day LIBOR plus 2.79% and contain a final maturity of March 17, 2034. The trust preferred securities issued by Intervest Trust IV and the related subordinated debentures bear interest, adjustable quarterly, at 90-day LIBOR plus 2.40% and contain a final maturity of September 20, 2034. The trust preferred securities issued by Intervest Trust V and the related subordinated debentures bear interest, adjustable quarterly, at 90-day LIBOR plus 1.65% and contain a final maturity of December 15, 2036.

At June 30, 2015, the Company had an aggregate of \$121.7 million of subordinated debentures outstanding (with an aggregate carrying value of \$117.4 million) and had an asset of \$3.7 million representing its investment in the common equity issued by the Trusts. The sole assets of the Trusts are the adjustable rate debentures and the liabilities of the Trusts are the trust preferred securities. At June 30, 2015 and 2014, the Trusts had aggregate common equity of \$3.7 million and \$1.9 million, respectively, and did not have any restricted net assets. The Company 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 Company in the form of cash dividends, loans or advances. The Company 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.

11. Stock-Based Compensation

The Company has a nonqualified stock option plan for certain employees of the Company. This plan provides for the granting of nonqualified options to purchase shares of common stock in the Company. No option may be granted under this plan for less than the fair market value of the common stock, defined by the plan as the average of the highest reported asked price and the lowest reported bid price, on the date of the grant. The benefits or amounts that may be received by or allocated to any particular officer or employee of the Company under this plan will be determined in the sole discretion of the personnel and compensation committee of the Company's board of directors. While the vesting period and the termination date for the employee plan options are determined when options are granted, all such employee options outstanding at June 30, 2015 were issued with a vesting date three years after issuance and an expiration date seven years after issuance.

Table of Contents

During the second quarter of 2015, the Company adopted the Bank of the Ozarks, Inc. Non-Employee Director Stock Plan (the “Director Plan”) that provides for awards of common stock to eligible non-employee directors. The Director Plan grants to each director who is not otherwise an employee of the Company, or any subsidiary, shares of common stock on the day of his or her election as director of the Company at each annual shareholders meeting, or any special meeting called for the purpose of electing a director or directors of the Company, and upon appointment for the first time as director of the Company. The number of shares of common stock to be awarded will be the equivalent of \$25,000 worth of shares of common stock based on the average of the highest reported asked price and lowest reported bid price on the grant date. The common stock awarded under this plan is fully vested on the grant date. The aggregate number of shares of common stock which may be issued as awards under this plan will not exceed 50,000 shares, subject to certain adjustments. For the three months ended June 30, 2015, the Company issued 7,657 shares of common stock and incurred \$0.3 million in stock-based compensation expense related to common-stock awards issued under the Director Plan.

Prior to the adoption of the Director Plan, the Company had a nonqualified stock option plan for non-employee directors. No options were granted under this plan during the six months ended June 30, 2015. All options previously granted under this plan were exercisable immediately and expire ten years after issuance.

All shares issued in connection with options exercised under both the employee and non-employee director stock option plans were in the form of newly issued shares.

The following table summarizes stock option activity for both the employee and non-employee director stock option plans for the period indicated.

	<u>Options</u>	<u>Weighted-Average Exercise Price/Share</u>	<u>Weighted-Average Remaining Contractual Life (in years)</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
Six Months Ended June 30, 2015:				
Outstanding – January 1, 2015	1,859,350	\$ 23.49		
Granted	2,000	40.82		
Exercised	(99,050)	10.06		
Forfeited	(74,350)	26.13		
Outstanding – June 30, 2015	<u>1,687,950</u>	<u>24.18</u>	<u>5.3</u>	<u>\$ 36,400⁽¹⁾</u>
Fully vested and exercisable – June 30, 2015	315,550	<u>\$ 14.17</u>	<u>4.6</u>	<u>\$ 9,966⁽¹⁾</u>
Expected to vest in future periods	<u>1,248,680</u>			
Fully vested and expected to vest – June 30, 2015 ⁽²⁾	<u>1,564,230</u>	<u>\$ 23.58</u>	<u>5.2</u>	<u>\$ 34,676⁽¹⁾</u>

(1) Based on closing price of \$45.75 per share on June 30, 2015.

(2) At June 30, 2015, the Company estimated that outstanding options to purchase 123,720 shares of its common stock would not vest and would be forfeited prior to their vesting date.

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 the three months ended June 30, 2015 and 2014 was \$1.4 million and \$0.2 million, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2015 and 2014 was \$2.8 million and \$4.1 million, respectively.

Options to purchase 2,000 shares and 52,000 split-adjusted shares of the Company’s stock were issued during the six months ended June 30, 2015 and 2014, respectively. Stock-based compensation expense for stock options included in non-interest expense was \$0.6 million and \$0.8 million for the three months ended June 30, 2015 and 2014, respectively, and \$1.2 million for both six month periods ended June 30, 2015 and 2014. Total unrecognized compensation cost related to non-vested stock option grants was \$3.7 million at June 30, 2015 and is expected to be recognized over a weighted-average period of 2.0 years.

The Company has a restricted stock and incentive plan whereby all officers and employees of the Company are eligible to receive awards of restricted stock, restricted stock units or performance awards. The benefits or amounts that may be received by or allocated to any particular officer or employee of the Company under this plan will be determined in the sole discretion of the Company’s board of directors or its personnel and compensation committee. Shares of common stock issued under the plan may be shares of original issuance or shares held in treasury that have been reacquired by the Company. While the vesting period for awards under the plan is determined by the personnel and compensation committee at the time of grant, all restricted stock awards granted under the plan have a vesting date of three years after issuance.

Table of Contents

The following table summarizes non-vested restricted stock activity for the period indicated.

	Six Months Ended
	June 30, 2015
Outstanding – January 1, 2015	444,700
Granted	245,300
Forfeited	(29,875)
Vested	0
Outstanding – June 30, 2015	<u>660,125</u>
Weighted-average grant date fair value	<u>\$ 25.27</u>

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 Company's common stock at the date of grant multiplied by the number of shares granted that are expected to vest. Stock-based compensation expense for restricted stock included in non-interest expense was \$1.4 million and \$0.9 million for the quarters ended June 30, 2015 and 2014, respectively, and \$2.7 million and \$1.8 million for the six months ended June 30, 2015 and 2014, respectively. Unrecognized compensation expense for non-vested restricted stock awards was \$9.5 million at June 30, 2015 and is expected to be recognized over a weighted-average period of 2.2 years.

12. Fair Value Measurements

The Company measures certain of its assets and liabilities on a fair value basis using various valuation techniques and assumptions, depending on the nature of the asset or liability. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, fair value is used either annually or on a non-recurring basis to evaluate certain assets and liabilities for impairment or for disclosure purposes. The Company had no liabilities that were accounted for at fair value at June 30, 2015 or 2014 or at December 31, 2014.

The Company 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.

Table of Contents

The following table sets forth the Company's assets, as of the dates indicated, that are accounted for at fair value.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
		(Dollars in thousands)		
June 30, 2015:				
Investment securities AFS ⁽¹⁾ :				
Obligations of state and political subdivisions	\$ 0	\$488,158	\$ 18,757	\$506,915
U.S. Government agency securities	0	260,753	0	260,753
Corporate obligations	0	3,574	0	3,574
CRA qualified investment fund	<u>1,020</u>	<u>0</u>	<u>0</u>	<u>1,020</u>
Total investment securities AFS	1,020	752,485	18,757	772,262
Impaired non-purchased loans and leases	0	0	12,807	12,807
Impaired purchased loans	0	0	12,347	12,347
Foreclosed assets	<u>0</u>	<u>0</u>	<u>25,973</u>	<u>25,973</u>
Total assets at fair value	<u>\$1,020</u>	<u>\$752,485</u>	<u>\$ 69,884</u>	<u>\$823,389</u>
December 31, 2014:				
Investment securities AFS ⁽¹⁾ :				
Obligations of state and political subdivisions	\$ 0	\$553,808	\$ 19,401	\$573,209
U.S. Government agency securities	0	251,233	0	251,233
Corporate obligations	<u>0</u>	<u>654</u>	<u>0</u>	<u>654</u>
Total investment securities AFS	0	805,695	19,401	825,096
Impaired non-purchased loans and leases	0	0	19,480	19,480
Impaired purchased loans	0	0	14,040	14,040
Foreclosed assets	<u>0</u>	<u>0</u>	<u>37,775</u>	<u>37,775</u>
Total assets at fair value	<u>\$ 0</u>	<u>\$805,695</u>	<u>\$ 90,696</u>	<u>\$896,391</u>
June 30, 2014:				
Investment securities AFS ⁽¹⁾ :				
Obligations of state and political subdivisions	\$ 0	\$595,965	\$ 20,600	\$616,565
U.S. Government agency securities	0	258,311	0	258,311
Corporate obligations	<u>0</u>	<u>685</u>	<u>0</u>	<u>685</u>
Total investment securities AFS	0	854,961	20,600	875,561
Impaired non-purchased loans and leases	0	0	16,240	16,240
Impaired purchased loans	0	0	21,205	21,205
Foreclosed assets	<u>0</u>	<u>0</u>	<u>56,356</u>	<u>56,356</u>
Total assets at fair value	<u>\$ 0</u>	<u>\$854,961</u>	<u>\$114,401</u>	<u>\$969,362</u>

- (1) Does not include \$10.0 million at June 30, 2015; \$14.2 million at December 31, 2014 and \$16.6 million at June 30, 2014 of FHLB and FNBB equity securities that do not have readily determinable fair values and are carried at cost.

Table of Contents

The following table presents information related to Level 3 non-recurring fair value measurements as of the date indicated.

<u>Description</u>	<u>Fair Value at June 30, 2015</u>	<u>Technique</u>	<u>Unobservable Inputs</u>
		(Dollars in thousands)	
Impaired non-purchased loans and leases	\$ 12,807	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	\$ 12,347	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	\$ 25,973	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 Company 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 Company's assets and liabilities that are accounted for at fair value.

Investment securities – The Company 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 Company 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, 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, comprehensive interest rate tables and 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 Company's investment securities are reviewed and approved on a quarterly basis by its Investment Portfolio Manager and its Chief Financial Officer.

The Company has determined that certain of its investment securities had a limited to non-existent trading market at June 30, 2015. As a result, the Company considers these investments as Level 3 in the fair value hierarchy. Specifically, the fair values of certain obligations of state and political subdivisions consisting primarily of certain unrated private placement bonds (the "private placement bonds") in the amount of \$18.8 million at June 30, 2015 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 individually valued at the lower of (i) the matrix pricing provided by the Company's third party pricing services for comparable unrated municipal securities or (ii) par value. At June 30, 2015, the third parties' pricing matrices valued the Company's portfolio of private placement bonds at \$18.8 million which was equal to the aggregate par value of the private placement bonds. Accordingly, at June 30, 2015, the Company reported the private placement bonds at \$18.8 million.

Impaired non-purchased loans and leases – Fair values are measured on a nonrecurring basis and are based on the underlying collateral value of the impaired loan or lease, net of holding and selling costs, or the estimated discounted cash flows for such loan or lease. At June 30, 2015 the Company had reduced the carrying value of its impaired loans and leases (all of which are included in nonaccrual loans and leases) by \$5.0 million to the estimated fair value of \$12.8 million. The \$5.0 million adjustment to reduce the carrying value of impaired loans and leases to estimated fair value consisted of \$3.6 million of partial charge-offs and \$1.4 million of specific loan and lease loss allocations.

Impaired purchased loans – Impaired purchased loans are measured at fair value on a non-recurring basis. As of June 30, 2015, the Company had identified purchased loans where the expected performance had deteriorated from management's performance expectations established in conjunction with the determination of the Day 1 Fair Values or where current information indicates it is probable that the Company will not be able 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

Table of Contents

evidence of credit deterioration at date of acquisition). As a result, the Company recorded partial charge-offs totaling \$0.4 million and \$1.1 million during the second quarter of 2015 and 2014, respectively, and \$1.7 million and \$1.3 million during the first six months of 2015 and 2014, respectively. The Company also recorded provision for loan and lease losses of \$0.4 million and \$1.1 million during the second quarter of 2015 and 2014, respectively, and \$1.7 million and \$1.3 million during the first six months of 2015 and 2014, respectively, to cover such charge-offs. In addition to these charge-offs, the Company transferred certain of these purchased loans to foreclosed assets. As a result of these actions, at June 30, 2015, the Company had \$12.3 million of impaired purchased loans.

Foreclosed assets – Repossessed personal properties and real estate acquired through or in lieu of foreclosure are measured on a non-recurring basis and are initially recorded at the lesser of current principal investment or fair value less estimated cost to sell (generally 8% to 10%) 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 (calculated using discount rates ranging from 8.0% to 9.5% per annum) of cash flows expected to be received. Valuations of these assets are periodically reviewed by management with the carrying value of such assets adjusted to the then estimated fair value net of estimated selling costs, if lower, until disposition. Fair values of foreclosed and repossessed assets are generally based on third party appraisals, broker price opinions or other valuations of the property.

The following table presents additional information for the periods indicated about assets measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value.

	Investment Securities AFS
	(Dollars in thousands)
Balance – January 1, 2015	\$ 19,401
Total realized gains (losses) included in earnings	0
Total unrealized gains (losses) included in comprehensive income	(271)
Paydowns and maturities	(373)
Sales	0
Transfers in and/or out of Level 3	0
Balance – June 30, 2015	<u>\$ 18,757</u>
Balance – January 1, 2014	\$ 18,682
Total realized gains (losses) included in earnings	0
Total unrealized gains (losses) included in comprehensive income	403
Acquired	1,907
Paydowns and maturities	(392)
Sales	0
Transfers in and/or out of Level 3	0
Balance – June 30, 2014	<u>\$ 20,600</u>

13. 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 Company 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 Company 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, 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, 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 Company's investment securities are reviewed and approved on a quarterly basis by its Investment Portfolio Manager and its Chief Financial Officer. The Company's investments in FHLB and FNBB equity securities totaling \$10.0 million at June 30, 2015, \$14.2 million at December 31, 2014 and \$16.6 million at June 30, 2014, do not have readily determinable fair values and are carried at cost.

Loans and leases – The fair value of loans and leases, including purchased loans, is estimated by discounting the contractual cash flows to be received in future periods using the current rate at which similar loans or leases would be made to borrowers or lessees with similar credit ratings and for the same remaining maturities.

Table of Contents

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 Company for borrowings with similar terms and remaining maturities.

Subordinated 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, and were not material at June 30, 2015 and 2014 or at December 31, 2014.

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 and because management does not intend to sell these financial instruments, the Company did not know whether the fair values 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 for the dates indicated and the fair value hierarchy of the Company's financial instruments.

	Fair Value Hierarchy	June 30,				December 31, 2014	
		2015		2014		Carrying Amount	Estimated Fair Value
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value		
(Dollars in thousands)							
Financial assets:							
Cash and cash equivalents	Level 1	\$ 514,890	\$ 514,890	\$ 110,688	\$ 110,688	\$ 150,203	\$ 150,203
Investment securities AFS	Levels 1, 2 and 3	782,277	782,277	892,129	892,129	839,321	839,321
Loans and leases, net of ALLL	Level 3	6,537,222	6,469,690	4,528,696	4,480,221	5,074,899	5,042,831
FDIC loss share receivable	Level 3	0	0	50,679	50,600	0	0
Financial liabilities:							
Demand, savings and interest bearing transaction deposits	Level 1	\$4,966,330	\$4,966,330	\$3,807,139	\$3,807,139	\$4,038,443	\$4,038,443
Time deposits	Level 2	2,120,969	2,142,807	1,176,758	1,177,108	1,457,939	1,463,590
Repurchase agreements with customers	Level 1	70,011	70,011	55,999	55,999	65,578	65,578
Other borrowings	Level 2	161,931	171,614	280,875	304,381	190,855	203,493
FDIC clawback payable	Level 3	0	0	26,533	26,533	0	0
Subordinated debentures	Level 2	117,403	66,679	64,950	32,554	64,950	39,103

[Table of Contents](#)

14. Repurchase Agreements With Customers

At June 30, 2015 and 2014 and December 31, 2014, securities sold under agreements to repurchase (“repurchase agreements”) totaled \$70.0 million, \$56.0 million and \$65.6 million, respectively. Securities utilized as collateral for repurchase agreements are primarily U.S. Government agency mortgage-backed securities and are maintained by the Company’s safekeeping agents. These securities are reviewed by the Company on a daily basis, and the Company may be required to provide additional collateral due to changes in the fair market value of these securities. The terms of the Company’s repurchase agreements are continuous but may be cancelled at any time by the Company or the customer.

15. Changes In and Reclassifications From Accumulated Other Comprehensive Income (“AOCI”)

The following table presents changes in AOCI for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Beginning balance of AOCI – unrealized gains and losses on investment securities AFS	\$ 14,367	\$ 3,211	\$14,132	\$ (3,672)
Other comprehensive income (loss):				
Unrealized gains and losses on investment securities AFS	(10,091)	11,199	(7,600)	22,529
Tax effect of unrealized gains and losses on investment securities AFS	3,844	(4,393)	3,157	(8,837)
Amounts reclassified from AOCI	(84)	(18)	(2,618)	(23)
Tax effect of amounts reclassified from AOCI	32	7	997	9
Total other comprehensive income (loss)	(6,299)	6,795	(6,064)	13,678
Ending balance of AOCI – unrealized gains and losses on investment securities AFS	<u>\$ 8,068</u>	<u>\$10,006</u>	<u>\$ 8,068</u>	<u>\$10,006</u>

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.

16. Other Operating Expenses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Salaries and employee benefits	\$22,646	\$18,831	\$45,243	\$36,520
Net occupancy and equipment	7,344	5,707	14,635	10,751
Other operating expenses:				
Postage and supplies	1,014	852	1,929	1,623
Advertising and public relations	586	636	1,169	1,036
Telecommunication services	1,616	1,191	2,964	2,207
Professional and outside services	2,526	2,353	6,912	4,526
Software and data processing	766	1,662	1,515	2,799
Travel and meals	821	629	1,617	1,169
FDIC insurance	900	555	1,650	1,105
FDIC and state assessments	331	218	641	431
ATM expense	543	307	1,251	516
Loan collection and repossession expense	1,020	1,528	2,753	1,987
Writedowns of foreclosed and other assets	235	798	2,427	877
Amortization of intangibles	1,640	1,119	3,236	1,932
FHLB prepayment penalty	0	0	2,480	0
Other	1,736	1,492	3,486	7,854
Total non-interest expense	<u>\$43,724</u>	<u>\$37,878</u>	<u>\$93,908</u>	<u>\$75,333</u>

[Table of Contents](#)

17. Subsequent Event

On August 5, 2015, the Company completed the acquisition of Bank of the Carolinas Corporation (“BCAR”) and its wholly-owned subsidiary Bank of the Carolinas for an aggregate of approximately 1.4 million shares of common stock (plus cash in lieu of fractional shares) in a transaction valued at approximately \$65.4 million. The acquisition of BCAR expands the Company’s operations in North Carolina by adding eight full service branch locations in Advance, Asheboro, Concord, Harrisburg, Landis, Lexington, Mocksville and Winston-Salem. At June 30, 2015, BCAR had approximately \$345 million of total assets, \$277 million of loans, \$296 million of deposits and \$48 million of total common stockholders’ equity.

18. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *“Revenue from Contracts with Customers.”* ASU 2014-09 provides guidance that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2017. The Company is currently evaluating the impact, if any, ASU 2014-09 will have on its financial position, results of operations, and its financial statement disclosures.

In June 2014, the FASB issued ASU 2014-11 *“Transfers and Servicing (Topic 860).”* ASU 2014-11 amends the accounting guidance for repo-to-maturity transactions and requires such transactions to be accounted for as secured borrowings. In addition, ASU 2014-11 requires enhanced disclosures related to the collateral pledged, maturity and risk associated with repurchase agreements. The Company adopted the provision of ASU 2014-11 beginning April 1, 2015. The adoption of ASU 2014-11 had no significant impact on the Company’s financial position or results of operations; however, the additional disclosures required by ASU 2014-11 are included in Note 14-Repurchase Agreement with Customers.

In January 2015, the FASB issued ASU 2015-01, *“Income Statement – Extraordinary and Unusual Items (Subtopic 225-20) – Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.”* ASU 2015-01 eliminates from GAAP the concept of extraordinary items, which, among other things, required an entity to segregate extraordinary items considered to be unusual and infrequent from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. ASU 2015-01 is effective for interim and annual periods beginning after December 15, 2015. ASU 2015-01 is not expected to have a significant impact on the Company’s financial position, results of operations and its financial statement disclosures.

In February 2015, FASB issued ASU 2015-02, *“Consolidation (Topic 810): Amendments to the Consolidation Analysis”* which amends the consolidation requirements of ASU 810 by changing the consolidation analysis required under GAAP. The revised guidance amends the consolidation analysis based on certain fee arrangements or relationships to the reporting entity and, for limited partnerships, requires entities to consider the limited partner’s rights relative to the general partner. ASU 2015-02 is effective for annual and interim periods beginning after December 15, 2015. The Company is currently evaluating the impact, if any, ASU 2015-02 will have on its financial position, results of operations, and its financial statement disclosures.

In April 2015, the FASB issued ASU 2015-03, *“Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs.”* ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. ASU 2015-03 is effective for interim and annual periods beginning after December 15, 2015. ASU 2015-03 is not expected to have a significant impact on the Company’s financial position, results of operations and its financial statement disclosures.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless this quarterly report on Form 10-Q indicates otherwise, or the context otherwise requires, the terms "we," "our," "us," and "the Company," as used herein refer to Bank of the Ozarks, Inc. and its subsidiaries, including Bank of the Ozarks, which we sometimes refer to as "Bank of the Ozarks," "our bank subsidiary," or "the Bank."

FORWARD-LOOKING INFORMATION

This quarterly report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), other filings made by us with the Securities and Exchange Commission ("SEC") 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. Forward-looking statements include, without limitation, statements about economic, real estate market, competitive, employment, credit market and interest rate conditions and 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, mortgage lending and trust income, gains (losses) on investment securities and sales of other assets; gains on merger and acquisition transactions; other income from purchased loans; non-interest expense; efficiency ratio; 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 and leases; nonperforming assets; the impact from termination of the loss share agreement; net charge-offs and net charge-off ratios; provision and allowance for loan and lease losses; past due loans and leases; 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 integrating or managing acquisitions; the effect of the announcements or completion of any pending or future mergers or acquisitions 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, lease 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 and other similar forecasts and statements of expectation. Words such as "anticipate," "believe," "could," "estimate," "expect," "goal," "hope," "intend," "look," "may," "plan," "project," "seek," "target," "trend," "will," "would," and similar 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 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 and expansion strategy including delays in identifying satisfactory sites, hiring or retaining qualified personnel, obtaining regulatory or other approvals, obtaining permits and designing, constructing and opening new offices; the ability to enter into and/or close additional acquisitions; problems with, or additional expenses relating to, integrating or managing acquisitions; the availability of capital; the ability to attract new or retain existing or acquired deposits; the ability to achieve growth in loans and leases, 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; competitive factors and pricing pressures, including their effect on our net interest margin; general economic, unemployment, credit market and real estate market conditions, and the effect of such conditions on the creditworthiness of borrowers and lessees, collateral values, the value of investment securities and asset recovery values; changes in legal and regulatory requirements; recently enacted and potential legislation and regulatory actions, and the costs and expenses to comply with new legislation and regulatory actions, including legislation and regulatory actions intended to stabilize economic conditions and credit markets, strengthen the capital of financial institutions, increase regulation of the financial services industry and protect homeowners or consumers; changes in U.S. government monetary and fiscal policy; possible further downgrade of U.S. Treasury securities; the ability to keep pace with technological changes, including changes regarding cyber security; an increase in the incidence or severity of fraud, illegal payments, security breaches and other illegal acts impacting our bank subsidiary or our customers; adoption of new accounting standards or changes in existing standards; and adverse results in current or future litigation or regulatory examinations as well as other factors described in this quarterly report on Form 10-Q or as detailed from time to time in the other reports we file with the SEC, including those factors included in the disclosures under the heading "Forward-Looking Information" and "Item 1A. Risk Factors" in our most recent Annual Report on Form 10-K for the year ended December 31, 2014. 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 the 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.

[Table of Contents](#)

SELECTED AND SUPPLEMENTAL FINANCIAL DATA

The following tables set forth selected unaudited consolidated financial data as of and for the three months and six months ended June 30, 2015 and 2014 and supplemental unaudited quarterly financial data for each of the most recent eight quarters beginning with the third quarter of 2013 through the second quarter of 2015. These tables are qualified in their entirety by our consolidated financial statements and related notes presented elsewhere in this quarterly report on Form 10-Q. The calculations of our tangible book value per common share and our annualized returns on average tangible common stockholders' equity and the reconciliations to generally accepted accounting principles ("GAAP") are included in this MD&A under "Capital Resources and Liquidity" in this quarterly report on Form 10-Q.

Selected Consolidated Financial Data - Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
(Dollars in thousands, except per share amounts)				
Income statement data:				
Interest income	\$ 100,103	\$ 69,760	\$ 191,558	\$ 126,818
Interest expense	6,347	4,959	12,312	9,620
Net interest income	93,756	64,801	179,246	117,198
Provision for loan and lease losses	4,308	5,582	10,623	6,887
Non-interest income	23,270	17,388	52,337	37,749
Non-interest expense	43,724	37,878	93,908	75,333
Net income available to common stockholders	44,776	26,486	84,670	51,762
Common share and per common share data:				
Earnings – diluted	\$ 0.51	\$ 0.34	\$ 0.98	\$ 0.68
Book value	13.93	10.67	13.93	10.67
Tangible book value	12.19	9.31	12.19	9.31
Dividends	0.135	0.115	0.265	0.225
Weighted-average diluted shares outstanding (thousands)	87,515	77,466	86,001	75,981
End of period shares outstanding (thousands)	86,811	79,662	86,811	79,662
Balance sheet data at period end:				
Total assets	\$8,710,435	\$6,297,975	\$8,710,435	\$6,297,975
Non-purchased loans and leases	4,767,123	3,171,585	4,767,123	3,171,585
Purchased loans ⁽¹⁾	1,826,848	1,404,069	1,826,848	1,404,069
Allowance for loan and lease losses	56,749	46,958	56,749	46,958
Foreclosed assets ⁽¹⁾	25,973	56,356	25,973	56,356
Investment securities	782,277	892,129	782,277	892,129
Deposits	7,087,299	4,983,897	7,087,299	4,983,897
Repurchase agreements with customers	70,011	55,999	70,011	55,999
Other borrowings	161,931	280,875	161,931	280,875
Subordinated debentures	117,403	64,950	117,403	64,950
Total common stockholders' equity	1,209,254	850,204	1,209,254	850,204
Loan and lease (including purchased loans) to deposit ratio	93.04%	91.81%	93.04%	91.81%
Average balance sheet data:				
Total average assets	\$8,283,023	\$5,660,136	\$7,945,178	\$5,247,221
Total average common stockholders' equity	1,191,798	749,692	1,121,225	696,360
Average common equity to average assets	14.39%	13.25%	14.11%	13.27%
Performance ratios:				
Return on average assets ⁽²⁾	2.17%	1.88%	2.15%	1.99%
Return on average common stockholders' equity ⁽²⁾	15.07	14.17	15.23	14.99
Return on average tangible common stockholders' equity ⁽²⁾	17.27	15.41	17.43	15.90
Net interest margin – FTE ⁽²⁾	5.37	5.62	5.39	5.55
Efficiency ratio	36.56	44.60	39.67	47.05
Common stock dividend payout ratio	26.20	33.82	26.10	33.09
Asset quality ratios:				
Net charge-offs to average total loans and leases ^{(2) (3)}	0.12%	0.19%	0.24%	0.11%
Nonperforming loans and leases to total loans and leases ⁽⁴⁾	0.34	0.58	0.34	0.58
Nonperforming assets to total assets ⁽⁴⁾	0.49	0.62	0.49	0.62
Allowance for loan and lease losses as a percentage of:				
Total loans and leases ⁽⁴⁾	1.19%	1.48%	1.19%	1.48%
Nonperforming loans and leases ⁽⁴⁾	349%	255%	349%	255%
Capital ratios at period end:				
Tier 1 leverage	14.41%	14.31%	14.41%	14.31%
Common equity tier 1	11.18	N/A	11.18	N/A
Tier 1 capital	12.43	13.40	12.43	13.40
Total capital	13.03	14.19	13.03	14.19

- (1) Prior periods have been adjusted to include loans and/or foreclosed assets previously covered by Federal Deposit Insurance Corporation (“FDIC”) loss share.
- (2) Ratios annualized based on actual days.
- (3) Excludes purchased loans and net charge-offs related to such loans.
- (4) Excludes purchased loans, except for their inclusion in total assets.

N/A – Ratio not applicable for period indicated.

Table of Contents

Supplemental Quarterly Financial Data - Unaudited (Dollars in thousands, except per share amounts)

	9/30/13	12/31/13	3/31/14	6/30/14	9/30/14	12/31/14	3/31/15	6/30/15
Earnings Summary:								
Net interest income	\$ 50,633	\$ 55,282	\$ 52,396	\$ 64,801	\$ 74,621	\$ 78,675	\$ 85,489	\$ 93,756
Federal tax (FTE) adjustment	2,161	2,372	2,424	2,737	2,892	2,690	2,570	2,552
Net interest income (FTE)	52,794	57,654	54,820	67,538	77,513	81,365	88,059	96,308
Provision for loan and lease losses	(3,818)	(2,863)	(1,304)	(5,582)	(3,687)	(6,341)	(6,315)	(4,308)
Non-interest income	22,102	18,592	20,360	17,388	19,248	27,887	29,067	23,270
Non-interest expense	(32,208)	(34,728)	(37,454)	(37,878)	(42,523)	(48,158)	(50,184)	(43,724)
Pretax income (FTE)	38,870	38,655	36,422	41,466	50,551	54,753	60,627	71,546
FTE adjustment	(2,161)	(2,372)	(2,424)	(2,737)	(2,892)	(2,690)	(2,570)	(2,552)
Provision for income taxes	(10,224)	(11,893)	(8,730)	(12,251)	(15,579)	(17,300)	(18,139)	(24,190)
Noncontrolling interest	(33)	8	8	8	13	(11)	(24)	(28)
Net income available to common stockholders	<u>\$ 26,452</u>	<u>\$ 24,398</u>	<u>\$ 25,276</u>	<u>\$ 26,486</u>	<u>\$ 32,093</u>	<u>\$ 34,752</u>	<u>\$ 39,894</u>	<u>\$ 44,776</u>
Earnings per common share – diluted ⁽¹⁾	\$ 0.36	\$ 0.33	\$ 0.34	\$ 0.34	\$ 0.40	\$ 0.43	\$ 0.47	\$ 0.51
Non-interest Income:								
Service charges on deposit accounts	\$ 5,817	\$ 6,031	\$ 5,639	\$ 6,605	\$ 7,356	\$ 7,009	\$ 6,627	\$ 7,088
Mortgage lending income	1,276	967	954	1,126	1,728	1,379	1,507	1,772
Trust income	1,060	1,289	1,316	1,364	1,419	1,493	1,432	1,463
BOLI income	1,179	1,164	1,130	1,278	1,390	1,385	3,623	1,785
Net accretion (amortization) of FDIC loss share receivable and FDIC clawback payable	1,396	901	692	(741)	(562)	—	—	—
Other income from purchased loans	2,484	4,825	3,311	3,629	3,369	4,494	8,908	6,971
Gains on investment securities	—	4	5	18	43	78	2,534	85
Gains on sales of other assets	2,501	1,801	974	1,448	1,688	1,912	2,829	2,557
Gains on merger and acquisition transactions	5,163	—	4,667	—	—	—	—	—
Gain on termination of FDIC loss share agreements	—	—	—	—	—	7,996	—	—
Other	1,226	1,610	1,672	2,661	2,817	2,141	1,607	1,549
Total non-interest income	<u>\$ 22,102</u>	<u>\$ 18,592</u>	<u>\$ 20,360</u>	<u>\$ 17,388</u>	<u>\$ 19,248</u>	<u>\$ 27,887</u>	<u>\$ 29,067</u>	<u>\$ 23,270</u>
Non-interest Expense:								
Salaries and employee benefits	\$ 16,456	\$ 17,381	\$ 17,689	\$ 18,831	\$ 20,876	\$ 19,488	\$ 22,597	\$ 22,646
Net occupancy expense	4,786	5,039	5,044	5,707	6,823	6,528	7,291	7,344
Other operating expenses	10,178	11,427	13,908	12,221	13,292	20,610	18,700	12,094
Amortization of intangibles	788	881	813	1,119	1,532	1,532	1,596	1,640
Total non-interest expense	<u>\$ 32,208</u>	<u>\$ 34,728</u>	<u>\$ 37,454</u>	<u>\$ 37,878</u>	<u>\$ 42,523</u>	<u>\$ 48,158</u>	<u>\$ 50,184</u>	<u>\$ 43,724</u>
Allowance for Loan and Lease Losses:								
Balance at beginning of period	\$ 39,372	\$ 41,660	\$ 42,945	\$ 43,861	\$ 46,958	\$ 49,606	\$ 52,918	\$ 54,147
Net charge-offs	(1,530)	(1,578)	(388)	(2,485)	(1,039)	(3,029)	(5,086)	(1,706)
Provision for loan and lease losses	3,818	2,863	1,304	5,582	3,687	6,341	6,315	4,308
Balance at end of period	<u>\$ 41,660</u>	<u>\$ 42,945</u>	<u>\$ 43,861</u>	<u>\$ 46,958</u>	<u>\$ 49,606</u>	<u>\$ 52,918</u>	<u>\$ 54,147</u>	<u>\$ 56,749</u>
Selected Ratios:								
Net interest margin – FTE ⁽²⁾	5.55%	5.63%	5.46%	5.62%	5.49%	5.53%	5.42%	5.37%
Efficiency ratio	43.00	45.55	49.82	44.60	43.95	44.08	42.85	36.56
Net charge-offs to average loans and leases ⁽²⁾⁽³⁾	0.10	0.14	0.03	0.19	0.06	0.17	0.37	0.12
Nonperforming loans and leases to total loans and leases ⁽⁴⁾	0.41	0.33	0.42	0.58	0.49	0.53	0.33	0.34
Nonperforming assets to total assets ⁽⁴⁾⁽⁵⁾	1.33	1.22	1.44	1.19	0.92	0.87	0.56	0.49
Allowance for loan and lease losses to total loans and leases ⁽⁴⁾	1.65	1.63	1.58	1.48	1.36	1.33	1.26	1.19
Loans and leases past due 30 days or more, including past due non-accrual loans and leases, to total loans and leases ⁽⁴⁾	0.54	0.45	0.75	0.63	0.63	0.79	0.57	0.50

(1) Adjusted to give effect to 2-for-1 stock split on June 23, 2014.

(2) Ratios annualized based on actual days.

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

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

(5) Ratios for prior periods have been recalculated to include foreclosed assets previously covered by FDIC loss share agreements as nonperforming assets.

Table of Contents

OVERVIEW

The following discussion explains our financial condition and results of operations as of and for the three months and six months ended June 30, 2015. The purpose of this discussion is to focus on information about our financial condition and results of operations which is not otherwise apparent from the consolidated financial statements. The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes presented elsewhere in this report and our Annual Report on Form 10-K for the year ended December 31, 2014 previously filed with the SEC. Annualized results for these interim periods may not be indicative of results for the full year or future periods.

Bank of the Ozarks, Inc. is a bank holding company whose primary business is commercial banking conducted through its wholly-owned state chartered bank subsidiary – Bank of the Ozarks. 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 leases and investments, and the interest expense incurred on interest bearing liabilities, such as deposits, borrowings and subordinated debentures. We also generate non-interest income, including, among others, service charges on deposit accounts, mortgage lending income, trust income, bank owned life insurance (“BOLI”) income, other income from purchased loans, gains on investment securities and from sales of other assets, and gains on merger and acquisition transactions.

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 and lease losses and our provision for income taxes.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with 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 and lease losses (“ALLL”), (ii) the fair value of our investment securities portfolio, (iii) the fair value of foreclosed assets and (iv) the fair value of the assets acquired and liabilities assumed pursuant to business combination transactions all involve a higher degree of judgment and complexity than our other significant accounting policies. Accordingly, we consider the determination of (i) provisions to and the adequacy of the ALLL, (ii) the fair value of our investment securities portfolio, (iii) the fair value of foreclosed assets and (iv) the fair value of the assets acquired and liabilities assumed pursuant to business combination transactions to be critical accounting policies. A detailed discussion of each of these critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2014. There has been no change in our critical accounting policies and no material change in the application of critical accounting policies as presented in our Annual Report on Form 10-K for the year ended December 31, 2014.

ANALYSIS OF RESULTS OF OPERATIONS

General

During the fourth quarter of 2014, we entered into agreements with the Federal Deposit Insurance Corporation (“FDIC”) terminating the loss share agreements for all seven of our FDIC-assisted acquisitions. As a result of entering these termination agreements, we reclassified loans previously reported as covered by FDIC loss share to purchased loans for all periods presented. Additionally, we reclassified all interest income on loans previously reported as covered by FDIC loss share to interest income on purchased loans for all periods presented.

Net income available to our common stockholders was \$44.8 million for the second quarter of 2015, a 69.1% increase from \$26.5 million for the second quarter of 2014. Diluted earnings per common share were \$0.51 for the second quarter of 2015, a 50.0% increase from \$0.34 for the second quarter of 2014. For the first six months of 2015, net income available to common stockholders was \$84.7 million, a 63.6% increase from \$51.8 million for the first six months of 2014. Diluted earnings per common share for the first six months of 2015 were \$0.98, a 44.1% increase from \$0.68 for the first six months of 2014.

Our annualized return on average assets was 2.17% for the second quarter of 2015 compared to 1.88% for the second quarter of 2014. Our annualized return on average common stockholders’ equity was 15.07% for the second quarter of 2015 compared to 14.17% for the second quarter of 2014. Our annualized return on average tangible common stockholders’ equity was 17.27% for the second quarter of 2015 compared to 15.41% for the second quarter of 2014. Our annualized return on average assets was 2.15% for the first six months of 2015 compared to 1.99% for the first six months of 2014. Our annualized return on average common stockholders’ equity was 15.23% for the first six months of 2015 compared to 14.99% for the first six months of 2014. Our annualized return on average tangible common stockholders’ equity was 17.43% for the first six months of 2015 compared to 15.90% for the first six months of 2014. The calculation of our return on average tangible common stockholders’ equity and the reconciliation to GAAP is included elsewhere in this MD&A.

Total assets were \$8.71 billion at June 30, 2015 compared to \$6.77 billion at December 31, 2014. Non-purchased loans and leases were \$4.77 billion at June 30, 2015 compared to \$3.98 billion at December 31, 2014. Purchased loans were \$1.83 billion at June 30, 2015 compared to \$1.15 billion at December 31, 2015. Total loans and leases were \$6.59 billion at June 30, 2015 compared to \$5.13 billion at December 31, 2014. Deposits were \$7.09 billion at June 30, 2015 compared to \$5.50 billion at December 31, 2014.

Table of Contents

Common stockholders' equity was \$1.21 billion at June 30, 2015 compared to \$908 million at December 31, 2014. Tangible common stockholders' equity was \$1.06 billion at June 30, 2015 compared to \$803 million at December 31, 2014. Book value per common share was \$13.93 at June 30, 2015 compared to \$11.37 at December 31, 2014. Tangible book value per common share was \$12.19 at June 30, 2015 compared to \$10.04 at December 31, 2014. The calculation of our tangible common stockholders' equity and tangible book value per common share and the reconciliation to GAAP is included elsewhere in this MD&A.

On March 5, 2014, we completed our acquisition of Bancshares, Inc. ("Bancshares"). Our consolidated results of operations include the acquired operations of Bancshares beginning March 6, 2014.

On May 16, 2014, we completed our acquisition of Summit Bancorp, Inc. ("Summit"). Our consolidated results of operations include the acquired operations of Summit beginning May 17, 2014.

On February 10, 2015, we completed our acquisition of Interwest Bancshares Corporation ("Interwest"). Our consolidated results of operations include the acquired operations of Interwest beginning February 11, 2015. During the second quarter of 2015, we revised our initial estimates regarding the recovery of certain acquired loans and acquired deferred tax assets in the Interwest acquisition. Because such revision occurred during the first 12 months following the date of acquisition and was not the result of a change in circumstances, management has recast the consolidated financial statements as of and for the three months ended March 31, 2015 to decrease the goodwill recorded in the Interwest acquisition by \$2.7 million to reflect this change in estimate. The fair value adjustments and resultant fair values recorded in the Interwest acquisition continue to be evaluated and may be subject to further adjustments.

A summary of the Bancshares, Summit and Interwest acquisitions is included in Note 3 to the Consolidated Financial Statements included elsewhere in this quarterly report on Form 10-Q.

On August 5, 2015, we completed our acquisition of Bank of the Carolinas Corporation ("BCAR") and its wholly-owned subsidiary, Bank of the Carolinas. The acquired operations of BCAR will be included in our operating results beginning August 6, 2015.

Net Interest Income

Net interest income is a significant source of our earnings and represents the amount by which interest income on earning assets exceeds the interest expense paid on liabilities. The volume of interest earning assets and the related funding sources, the overall mix of these assets and liabilities, and the rates paid on each affect net interest income.

Net interest income and net interest margin are analyzed in this discussion and the following tables on a fully taxable equivalent ("FTE") basis. The adjustment to convert certain income to a FTE basis consists of dividing federal tax-exempt income by one minus our statutory federal income tax rate of 35%. The FTE adjustments to net interest income were \$2.6 million and \$2.7 million for the quarters ended June 30, 2015 and 2014, respectively, and \$5.1 million and \$5.2 million for the six months ended June 30, 2015 and 2014, respectively. 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 Internal Revenue Code (the "Code") as a result of investment in certain tax-exempt securities.

Net interest income for the second quarter of 2015 increased 42.6% to \$96.3 million compared to \$67.5 million for the second quarter of 2014. Net interest income for the first six months of 2015 increased 50.7% to \$184.4 million compared to \$122.4 million for the first six months of 2014. This increase in net interest income for the second quarter and first six months of 2015 compared to the same periods in 2014 was primarily due to the increase in average earning assets, which increased 49.2% to \$7.20 billion for the second quarter of 2015, and 55.0% to \$6.89 billion for the first six months of 2015, compared to \$4.82 billion for the second quarter and \$4.45 billion for the first six months of 2014, partially offset by decreases in our net interest margin. Our net interest margin for the second quarter of 2015 decreased 25 basis points ("bps") to 5.37% compared to 5.62% for the second quarter in 2014. This decrease was primarily due to a 31 bps decrease in the yield on earning assets, partially offset by a seven bps reduction in rates paid on interest bearing liabilities. Our net interest margin for the first six months of 2015 decreased 16 bps to 5.39% compared to 5.55% for the first six months of 2014. This decrease was primarily due to a 23 bps decrease in the yield on earning assets, partially offset by a nine bps reduction in the rates paid on interest bearing liabilities.

Yields on earning assets decreased to 5.72% for the second quarter and 5.75% for the first six months of 2015 compared to 6.03% for the second quarter and 5.98% for the first six months of 2014 primarily due to the decrease in yields on our purchased loan portfolio and decreases in the yield on our aggregate investment securities portfolio. The yield on our purchased loan portfolio decreased 173 bps for the second quarter and 156 bps for the first six months of 2015 compared to the same periods in 2014. These decreases were partially offset by the increase in the average balance of purchased loans which comprised 27.0% and 26.2%, respectively, of average earning assets for the second quarter and six months ended June 30, 2015, compared to 22.9% and 20.7%, respectively, of average earnings assets for the same periods in 2014. The decreases in yield on purchased loans were primarily attributable to the loans acquired in the Summit and Interwest transactions, many of which did not contain evidence of credit deterioration on the date of purchase and were priced at a lower yield compared to the then existing yield on our purchased loan portfolio. This decrease in yield on purchased loans was partially offset by the increase in the yield on certain purchased loans with evidence of credit deterioration on the date of acquisition due to upward revisions of estimated cash flows as a result of recent evaluations of the expected performance of such loans. The yield on our aggregate investment securities portfolio decreased 13 bps for

Table of Contents

the second quarter and 15 bps for the first six months of 2015 compared to the same periods in 2014. This decrease was primarily the result of (i) a change in the composition of our investment securities portfolio to include a larger percentage of lower yielding taxable investment securities, which comprised 45.8% of total average investment securities for the second quarter of 2015 and 44.6% for the first six months of 2015 compared to 40.5% for the second quarter in 2014 and 40.6% for the first six months of 2014 and (ii) the current low interest rate environment which has resulted in many issuers of investment securities, particularly tax-exempt municipal bonds, calling higher-rate investment securities and refinancing such securities at lower interest rates. Assuming this current low interest rate environment continues, we expect additional tax-exempt investment securities to be called by their issuers and be refinanced at lower interest rates, likely resulting in continued decreases on the yield of our tax-exempt investment securities portfolio.

The overall decrease in rates on average interest bearing liabilities was primarily due to a shift in the composition of total interest bearing liabilities to include a larger percentage of lower rate interest bearing deposits, which comprised 94.0% of total average interest bearing liabilities for the second quarter and 93.6% for the first six months of 2015 compared to 89.6% for the second quarter and 88.7% for the first six months of 2014, partially offset by an increase in rates on interest bearing time deposits. The increase in interest bearing deposits as a percentage of total interest bearing liabilities is primarily due to interest bearing deposits assumed in the Summit and Intervest transactions, growth in interest bearing deposits as a result of increased deposit pricing in several target markets and the prepayment of \$120 million of other borrowings, partially offset by the assumption of \$52.2 million of subordinated debentures assumed in the Intervest transaction. The eight bps increase in rates on interest bearing time deposits for the second quarter of 2015 and first six months of 2015 compared to the second quarter of 2014 and first six months of 2014 is primarily due to a shift in the composition of interest bearing deposits to a larger percentage of higher rate time deposits as a result of the Intervest acquisition. The average balance of time deposits increased from 28.6% of total average interest bearing deposits for the second quarter of 2014 to 39.8% for the second quarter of 2015 and 28.6% for the first six months of 2014 to 38.8% for the first six months of 2015. Additionally, throughout much of 2014, we increased deposit pricing in several target markets to fund growth in loans and leases. To the extent we have future growth in loans and leases, we would expect to increase deposit pricing in certain target markets to fund such growth. Any such increase in deposit pricing is expected to result in increased 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 Reserve Bank (“FRB”) borrowings and federal funds purchased and (iii) subordinated debentures. The rates on repos increased two bps for the second quarter and the first six months of 2015 compared to the same periods of 2014. The rates on our other borrowing sources, which consist primarily of fixed rate callable FHLB advances, decreased 26 bps in the second quarter and 22 bps for the first six months of 2015 compared to the same periods of 2014. This decrease in rates on other borrowings is primarily the result of our prepaying \$90 million of fixed rate callable FHLB advances with a weighted average interest rate of 4.13% during the fourth quarter of 2014, and our prepaying \$30 million of fixed rate callable FHLB advances with a weighted average interest rate of 4.07% during the first quarter of 2015. The weighted average interest rate on our remaining \$160 million of fixed rate callable FHLB advances is approximately 3.54%. The rates paid on our subordinated debentures, which are tied to a spread over the 90-day London Interbank Offered Rate (“LIBOR”) and reset periodically, increased 67 bps in the second quarter and 60 bps for the first six months of 2015 compared to the same periods of 2014. This increase in rates on our subordinated debentures is primarily due to the \$52.2 million of subordinated debentures assumed in the Intervest transaction, which, net of amortization of the discount of the purchase accounting adjustments, had a weighted average interest rate of 4.13% at June 30, 2015.

The increase in average earning assets for the second quarter and first six months of 2015 compared to the same periods in 2014 was due to an increase in the average balances of non-purchased loans and leases of \$1.56 billion for the second quarter and \$1.49 billion for the first six months of 2015 compared to the same periods in 2014. Additionally, the average balance of purchased loans increased \$0.84 billion for the second quarter and \$0.89 billion during the first six months of 2015 compared to the second quarter and first six months of 2014, primarily as a result of the Intervest acquisition.

The following table sets forth certain information relating to our net interest income for the periods indicated. The yields and rates are derived by dividing interest income or interest expense by the average balance of the related assets or liabilities, respectively, for the periods shown. Average balances are derived from daily average balances for such assets and liabilities. 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. The yields on investment securities include amortization of premiums and accretion of discounts. The average balance of non-purchased loans and leases includes non-purchased loans and leases on which we have discontinued accruing interest. The yields on non-purchased loans and leases and purchased loans without evidence of credit deterioration at date of acquisition include late fees and amortization of certain deferred fees, origination costs and, for such purchased loans, accretion or amortization of any purchase accounting yield adjustment, which are considered adjustments to yields. The yields on purchased loans with evidence of credit deterioration at date of acquisition consist of 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. Interest expense and rates on other borrowings are presented net of interest capitalized on construction projects. The interest expense on the subordinated debentures assumed in the Intervest transaction includes the amortization of purchase accounting adjustments, using the level yield method, over the estimated holding period of eight years.

[Table of Contents](#)

Average Consolidated Balance Sheets and Net Interest Analysis – FTE

	Three Months Ended June 30,						Six Months Ended June 30,					
	2015			2014			2015			2014		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
(Dollars in thousands)												
ASSETS												
Earning assets:												
Interest earning deposits and federal funds sold	\$ 2,898	\$ 18	2.51%	\$ 12,398	\$ 35	1.14%	\$ 2,716	\$ 27	2.01%	\$ 6,770	\$ 38	1.14%
Investment securities:												
Taxable	358,907	3,230	3.61	320,298	2,790	3.49	358,163	6,715	3.78	298,551	5,149	3.48
Tax-exempt – FTE	424,553	6,856	6.48	471,001	7,652	6.52	444,781	14,038	6.36	437,364	14,416	6.65
Non-purchased loans and leases – FTE												
Non-purchased loans and leases – FTE	4,468,971	56,789	5.10	2,913,816	36,892	5.08	4,280,175	107,278	5.05	2,785,645	70,358	5.09
Purchased loans	1,941,271	35,762	7.39	1,105,244	25,128	9.12	1,809,016	68,622	7.65	919,404	42,013	9.21
Total earning assets – FTE	7,196,600	102,655	5.72	4,822,757	72,497	6.03	6,894,851	196,680	5.75	4,447,734	131,974	5.98
Non-interest earning assets	1,086,423			837,379			1,050,327			799,487		
Total assets	\$8,283,023			\$5,660,136			\$7,945,178			\$5,247,221		
LIABILITIES AND STOCKHOLDERS' EQUITY												
Interest bearing liabilities:												
Deposits:												
Savings and interest bearing transaction												
Savings and interest bearing transaction	\$3,261,928	\$ 1,638	0.20%	\$2,484,649	\$ 1,271	0.21%	\$3,182,841	\$ 3,188	0.20%	\$2,291,407	\$ 2,337	0.21%
Time deposits of												
\$100,00 or more	1,254,844	1,373	0.44	488,265	281	0.23	1,181,143	2,671	0.46	435,850	516	0.24
Other time deposits	900,283	906	0.40	505,260	275	0.22	835,968	1,595	0.38	481,887	555	0.23
Total interest bearing deposits	5,417,055	3,917	0.29	3,478,174	1,827	0.21	5,199,952	7,454	0.29	3,209,144	3,408	0.21
Repurchase agreements with customers												
Repurchase agreements with customers	68,656	19	0.11	58,607	13	0.09	73,091	36	0.10	61,808	25	0.08
Other borrowings	161,652	1,443	3.58	281,009	2,692	3.84	175,148	3,146	3.62	280,968	5,347	3.84
Subordinated debentures	117,325	968	3.31	64,950	427	2.64	105,431	1,676	3.21	64,950	840	2.61
Total interest bearing liabilities	5,764,688	6,347	0.44	3,882,740	4,959	0.51	5,553,622	12,312	0.45	3,616,870	9,620	0.54
Non-interest bearing liabilities:												
Non-interest bearing deposits												
Non-interest bearing deposits	1,279,202			964,935			1,225,379			878,349		
Other non-interest bearing liabilities												
Other non-interest bearing liabilities	43,837			59,311			41,471			52,180		
Total liabilities	7,087,727			4,906,986			6,820,472			4,547,399		
Common stockholders' equity	1,191,798			749,692			1,121,225			696,360		
Noncontrolling interest	3,498			3,458			3,481			3,462		
Total liabilities and stockholders equity	\$8,283,023			\$5,660,136			\$7,945,178			\$5,247,221		
Net interest income – FTE		<u>\$ 96,308</u>			<u>\$ 67,538</u>			<u>\$184,368</u>			<u>\$122,354</u>	
Net interest margin – FTE			<u>5.37%</u>			<u>5.62%</u>			<u>5.39%</u>			<u>5.55%</u>

Table of Contents

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 periods 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 volume and yield/rate have all been allocated to the changes due to volume.

Analysis of Changes in Net Interest Income – FTE

	Three Months Ended June 30, 2015 Over Three Months Ended June 30, 2014			Six Months Ended June 30, 2015 Over Six Months Ended June 30, 2014		
	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	\$ (59)	\$ 42	\$ (17)	\$ (40)	\$ 29	\$ (11)
Investment securities:						
Taxable	347	93	440	1,118	448	1,566
Tax-exempt – FTE	(750)	(46)	(796)	235	(613)	(378)
Non-purchased loans and leases – FTE	19,762	135	19,897	37,458	(538)	36,920
Purchased loans	15,401	(4,767)	10,634	33,745	(7,136)	26,609
Total interest income – FTE	34,701	(4,543)	30,158	72,516	(7,810)	64,706
Interest expense:						
Savings and interest bearing transaction	390	(23)	367	893	(42)	851
Time deposits of \$100,000 or more	839	253	1,092	1,686	469	2,155
Other time deposits	398	233	631	675	365	1,040
Repurchase agreements with customers	3	4	7	6	5	11
Other borrowings	(1,065)	(185)	(1,250)	(1,900)	(301)	(2,201)
Subordinated debentures	432	109	541	642	194	836
Total interest expense	997	391	1,388	2,002	690	2,692
Increase (decrease) in net interest income – FTE	<u>\$ 33,704</u>	<u>\$ (4,934)</u>	<u>\$ 28,770</u>	<u>\$ 70,514</u>	<u>\$ (8,500)</u>	<u>\$ 62,014</u>

Non-Interest Income

Our non-interest income consists primarily of, among others, service charges on deposit accounts, mortgage lending income, trust income, BOLI income, other income from purchased loans, gains on investment securities and on sales of other assets and gains on merger and acquisition transactions.

Non-interest income for the second quarter of 2015 increased 33.8% to \$23.3 million compared to \$17.4 million for the second quarter of 2014. Non-interest income for the first six months of 2015 increased 38.6% to \$52.3 million compared to \$37.7 million for the first six months of 2014. Non-interest income for the first six months of 2014 included \$4.7 million of tax-exempt bargain purchase gain from the acquisition of Bancshares. There were no bargain purchase gains during the first six months of 2015.

Service charges on deposit accounts increased 7.3% to \$7.1 million for the second quarter of 2015 compared to \$6.6 million for the second quarter of 2014. Service charges on deposit accounts increased 12.0% to \$13.7 million in the first six months of 2015 compared to \$12.2 million in the first six months of 2014. The increase in service charges on deposit accounts was primarily a result of growth in the number of transaction accounts and the addition of deposit customers from our Summit acquisition, and, to a lesser extent, our Interest acquisition.

Mortgage lending income increased 57.4% to \$1.8 million for the second quarter of 2015 compared to \$1.1 million for the second quarter of 2014. Mortgage lending income increased 57.6% to \$3.3 million in the first six months of 2015 compared to \$2.1 million in the first six months of 2014. The volume of originations of mortgage loans available for sale increased 43.5% to \$73.8 million for the second quarter of 2015 compared to \$51.4 million for the second quarter of 2014. The volume of originations of mortgage loans available for sale increased 51.2% to \$136.3 million for the first six months of 2015 compared to \$90.1 million for the first six months of 2014.

Trust income increased 7.3% to \$1.5 million for the second quarter of 2015 compared to \$1.4 million for the second quarter of 2014. Trust income increased 8.0% to \$2.9 million for the first six months of 2015, compared to \$2.7 million for the first six months of 2014.

Table of Contents

BOLI income increased 39.7% to \$1.8 million for the second quarter of 2015 compared to \$1.3 million for the second quarter of 2014, primarily due to \$85 million of BOLI purchased in May 2015. BOLI income increased 124.5% to \$5.4 million for the first six months of 2015 compared to \$2.4 million for the first six months of 2014, primarily due to \$2.3 million in BOLI death benefits received in the first quarter of 2015 and \$85 million of BOLI purchased in May 2015.

During the fourth quarter of 2014, we entered into agreements with the FDIC terminating the loss share agreements for all seven of our FDIC-assisted acquisitions. As a result, we had no net accretion (amortization) of the FDIC loss share receivable and FDIC clawback payable in the second quarter and first six months of 2015 compared to (\$0.7) million of net amortization expense in the second quarter of 2014 and (\$49,000) of net amortization expense for the first six months of 2014.

Other income from purchased loans was \$7.0 million in the second quarter of 2015 compared to \$3.6 million in the second quarter of 2014 and \$15.9 million during the first six months of 2015 compared to \$6.9 million during the first six months of 2014. Net gains on sales of other assets were \$2.6 million in the second quarter of 2015 compared to \$1.4 million in the second quarter of 2014 and \$5.4 million during the first six months of 2015 compared to \$2.4 million during the first six months of 2014. The increases in other income from purchased loans and net gains on sales of other assets are, in part, attributable to our having terminated the loss share agreements with the FDIC. Subsequent to the termination of such loss share agreements, all recoveries, gains, charge-offs, losses and expenses related to the previously covered assets are recognized entirely by us, since the FDIC no longer shares in such items. Accordingly, our earnings are positively impacted to the extent we recognize recoveries in excess of the carrying value of such assets and gains on any sales. Conversely, our earnings are negatively impacted to the extent we recognize charge-offs, losses on any sales and expenses related to such assets.

Net gains on investment securities were \$85,000 in the second quarter of 2015 compared to \$18,000 in the second quarter of 2014 and \$2.6 million during the first six months of 2015 compared to \$23,000 during the first six months of 2014. During the first quarter of 2015, we sold certain of our longer term municipal bonds resulting in proceeds of \$30.1 million and the net gains of \$2.5 million. We utilized such proceeds to prepay \$30.0 million of our highest rate callable FHLB advances resulting in prepayment penalties of \$2.5 million. These transactions were executed for various reasons, including reducing interest rate risk, increasing secondary sources of liquidity and more efficiently allocating capital.

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

Non-Interest Income

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Service charges on deposit accounts	\$ 7,088	\$ 6,605	\$13,715	\$12,244
Mortgage lending income	1,772	1,126	3,279	2,080
Trust income	1,463	1,364	2,895	2,681
BOLI income	1,785	1,278	5,407	2,408
Net accretion of FDIC loss share receivable and FDIC clawback payable	—	(741)	—	(49)
Other income from purchased loans, net	6,971	3,629	15,879	6,940
Gains on investment securities	85	18	2,618	23
Gains on sales of other assets	2,557	1,448	5,385	2,422
Gain on merger and acquisition transaction	—	—	—	4,667
Other	1,549	2,661	3,159	4,333
Total non-interest income	<u>\$23,270</u>	<u>\$17,388</u>	<u>\$52,337</u>	<u>\$37,749</u>

Non-Interest Expense

Our non-interest expense consists of salaries and employee benefits, net occupancy and equipment and other operating expenses. Non-interest expense increased 15.4% to \$43.7 million for the second quarter of 2015 compared to \$37.9 million for the second quarter of 2014. Non-interest expense increased 24.7% to \$93.9 million for the first six months of 2015 compared to \$75.3 million for the first six months of 2014. During the second quarter of 2015, our non-interest expense included approximately \$1.6 million of acquisition-related and systems conversion expenses. During the second quarter of 2014, our non-interest expense included approximately \$0.8 million of acquisition-related and systems conversion expenses. During the first six months of 2015, our non-interest expense included \$2.5 million in FHLB advance prepayment penalties, \$2.8 million of acquisition-related and systems conversion expenses and \$0.7 million of software and contract termination charges. During the first six months of 2014, our non-interest expense included \$1.5 million of acquisition-related and systems conversion expenses and \$5.0 million of software and contract termination charges. The software and contract termination charges are included in other non-interest expense in the table below.

Table of Contents

Salaries and employee benefits, our largest component of non-interest expense, increased 20.3% to \$22.6 million in the second quarter of 2015 compared to \$18.8 million in the second quarter of 2014. Salaries and employee benefits increased 23.9% to \$45.2 million for the first six months of 2015 compared to \$36.5 million for the first six months of 2014. We had 1,572 full-time equivalent employees at June 30, 2015 compared to 1,528 full-time equivalent employees at June 30, 2014. The increase in our salaries and employee benefits for both the second quarter and first six months of 2015 compared to the same periods in 2014, despite the decrease in number of full-time equivalent employees at June 30, 2015 compared to June 30, 2014, is primarily attributable to the timing of acquisitions and subsequent reductions or eliminations of personnel upon completion of acquired systems conversions.

Net occupancy and equipment expense for the second quarter of 2015 increased 28.7% to \$7.3 million compared to \$5.7 million for the second quarter of 2014. Net occupancy and equipment expense for the first six months of 2015 increased 36.1% to \$14.6 million compared to \$10.8 million for the first six months of 2014. At June 30, 2015 and 2014, we had 164 offices. The increase in net occupancy and equipment expense for the second quarter and first six months of 2015 compared to the same periods in 2014, despite having the same number of offices at both June 30, 2015 and 2014, is primarily attributable to the timing of acquisitions, any subsequent office closures and the effect of such on net occupancy and equipment expense.

Our efficiency ratio (non-interest expense divided by the sum of net interest income – FTE and non-interest income) was 36.6% for the second quarter and 39.7% for the first six months of 2015 compared to 44.6% for the second quarter and 47.1% for the first six months of 2014.

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

Non-Interest Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Salaries and employee benefits	\$22,646	\$18,831	\$45,243	\$36,520
Net occupancy and equipment	7,344	5,707	14,635	10,751
Other operating expenses:				
Postage and supplies	1,014	852	1,929	1,623
Advertising and public relations	586	636	1,169	1,036
Telecommunication services	1,616	1,191	2,964	2,207
Professional and outside services	2,526	2,353	6,912	4,526
Software and data processing	766	1,662	1,515	2,799
Travel and meals	821	629	1,617	1,169
FDIC insurance	900	555	1,650	1,105
FDIC and state assessments	331	218	641	431
ATM expense	543	307	1,251	516
Loan collection and repossession expense	1,020	1,528	2,753	1,987
Writedowns of foreclosed and other assets	235	798	2,427	877
Amortization of intangibles	1,640	1,119	3,236	1,932
FHLB prepayment penalties	—	—	2,480	—
Other	1,736	1,492	3,486	7,854
Total non-interest expense	<u>\$43,724</u>	<u>\$37,878</u>	<u>\$93,908</u>	<u>\$75,333</u>

Income Taxes

The provision for income taxes was \$24.2 million for the second quarter and \$42.3 million for the first six months of 2015 compared to \$12.3 million for the second quarter and \$21.0 million for the first six months of 2014. The effective income tax rate was 35.1% for the second quarter and 33.3% for the first six months of 2015 compared to 31.6% for the second quarter and 28.8% for the first six months of 2014. The increase in the effective tax rate for the second quarter and first six months of 2015 compared to the second quarter and first six months of 2014 was due primarily to the growth in income that is subject to federal and/or state income taxes. The effective tax rates were also affected by various other factors including non-taxable income and non-deductible expenses.

[Table of Contents](#)

ANALYSIS OF FINANCIAL CONDITION

Loan and Lease Portfolio

At June 30, 2015, our total loan and lease portfolio was \$6.59 billion, including \$4.76 billion of non-purchased loans and leases and \$1.83 billion of purchased loans, compared to \$5.13 billion of total loans and leases at December 31, 2014, including \$3.98 billion of non-purchased loans and leases and \$1.15 billion of purchased loans, and \$4.57 billion of total loans and leases at June 30, 2014, including \$3.17 billion of non-purchased loans and leases and \$1.40 billion of purchased loans. Real estate loans, our largest category of loans, consist of all loans secured by real estate as evidenced by mortgages or other liens, including all loans made to finance the development of real property construction projects, provided such loans are secured by real estate. Total real estate loans were \$6.02 billion at June 30, 2015 compared to \$4.51 billion at December 31, 2014 and \$4.03 billion at June 30, 2014. The amount and type of loans and leases outstanding as of the dates indicated, and their respective percentage of the total loan and lease portfolio are reflected in the following table.

Total Loan and Lease Portfolio

	June 30,		June 30,		December 31,	
	2015		2014		2014	
	(Dollars in thousands)					
Real estate:						
Residential 1-4 family	\$ 645,967	9.8%	\$ 657,595	14.4%	\$ 638,958	12.5%
Non-farm/non-residential	2,850,908	43.2	1,903,644	41.6	2,008,430	39.2
Construction/land development	1,961,983	29.8	1,185,245	25.9	1,511,614	29.5
Agricultural	80,402	1.2	106,172	2.3	95,223	1.9
Multifamily residential	477,014	7.2	179,270	3.9	253,590	4.9
Total real estate	6,016,274	91.2	4,031,926	88.1	4,507,815	88.0
Commercial and industrial	306,244	4.6	280,157	6.1	356,532	7.0
Consumer	34,890	0.5	54,543	1.2	40,937	0.8
Direct financing leases	137,146	2.1	98,768	2.2	115,475	2.2
Other	99,417	1.6	110,260	2.4	107,058	2.0
Total loans and leases	<u>\$6,593,971</u>	<u>100.0%</u>	<u>\$4,575,654</u>	<u>100.0%</u>	<u>\$5,127,817</u>	<u>100.0%</u>

Table of Contents

The amount and type of our total real estate loans at June 30, 2015, based on the metropolitan statistical area (“MSA”) and other geographic areas in which the principal collateral is located, are reflected in the following table. Data for individual states and MSAs is separately presented when aggregate real estate loans in that state or MSA exceed \$10.0 million.

Geographic Distribution of Total Real Estate Loans

	<u>Residential 1-4 Family</u>	<u>Non- Farm/Non- Residential</u>	<u>Construction /Land Development</u>	<u>Agricultural</u>	<u>Multifamily Residential</u>	<u>Total</u>
	(Dollars in thousands)					
Arkansas:						
Little Rock–North Little Rock–Conway, AR MSA	\$ 162,692	\$ 284,226	\$ 99,893	\$ 9,895	\$ 27,005	\$ 583,711
Hot Springs, AR MSA	55,239	99,121	21,355	536	15,923	192,174
Fayetteville–Springdale–Rogers, AR–MO MSA	12,448	65,258	16,962	3,932	3,219	101,819
Fort Smith, AR–OK MSA	21,860	50,694	8,308	1,786	6,864	89,512
Southern Arkansas ⁽¹⁾	35,714	32,340	3,901	10,750	2,180	84,885
Western Arkansas ⁽²⁾	22,555	36,230	13,714	7,015	1,356	80,870
Northern Arkansas ⁽³⁾	35,397	19,909	4,864	13,546	964	74,680
All other Arkansas ⁽⁴⁾	17,309	20,371	7,996	15,932	2,877	64,485
Total Arkansas	<u>363,214</u>	<u>608,149</u>	<u>176,993</u>	<u>63,392</u>	<u>60,388</u>	<u>1,272,136</u>
New York:						
New York–Newark–Jersey City, NY–NJ–PA MSA	2,742	589,518	343,962	—	147,943	1,084,165
All other New York ⁽⁴⁾	102	3,882	—	—	1,796	5,780
Total New York	<u>2,844</u>	<u>593,400</u>	<u>343,962</u>	<u>—</u>	<u>149,739</u>	<u>1,089,945</u>
Texas:						
Dallas–Fort Worth–Arlington, TX MSA	21,565	110,632	271,080	—	10,529	413,806
Houston–The Woodlands–Sugar Land, TX MSA	6,572	49,740	129,790	—	16,501	202,603
Austin–Round Rock, TX MSA	8,988	18,974	85,901	—	—	113,863
San Antonio–New Braunfels, TX MSA	1,620	5,814	27,614	—	1,209	36,257
Texarkana, TX–AR MSA	9,486	10,599	995	878	1,028	22,986
College Station–Bryan, TX MSA	169	—	—	—	17,350	17,519
Beaumont–Port Arthur, TX MSA	—	—	—	—	15,200	15,200
Corpus Christi, TX MSA	—	5,813	9,345	—	—	15,158
All other Texas ⁽⁴⁾	1,212	20,401	3,210	—	658	25,481
Total Texas	<u>49,612</u>	<u>221,973</u>	<u>527,935</u>	<u>878</u>	<u>62,475</u>	<u>862,873</u>
California:						
Los Angeles–Long Beach–Anaheim, CA MSA	—	207,563	50,549	—	—	258,112
San Francisco–Oakland–Hayward, CA MSA	—	135,169	112,171	—	—	247,340
Sacramento–Roseville–Arden–Arcade, CA MSA	—	—	52,935	—	—	52,935
Riverside–San Bernardino–Ontario, CA MSA	—	12,416	25,780	—	—	38,196
San Jose–Sunnyvale–Santa Clara, CA MSA	—	—	27,991	—	—	27,991
All other California ⁽⁴⁾	414	4,969	15,276	—	—	20,659
Total California	<u>414</u>	<u>360,117</u>	<u>284,702</u>	<u>—</u>	<u>—</u>	<u>645,233</u>

[Table of Contents](#)

Geographic Distribution of Total Real Estate Loans (continued)

	<u>Residential 1-4 Family</u>	<u>Non- Farm/Non- Residential</u>	<u>Construction /Land Development</u>	<u>Agricultural</u>	<u>Multifamily Residential</u>	<u>Total</u>
	(Dollars in thousands)					
Florida:						
Miami–Fort Lauderdale–West Palm Beach, FL MSA	300	94,339	85,775	—	16,930	197,344
Tampa–St. Petersburg–Clearwater, FL MSA	9,661	37,418	5,615	—	18,110	70,804
North Port–Sarasota–Bradenton, FL MSA	9,800	16,227	5,549	—	240	31,816
Orlando–Kissimmee–Sanford, FL MSA	4,715	23,110	3,797	—	58	31,680
Tallahassee, FL MSA	—	—	25,130	—	—	25,130
Jacksonville, FL MSA	555	20,839	1,761	19	1,902	25,076
Sebring, FL MSA	—	22,347	—	—	17	22,364
Lakeland–Winter Haven, FL MSA	—	12,909	6,602	—	95	19,606
Deltona–Daytona Beach–Ormond Beach, FL MSA	2,575	15,868	505	—	—	18,948
Crestview–Fort Walton Beach–Destin, FL MSA	1,096	2,595	14,434	476	—	18,601
Palm Bay–Melbourne–Titusville, FL MSA	4,704	4,505	—	—	4,428	13,637
All other Florida ⁽⁴⁾	10,136	93,337	10,897	1,082	5,882	121,334
Total Florida	43,542	343,494	160,065	1,577	47,662	596,340
North Carolina/South Carolina:						
Charlotte–Concord–Gastonia, NC–SC MSA	44,260	102,095	42,886	315	8,978	198,534
North Carolina Foothills ⁽⁵⁾	48,736	32,036	6,741	4,157	2,827	94,497
Wilmington, NC MSA	4,905	21,942	5,503	447	273	33,070
Myrtle Beach–North Myrtle Beach–Conway, SC–NC MSA	2,167	6,705	22,504	—	24	31,400
Charleston–North Charleston, SC MSA	1,680	4,757	4,846	—	5,585	16,868
Columbia, SC MSA	—	2,993	12,135	—	—	15,128
Florence, SC MSA	—	3,203	8,853	—	—	12,056
Hilton Head Island–Bluffton–Beaufort, SC MSA	4,428	5,082	1,584	—	—	11,094
All other N. Carolina ⁽⁴⁾	4,372	40,672	35,151	—	923	81,118
All other S. Carolina ⁽⁴⁾	1,133	15,105	141	—	7,273	23,652
Total N. Carolina/S. Carolina	111,681	234,590	140,344	4,919	25,883	517,417
Georgia:						
Atlanta–Sandy Springs–Roswell, GA MSA	20,918	117,743	25,293	3,864	28,263	196,081
Savannah, GA MSA	5,865	24,849	1,406	—	—	32,120
Brunswick, GA MSA	10,500	3,701	727	—	—	14,928
Valdosta, GA MSA	7,110	1,650	622	490	727	10,599
All other Georgia ⁽⁴⁾	11,688	34,074	5,405	3,108	222	54,497
Total Georgia	56,081	182,017	33,453	7,462	29,212	308,225
Tennessee:						
Nashville–Davidson–Murfreesboro–Franklin, TN MSA	429	65,231	10,829	—	—	76,489
Memphis, TN–MS–AR MSA	281	9,225	—	370	11,052	20,928
All other Tennessee ⁽⁴⁾	96	4,144	93	—	—	4,333
Total Tennessee	806	78,600	10,922	370	11,052	101,750

[Table of Contents](#)

Geographic Distribution of Total Real Estate Loans (continued)

	<u>Residential 1-4 Family</u>	<u>Non- Farm/Non- Residential</u>	<u>Construction /Land Development</u>	<u>Agricultural</u>	<u>Multifamily Residential</u>	<u>Total</u>
	(Dollars in thousands)					
Arizona:						
Phoenix–Mesa–Scottsdale, AZ MSA	—	87,535	3	—	—	87,538
All other Arizona ⁽⁴⁾	—	2,676	—	—	—	2,676
Total Arizona	<u>—</u>	<u>90,211</u>	<u>3</u>	<u>—</u>	<u>—</u>	<u>90,214</u>
Pennsylvania:						
Philadelphia–Camden–Wilmington, PA–NJ–DE–MD MSA	—	—	—	—	57,731	57,731
All other Pennsylvania ⁽⁴⁾	—	7,299	—	—	—	7,299
Total Pennsylvania	<u>—</u>	<u>7,299</u>	<u>—</u>	<u>—</u>	<u>57,731</u>	<u>65,030</u>
Colorado:						
Denver–Aurora–Lakewood, CO MSA	13	12,111	17,153	—	1	29,278
All other Colorado ⁽⁴⁾	1,405	—	22,644	—	—	24,049
Total Colorado	<u>1,418</u>	<u>12,111</u>	<u>39,797</u>	<u>—</u>	<u>1</u>	<u>53,327</u>
Las Vegas–Henderson–Paradise, NV MSA	—	—	52,621	—	—	52,621
Illinois:						
Chicago–Naperville–Elgin, IL–IN–WI MSA	2,251	1,931	42,424	—	—	46,606
All other Illinois ⁽⁴⁾	—	—	5,233	—	—	5,233
Total Illinois	<u>2,251</u>	<u>1,931</u>	<u>47,657</u>	<u>—</u>	<u>—</u>	<u>51,839</u>
Washington–Arlington–Alexandria, DC–VA–MD–WV	—	4,332	41,635	—	—	45,967
Missouri:						
St. Louis, MO–IL MSA	242	425	6,511	—	19,333	26,511
All other Missouri ⁽⁴⁾	524	6,567	7,163	979	—	15,233
Total Missouri	<u>766</u>	<u>6,992</u>	<u>13,674</u>	<u>979</u>	<u>19,333</u>	<u>41,744</u>
Alabama:						
Mobile, AL MSA	3,133	13,372	735	—	1,907	19,147
All other Alabama ⁽⁴⁾	8,689	4,498	4,793	825	3,558	22,363
Total Alabama	<u>11,822</u>	<u>17,870</u>	<u>5,528</u>	<u>825</u>	<u>5,465</u>	<u>41,510</u>
Seattle–Tacoma–Bellevue, WA MSA	—	—	40,451	—	—	40,451
Providence–Warwick, RI–MA MSA	—	26,669	—	—	—	26,669
Oklahoma	677	2,175	13,706	—	4,053	20,611
Portland–Vancouver–Hillsboro, OR–WA MSA	—	—	16,166	—	1	16,167
Kentucky	—	16,086	—	—	—	16,086
Ohio	—	6,655	6,729	—	—	13,384
Connecticut	—	12,397	—	—	728	13,125
All other states ⁽⁶⁾	839	23,840	5,640	—	3,291	33,610
Total real estate loans	<u>\$ 645,967</u>	<u>\$ 2,850,908</u>	<u>\$ 1,961,983</u>	<u>\$ 80,402</u>	<u>\$ 477,014</u>	<u>\$6,016,274</u>

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

Table of Contents

The amount and type of total 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.

Total Non-Farm/Non-Residential Loans

	June 30,		December 31,			
	2015	2014	2015	2014		
	(Dollars in thousands)					
Retail, including shopping centers and strip centers	\$ 527,343	18.5%	\$ 386,362	20.3%	\$ 346,925	17.3%
Churches and schools	117,913	4.1	130,751	6.9	104,746	5.2
Office, including medical offices	788,346	27.7	484,970	25.5	621,729	31.0
Office warehouse, warehouse and mini-storage	215,629	7.6	172,283	9.1	169,176	8.4
Gasoline stations and convenience stores	46,076	1.6	55,528	2.9	47,465	2.4
Hotels and motels	379,285	13.3	290,184	15.2	328,507	16.4
Restaurants and bars	50,398	1.8	54,404	2.9	43,084	2.1
Manufacturing and industrial facilities	58,929	2.1	65,996	3.5	76,897	3.8
Nursing homes and assisted living centers	59,465	2.1	54,221	2.8	52,409	2.6
Hospitals, surgery centers and other medical	72,355	2.5	54,954	2.9	54,469	2.7
Golf courses, entertainment and recreational facilities	14,614	0.5	17,883	0.9	16,729	0.8
Other non-farm/non residential	520,555	18.2	136,108	7.1	146,294	7.3
Total	\$2,850,908	100.0%	\$1,903,644	100.0%	\$2,008,430	100.0%

The amount and type of total 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.

Total Construction/Land Development Loans

	June 30,		December 31,			
	2015	2014	2015	2014		
	(Dollars in thousands)					
Unimproved land	\$ 303,901	15.5%	\$ 194,816	16.4%	\$ 272,197	18.0%
Land development and lots:						
1-4 family residential and multifamily	387,568	19.8	277,195	23.4	322,698	21.3
Non-residential	143,197	7.3	102,799	8.7	133,137	8.8
Construction:						
1-4 family residential:						
Owner occupied	30,163	1.5	21,006	1.8	25,482	1.7
Non-owner occupied:						
Pre-sold	35,946	1.8	13,908	1.2	19,664	1.3
Speculative	70,698	3.6	69,781	5.9	75,252	5.0
Multifamily	503,826	25.7	304,637	25.6	354,966	23.5
Industrial, commercial and other	486,684	24.8	201,103	17.0	308,218	20.4
Total	\$1,961,983	100.0%	\$1,185,245	100.0%	\$1,511,614	100.0%

Table of Contents

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. 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 cash equity contribution be contributed prior to any material loan advances. This ensures that the borrower's cash equity required to complete the project will be available for such purposes. As a result of this practice, the borrower's cash equity typically goes toward the purchase of the land and early stage hard costs and soft costs. This results in us funding the loan later as the project progresses, and accordingly, we typically fund the majority of the construction period interest through loan advances. However, when we initially determine the borrower's cash equity requirement, we typically require borrower's cash equity in an amount 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. We advanced construction period interest on construction and development loans totaling \$12.2 million in the second quarter and \$22.2 in the first six months of 2015. While we advanced these sums as part of the funding process, we believe that the borrowers in effect had in most cases already provided for these sums as part of their initial equity contribution. Specifically, the maximum committed balance of all construction and development loans which provide for the use of interest reserves at June 30, 2015 was approximately \$4.9 billion, of which \$1.7 billion was outstanding at June 30, 2015 and \$3.2 billion remained to be advanced. The weighted average loan-to-cost on such loans, assuming such loans are ultimately fully advanced, will be approximately 54%, which means that the weighted average cash equity contributed on such loans, assuming such loans are ultimately fully advanced, will be approximately 46%. The weighted average final loan-to-value ratio on such loans, based on the most recent appraisals and assuming such loans are ultimately fully advanced, is expected to be approximately 45%.

The following table reflects total loans and leases as of June 30, 2015 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 total loans and leases either by adjusting rates on existing loans and leases or reinvesting principal cash flow in new loans and leases. For non-purchased loans and leases and purchased loans without evidence of credit deterioration on the date of purchase, the table below reflects the earliest contractual repricing period. For purchased loans with evidence of credit deterioration at the date of purchase, 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 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 and Lease Cash Flows or Repricing

	<u>1 Year or Less</u>	<u>Over 1 Through 2 Years</u>	<u>Over 2 Through 3 Years</u>	<u>Over 3 Years</u>	<u>Total</u>
	(Dollars in thousands)				
Fixed rate	\$ 397,973	\$389,435	\$506,604	\$1,456,184	\$2,750,196
Floating rate (not at a floor or ceiling rate)	830,196	6,816	1,916	3,721	842,649
Floating rate (at floor rate) ⁽¹⁾	2,940,503	12,617	9,073	38,933	3,001,126
Floating rate (at ceiling rate)	—	—	—	—	—
Total	<u>\$4,168,672</u>	<u>\$408,868</u>	<u>\$517,593</u>	<u>\$1,498,838</u>	<u>\$6,593,971</u>
Percentage of total	63.2%	6.2%	7.8%	22.8%	100.0%
Cumulative percentage of total	63.2	69.4	77.2	100.0	

- (1) We have included a floor rate in many of our loans and leases. As a result of such floor rates, many loans and leases will not immediately reprice in a rising rate environment if the interest rate index and margin on such loans and leases continue to result in a computed interest rate less than the applicable floor rate. The earnings simulation model results included elsewhere in this MD&A include consideration of the impact of all interest rate floors and ceilings in loans and leases.

[Table of Contents](#)

Purchased Loans

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

	June 30,		December 31,
	2015	2014	2014
	(Dollars in thousands)		
Loans without evidence of credit deterioration at date of purchase:			
Unpaid principal balance	\$1,586,661	\$1,079,330	\$ 889,218
Valuation discount	(24,549)	(24,676)	(17,751)
Carrying value	<u>1,562,112</u>	<u>1,054,654</u>	<u>871,467</u>
Loans with evidence of credit deterioration at date of purchase:			
Unpaid principal balance	355,028	482,272	374,001
Valuation discount	(90,292)	(132,857)	(97,521)
Carrying value	<u>264,736</u>	<u>349,415</u>	<u>276,480</u>
Total carrying value	<u>\$1,826,848</u>	<u>\$1,404,069</u>	<u>\$ 1,147,947</u>

On February 10, 2015, the date we closed our Interwest acquisition, each outstanding loan in Interwest's loan portfolio was categorized into (i) a loan without evidence of credit deterioration or (ii) a loan with evidence of credit deterioration. The following table presents, by risk rating, the unpaid principal balance, fair value adjustment, Day 1 Fair Value and the weighted-average fair value adjustment applied to the purchased loans without evidence of credit deterioration in the Interwest acquisition.

**Fair Value Adjustments for Purchased
Loans Without Evidence of Credit Deterioration
at Date of Interwest Acquisition**

Risk Category	Unpaid Principal Balance	Fair Value Adjustment	Day 1 Fair Value	Weighted Average Fair Value Adjustment (in bps)
	(Dollars in thousands)			
FV 33	\$ 83,210	\$ (690)	\$ 82,520	83
FV 44	804,604	(10,961)	793,643	136
FV 55	144,195	(3,109)	141,086	216
FV 36	—	—	—	—
Total	<u>\$1,032,009</u>	<u>\$ (14,760)</u>	<u>\$1,017,249</u>	143

The following grades are used for purchased loans without evidence of credit deterioration at 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 minimal to 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, if any, in this category were not individually reviewed at the date of purchase and are assumed to have characteristics similar to the characteristics of the aggregate acquired portfolio.

[Table of Contents](#)

The following table is a summary of the loans acquired in the Interest acquisition with evidence of credit deterioration at the date of acquisition.

**Fair Value Adjustments for
Purchased Loans With Evidence of
Credit Deterioration at Date of Interest Acquisition**

	<u>As of</u> <u>February 10, 2015</u> (Dollars in thousands)
Contractually required principal and interest	\$ 88,490
Nonaccretable difference	(16,649)
Cash flows expected to be collected	71,841
Accretable difference	(10,126)
Day 1 Fair Value	<u>\$ 61,715</u>

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

**Activity in Purchased Loans
With Evidence of Credit Deterioration**

	<u>Six Months Ended</u> <u>June 30,</u> (Dollars in thousands)	
	<u>2015</u>	<u>2014</u>
Balance – beginning of period	\$276,480	\$392,421
Accretion	21,496	22,650
Purchased loans acquired	61,715	40,035
Transfer to foreclosed assets	(4,395)	(25,325)
Payments received	(89,289)	(75,600)
Charge-offs	(1,497)	(5,237)
Other activity, net	226	471
Balance – end of period	<u>\$264,736</u>	<u>\$349,415</u>

A summary of changes in the accretable difference 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**

	<u>Six Months Ended</u> <u>June 30,</u> (Dollars in thousands)	
	<u>2015</u>	<u>2014</u>
Accretable difference at January 1	\$ 74,167	\$ 83,455
Transfer to foreclosed assets	(308)	(771)
Purchased loans paid off	(12,423)	(8,479)
Cash flow revisions as a result of renewals and/or modifications	19,212	31,125
Accretable difference acquired	10,126	6,732
Accretion	(21,496)	(22,650)
Other, net	—	(508)
Accretable difference at June 30	<u>\$ 69,278</u>	<u>\$ 88,904</u>

Table of Contents

Nonperforming Assets

Non-Purchased Loans and Leases and Foreclosed Assets

Our nonperforming assets consist of (1) nonaccrual loans and leases, (2) accruing loans and leases 90 days or more past due, (3) certain troubled and restructured loans for which a concession has been granted by us to the borrower because of a deterioration in the financial position of the borrower (TDRs) and (4) real estate or other assets that have been acquired in partial or full satisfaction of loan or lease obligations or upon foreclosure. Purchased loans are not included in the following table as nonperforming assets, except for their inclusion in total assets, but are analyzed and discussed separately elsewhere in this MD&A.

The accrual of interest on non-purchased loans and leases is discontinued when, in management's opinion, the borrower or lessee may be unable to meet payments as they become due. We generally place a loan or lease on nonaccrual status when such loan or lease 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 or leases contractually past due 90 days or more if such loans or leases are both well secured and in the process of collection. At the time a loan or lease is placed on nonaccrual status, interest previously accrued but uncollected is reversed and charged against interest income. Nonaccrual loans and leases are generally returned to accrual status when payments are less than 90 days past due and we reasonably expect to collect all payments. If a loan or lease is determined to be uncollectible, the portion of the principal determined to be uncollectible will be charged against the ALLL. 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 and leases. Income on nonaccrual loans or leases, including impaired loans and leases but excluding certain TDRs which continue to accrue interest, is recognized on a cash basis when and if actually collected.

The following table presents a summary of nonperforming assets, excluding purchased loans, as of the dates indicated.

	June 30,		December 31,
	2015	2014	2014
	(Dollars in thousands)		
Nonaccrual non-purchased loans and leases	\$16,281	\$18,393	\$ 21,085
Accruing non-purchased loans and leases 90 days or more past due	—	—	—
TDRs	—	—	—
Total nonperforming non-purchased loans and leases	16,281	18,393	21,085
Foreclosed assets ^{(1) (2)}	25,973	20,581	37,775
Total nonperforming assets ⁽²⁾	\$42,254	\$38,974	\$ 58,860
Nonperforming loans and leases to total loans and leases ⁽³⁾	0.34%	0.58%	0.53%
Nonperforming assets to total assets ^{(2) (3)}	0.49	1.19	0.87

(1) Repossessed personal properties and real estate acquired through or in lieu of foreclosure are initially recorded at the lesser of current principal investment or estimated market value less estimated cost to sell at the date of repossession or foreclosure. 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 market value net of estimated selling costs, if lower, until disposition.

(2) As a result of terminating our loss share agreements with the FDIC during the fourth quarter of 2014, we reclassified foreclosed assets previously reported as covered by FDIC loss share to foreclosed assets for all prior periods. All prior period ratios of nonperforming assets to total assets have been recalculated to include foreclosed assets previously covered by FDIC loss share as nonperforming assets.

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

If an adequate current determination of collateral value has not been performed, once a loan or lease 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, typically at least quarterly, we evaluate the underlying collateral on all impaired loans and leases 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 periods and estimated selling costs.

At June 30, 2015, we had reduced the carrying value of our non-purchased loans and leases deemed impaired (all of which were included in nonaccrual loans and leases) by \$5.0 million to the estimated fair value of such loans and leases of \$12.8 million. The adjustment to reduce the carrying value of such impaired loans and leases to estimated fair value consisted of \$3.6 million of partial charge-offs and \$1.4 million of specific loan and lease loss allocations. These amounts do not include our \$12.3 million of impaired purchased loans at June 30, 2015.

Table of Contents

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

Foreclosed Assets

	June 30,		December 31,
	2015	2014	2014
	(Dollars in thousands)		
Real estate:			
Residential 1-4 family	\$ 4,597	\$ 9,109	\$ 7,909
Non-farm/non-residential	10,984	25,401	17,305
Construction/land development	9,857	21,280	10,998
Agricultural	405	452	728
Multifamily residential	—	—	772
Total real estate	25,843	56,242	37,712
Commercial and industrial	130	103	56
Consumer	—	11	7
Total foreclosed assets	<u>\$25,973</u>	<u>\$56,356</u>	<u>\$ 37,775</u>

The following table presents information concerning the geographic location of nonperforming assets, excluding purchased loans, at June 30, 2015. Nonaccrual loans and leases 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 and Leases	Foreclosed Assets and Repossessions	Total Nonperforming Assets
	(Dollars in thousands)		
Arkansas	\$ 12,893	\$ 10,095	\$ 22,988
Georgia	334	7,322	7,656
North Carolina	1,067	4,641	5,708
Florida	1,653	1,664	3,317
Texas	231	1,143	1,374
Alabama	20	778	798
South Carolina	—	310	310
All other	83	20	103
Total	<u>\$ 16,281</u>	<u>\$ 25,973</u>	<u>\$ 42,254</u>

Purchased Loans

Purchased loans without evidence of credit deterioration at the date of acquisition are reviewed subsequent to the date of acquisition any time a loan is renewed or extended or at any time information becomes available to us that provides material insight regarding the loan's performance, the borrower or the underlying collateral. To the extent that current information indicates it is probable that we will collect all amounts according to the contractual terms thereof, such loan is not considered impaired and is not considered in the determination of the required ALLL. 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 thereon, such loan is considered impaired and is considered in the determination of the required level of ALLL.

Purchased loans with evidence of credit deterioration on the date of purchase are reviewed (i) any time a loan is renewed or extended, (ii) at any other time additional information becomes available to us that provides material additional insight regarding a loan's performance, the status of the borrower, or the quality or value of the underlying collateral, or (iii) in conjunction with the annual review of projected cash flows of each acquired portfolio. We separately review the performance of the portfolio of purchased loans with evidence of credit deterioration 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 our initial expectations established in conjunction with the determination of the Day 1 Fair Values or since our most recent review of such portfolio's performance. To the extent that a purchased loan with evidence of credit deterioration on the date of purchase is performing in accordance with or exceeding our performance expectation established in conjunction with the determination of the Day 1 Fair Values, such loan is rated FV66, is not included in any of the credit quality ratios, is not considered to be a nonaccrual, nonperforming or impaired loan, and is not considered in the determination of the required ALLL. To the extent that the performance of a purchased loan with evidence of credit deterioration on the date of purchase has deteriorated from our expectation established in conjunction with the determination of the Day 1 Fair Values, such loan is rated FV88, is included in certain of our credit quality metrics, is considered an impaired loan, and is considered in the determination of the required level of ALLL.

[Table of Contents](#)

The following table presents a summary of our impaired purchased loans as of the dates indicated.

Impaired Purchased Loans

	June 30,		December 31,
	2015	2014	2014
	(Dollars in thousands)		
Impaired purchased loans without evidence of credit deterioration (rated FV 77)	\$ 533	\$ 86	\$ 748
Impaired purchased loans with evidence of credit deterioration (rated FV 88)	11,814	21,119	13,292
Total impaired purchased loans	<u>\$12,347</u>	<u>\$21,205</u>	<u>\$ 14,040</u>
Impaired purchased loans to total purchased loans	0.68%	1.51%	1.22%

As of June 30, 2015 and 2014 and December 31, 2014, 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 partial charge-offs totaling \$0.4 million for such loans during the second quarter and \$1.7 million for the first six months of 2015 compared to \$1.1 million during the second quarter and \$1.3 for the first six months of 2014. We also recorded provision for loan and lease losses of \$0.4 million during the second quarter and \$1.7 million during the first six months of 2015 compared to \$1.1 million during the second quarter and \$1.3 million during the first six months of 2014 to cover such charge-offs. In addition to these charge-offs, we transferred certain of these purchased loans to foreclosed assets. As a result of these actions, we had \$12.3 million of impaired purchased loans at June 30, 2015, compared to \$21.2 million at June 30, 2014 and \$14.0 million at December 31, 2014.

Allowance and Provision for Loan and Lease Losses

Our ALLL was \$56.7 million, or 1.19% of total non-purchased loans and leases at June 30, 2015, compared to \$52.9 million, or 1.33% of total non-purchased loans and leases at December 31, 2014 and \$47.0 million, or 1.48% of total non-purchased loans and leases at June 30, 2014. We had no ALLL at June 30, 2015 and 2014 or December 31, 2014 for our (i) purchased loans without evidence of credit deterioration at the date of acquisition as management's analysis of such individual loans resulted in no impairment or all identified impairment on such loans had been charged off, or (ii) purchased loans with evidence of credit deterioration at the date of acquisition as all such loans were performing in accordance with management's expectations established in conjunction with the determination of the Day 1 Fair Values or all losses had been charged off on such loans whose performance had deteriorated from management's expectations established in conjunction with the determination of the Day 1 Fair Values. Our ALLL was equal to 349% of our total nonperforming non-purchased loans and leases at June 30, 2015, compared to 251% at December 31, 2014 and 255% at June 30, 2014.

The amount of provision to the ALLL is based on our analysis of the adequacy of the ALLL utilizing the criteria discussed in the Critical Accounting Policies section of our Annual Report on Form 10-K for the year ended December 31, 2014. The provision for loan and lease losses for the second quarter of 2015 was \$4.3 million, including \$3.9 million for non-purchased loans and leases and \$0.4 million for purchased loans, compared to \$5.6 million for the second quarter of 2014, including \$4.5 million for non-purchased loans and leases and \$1.1 million for purchased loans. The provision for loan and lease losses for the first six months of 2015 was \$10.6 million, including \$8.9 million for non-purchased loans and \$1.7 million for purchased loans, compared to \$6.9 million for the first six months of 2014, including \$5.6 million for non-purchased loans and \$1.3 million for purchased loans. The decrease in the provision for loan and lease loss during the second quarter of 2015 compared to the second quarter of 2014 was primarily due to a decrease in charge-offs associated with our non-purchased and purchased loans. The increase in the provision for loan and lease loss during the first six months of 2015 compared to the first six months of 2014 was due to an increase in charge-offs experienced during the first quarter of 2015 as well as the provision necessary to cover the growth of our non-purchased loan and lease portfolio.

Our provision to the ALLL for non-purchased loans and leases for the second quarter of 2015 is primarily the result of provision necessary to cover the growth of our non-purchased loan and lease portfolio, which increased \$456.0 million during the second quarter of 2015. Our practice is to charge off any estimated loss as soon as we are able to identify and reasonably quantify such potential loss. Accordingly, only a small portion of our ALLL is needed for potential losses on non-performing loans. Our ALLL to non-purchased loans and leases has decreased to 1.19% at June 30, 2015, compared to 1.33% at December 31, 2014 and 1.48% at June 30, 2014 primarily as a result of the low level of net charge-offs in recent quarters and due to generally improving economic conditions in many of our markets. While we believe the ALLL at June 30, 2015 and related provision for the second quarter of 2015 were appropriate, changing economic and other conditions may require future adjustments to the ALLL or the amount of provision thereto.

Table of Contents

An analysis of the allowance for loan and lease losses for the periods indicated is shown in the following table.

Analysis of the Allowance for Loan and Lease Losses

	Six Months Ended June 30,		Year Ended December 31,
	2015	2014	2014
	(Dollars in thousands)		
Balance, beginning of period	\$52,918	\$42,945	\$ 42,945
Non-purchased loans and leases charged off:			
Real estate:			
Residential 1-4 family	(621)	(341)	(577)
Non-farm/non-residential	(324)	(1,254)	(1,357)
Construction/land development	(771)	(14)	(638)
Agricultural	(13)	(15)	(214)
Multifamily residential	(208)	—	—
Total real estate	(1,937)	(1,624)	(2,786)
Commercial and industrial	(2,540)	(422)	(720)
Consumer	(69)	(97)	(222)
Direct financing leases	(341)	(267)	(602)
Other	(688)	(159)	(793)
Total non-purchased loans and leases charged off	(5,575)	(2,569)	(5,123)
Recoveries of non-purchased loans and leases previously charged off:			
Real estate:			
Residential 1-4 family	21	71	135
Non-farm/non-residential	17	4	33
Construction/land development	37	8	11
Agricultural	—	11	14
Total real estate	75	94	193
Commercial and industrial	39	763	808
Consumer	42	36	80
Direct financing leases	13	14	49
Other	337	75	266
Total recoveries of non-purchased loans and leases previously charged off	506	982	1,396
Net non-purchased loans and leases charged off	(5,069)	(1,587)	(3,727)
Purchased loans charged off, net	(1,723)	(1,287)	(3,215)
Net charge-offs – total loans and leases	(6,792)	(2,874)	(6,942)
Provision for loan and lease losses:			
Non-purchased loans and leases	8,900	5,600	13,700
Purchased loans	1,723	1,287	3,215
Total provision	10,623	6,887	16,915
Balance, end of period	<u>\$56,749</u>	<u>\$46,958</u>	<u>\$ 52,918</u>
Net charge-offs of non-purchased loans and leases to average non-purchased loans and leases ⁽¹⁾	0.24% ⁽²⁾	0.11% ⁽²⁾	0.12%
Net charge-offs of purchased loans to average purchased loans	0.19% ⁽²⁾	0.28% ⁽²⁾	0.29%
Net charge-offs of total loans and leases to average loans and leases	0.22% ⁽²⁾	0.16% ⁽²⁾	0.16%
ALLL to non-purchased loans and leases ⁽³⁾	1.19%	1.48%	1.33%
ALLL to nonperforming loans and leases ⁽³⁾	349%	255%	251%

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

(2) Annualized.

(3) Excludes purchased loans.

Our net charge-offs increased to \$6.8 million for the first six months of 2015, including \$5.1 million for non-purchased loans and leases and \$1.7 million for purchased loans, compared to \$2.9 million for the first six months of 2014, including \$1.6 million for non-purchased loans and leases and \$1.3 million for purchased loans. The increase in our net charge-offs for non-purchased loans and leases was primarily due to our sale during the first quarter of 2015 of \$15.9 million of performing loans, with deteriorating credit trends, from our Corporate Loan Specialty Group resulting in net charge-offs of \$2.4 million. Our net charge-offs for purchased loans increased during the first six months of 2015, in part, due to our having previously terminated the loss share agreements on our FDIC-assisted acquisitions.

[Table of Contents](#)

Investment Securities

At June 30, 2015 and 2014 and at December 31, 2014, we classified all of our investment securities portfolio as AFS. Accordingly, our investment securities are stated at estimated fair value in the consolidated financial statements with the unrealized gains and losses, net of related income tax, reported as a separate component of stockholders' equity and included in accumulated other comprehensive income.

The following table presents the amortized cost and estimated fair value of investment securities AFS as of the dates indicated. The Company's investment in the CRA qualified investment fund includes shares held in a mutual fund that qualifies under the Community Reinvestment Act of 1977 for community reinvestment purposes. Our holdings of equity securities in FHLB and First National Banker's Bankshares, Inc. ("FNBB") do not have readily determinable fair values and are carried at cost.

Investment Securities

	June 30,				December 31,	
	2015		2014		2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Obligations of state and political subdivisions	\$ 496,777	\$506,915	\$ 603,533	\$616,565	\$ 555,335	\$573,209
U.S. Government agency securities	257,849	260,753	254,878	258,311	245,854	251,233
Corporate obligations	3,574	3,574	685	685	654	654
CRA qualified investment fund	1,028	1,020	—	—	—	—
FHLB and FNBB equity securities	10,015	10,015	16,568	16,568	14,225	14,225
Total	<u>\$ 769,243</u>	<u>\$782,277</u>	<u>\$ 875,664</u>	<u>\$892,129</u>	<u>\$ 816,068</u>	<u>\$839,321</u>

Our investment securities portfolio is reported at estimated fair value, which included gross unrealized gains of \$16.4 million and gross unrealized losses of \$3.4 million at June 30, 2015; gross unrealized gains of \$21.1 million and gross unrealized losses of \$4.7 million at June 30, 2014; and gross unrealized gains of \$24.4 million and gross unrealized losses of \$1.2 million at December 31, 2014. Management believes that all of its unrealized losses on individual investment securities at June 30, 2015 are the result of fluctuations in interest rates and do not reflect deterioration in the credit quality of these investments. Accordingly, management considers these unrealized losses to be temporary in nature. We do not have the intent to sell these investment securities with unrealized losses and, more likely than not, will not be required to sell these investment securities before fair value recovers to amortized cost.

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

Unaccreted Discounts and Unamortized Premiums

	Amortized Cost	Unaccreted Discount	Unamortized Premium	Par Value
	(Dollars in thousands)			
June 30, 2015:				
Obligations of states and political subdivisions	\$ 496,777	\$ 6,912	\$ (6,539)	\$497,150
U.S. Government agency securities	257,849	3,177	(5,582)	255,444
Corporate obligations	3,574	48	(11)	3,611
CRA qualified investment fund	1,028	—	—	1,028
FHLB and FNBB equity securities	10,015	—	—	10,015
Total	<u>\$ 769,243</u>	<u>\$ 10,137</u>	<u>\$ (12,132)</u>	<u>\$767,248</u>
December 31, 2014:				
Obligations of states and political subdivisions	\$ 555,335	\$ 7,976	\$ (7,662)	\$555,649
U.S. Government agency securities	245,854	3,916	(3,953)	245,817
Corporate obligations	654	—	(13)	641
FHLB and FNBB equity securities	14,225	—	—	14,225
Total	<u>\$ 816,068</u>	<u>\$ 11,892</u>	<u>\$ (11,628)</u>	<u>\$816,332</u>
June 30, 2014:				
Obligations of states and political subdivisions	\$ 603,533	\$ 8,625	\$ (8,762)	\$603,396
U.S. Government agency securities	254,878	4,561	(4,191)	255,248
Corporate obligations	685	—	(15)	670
FHLB and FNBB equity securities	16,568	—	—	16,568
Total	<u>\$ 875,664</u>	<u>\$ 13,186</u>	<u>\$ (12,968)</u>	<u>\$875,882</u>

Table of Contents

We had net gains of \$0.1 million from the sale of \$2.6 million of investment securities in the second quarter of 2015 compared to net gains of \$18,000 from the sale of \$47.0 million of investment securities in the second quarter of 2014. We had net gains of \$2.6 million from the sale of \$30.2 million of investment securities in the first six months of 2015 compared with net gains of \$23,000 from the sale of \$48.0 million of investment securities in the first six months of 2014. During the second quarter of 2015 and 2014, respectively, investment securities totaling \$31.3 million and \$16.0 million matured, were called or were paid down by the issuer. During the first six months of 2015 and 2014, respectively, investment securities totaling \$81.5 million and \$29.7 million matured, were called or paid down by the issuer. We purchased \$37.5 million in investment securities during the second quarter of 2015 and first six months of 2015 compared to \$16.8 million of investment securities purchased during the second quarter of 2014 and \$35.1 million of investment securities during the first six months of 2014. On February 10, 2015, we acquired \$21.8 million of investment securities as a result of our Intervest acquisition.

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, current market factors, interest rate risk and other relevant factors.

The following table presents the types and estimated fair values of our investment securities at June 30, 2015 based on credit ratings by one or more nationally-recognized credit rating agency.

Credit Ratings of Investment Securities

	<u>AAA⁽¹⁾</u>	<u>AA⁽²⁾</u>	<u>A⁽³⁾</u>	<u>BBB⁽⁴⁾</u>	<u>Non-Rated⁽⁵⁾</u>	<u>Total</u>
	(Dollars in thousands)					
Obligations of states and political subdivisions	\$10,218	\$172,453	\$116,583	\$22,214	\$185,447	\$506,915
U.S. Government agency securities	—	260,753	—	—	—	260,753
Corporate obligations	—	—	621	—	2,953	3,574
CRA qualified investment fund	—	—	—	—	1,020	1,020
FHLB and FNBB equity securities	—	—	—	—	10,015	10,015
Total	<u>\$10,218</u>	<u>\$433,206</u>	<u>\$117,204</u>	<u>\$22,214</u>	<u>\$199,435</u>	<u>\$782,277</u>
Percentage of total	1.3%	55.4%	15.0%	2.8%	25.5%	100.0%
Cumulative percentage of total	1.3%	56.7%	71.7%	74.5%	100.0%	

- (1) Includes securities rated Aaa by Moody's, AAA by Standard & Poor's ("S&P") or a comparable rating by other nationally-recognized credit rating agencies.
- (2) Includes securities rated Aa1 to Aa3 by Moody's, AA+ to AA- by S&P or a comparable rating by other nationally-recognized credit rating agencies.
- (3) Includes securities rated A1 to A3 by Moody's, A+ to A- by S&P or a comparable rating by other nationally-recognized credit rating agencies.
- (4) Includes securities rated Baa1 to Baa3 by Moody's, BBB+ to BBB- by S&P or a comparable rating by other nationally-recognized credit rating agencies.
- (5) Includes all securities that are not rated or securities that are not rated but that have a rated credit enhancement where we have ignored such credit enhancement. For these securities, 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 a credit rating of investment grade (i.e., Baa3 or better by Moody's or BBB- or better by S&P or a comparable rating by another nationally-recognized credit rating agency).

Deposits

Our lending and investment activities are funded primarily by deposits. The amount and type of deposits outstanding as of the dates indicated and their respective percentage of the total deposits are reflected in the following table. On February 10, 2015, we assumed \$1.18 billion of deposits as a result of our acquisition of Intervest. On May 16, 2014, we assumed \$970 million of deposits as a result of our acquisition of Summit. Additionally, we continued to grow our existing deposit base including growth in deposits of \$406 million during the first six months of 2015, of which, \$28 million and \$378 million were added during the first and second quarters of 2015, respectively.

Deposits

	June 30,				December 31,	
	2015		2014		2014	
	(Dollars in thousands)					
Non-interest bearing	\$1,320,779	18.6%	\$1,058,210	21.2%	\$1,145,454	20.8%
Interest bearing:						
Transaction (NOW)	1,240,787	17.5	1,173,404	23.6	1,031,255	18.8
Savings and money market	2,404,764	33.9	1,575,525	31.6	1,861,734	33.9
Time deposits less than \$100,000	930,640	13.1	557,632	11.2	660,711	12.0
Time deposits of \$100,000 or more	1,190,329	16.9	619,126	12.4	797,228	14.5
Total deposits	<u>\$7,087,299</u>	<u>100.0%</u>	<u>\$4,983,897</u>	<u>100.0%</u>	<u>\$5,496,382</u>	<u>100.0%</u>

Table of Contents

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

Deposits by State

Deposits Attributable to Offices In	June 30,				December 31,	
	2015		2014		2014	
			(Dollars in thousands)			
Arkansas	\$3,335,900	47.1%	\$2,736,653	54.9%	\$2,912,291	53.0%
Texas	1,151,556	16.3	728,073	14.6	996,908	18.1
Florida	738,494	10.4	120,677	2.4	124,469	2.3
Georgia	692,837	9.8	636,950	12.8	675,801	12.3
North Carolina	582,449	8.2	596,180	12.0	599,184	10.9
New York	419,037	5.9	—	—	—	—
Alabama	116,031	1.6	132,271	2.6	141,266	2.6
South Carolina	50,995	0.7	33,093	0.7	46,463	0.8
Total	<u>\$7,087,299</u>	<u>100.0%</u>	<u>\$4,983,897</u>	<u>100.0%</u>	<u>\$5,496,382</u>	<u>100.0%</u>

Other Interest Bearing Liabilities

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

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

Average Balances and Rates of Other Interest Bearing Liabilities

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
	Average Balance	Rate Paid	Average Balance	Rate Paid	Average Balance	Rate Paid	Average Balance	Rate Paid
	(Dollars in thousands)							
Repurchase agreements with customers	\$ 68,656	0.11%	\$ 58,607	0.09%	\$ 73,091	0.10%	\$ 61,808	0.08%
Other borrowings ⁽¹⁾	161,652	3.58	281,009	3.84	175,148	3.62	280,968	3.84
Subordinated debentures	117,325	3.31	64,950	2.64	105,431	3.21	64,950	2.61
Total other interest bearing liabilities	<u>\$347,633</u>	<u>2.80%</u>	<u>\$404,566</u>	<u>3.11%</u>	<u>\$353,670</u>	<u>2.77%</u>	<u>\$407,726</u>	<u>3.10%</u>

- (1) Included in other borrowings at June 30, 2015 are FHLB advances that contain quarterly call features and mature as follows: 2017, \$140.0 million at 3.70% weighted-average interest rate and 2018, \$20.0 million at 2.52% weighted-average interest rate.

The decrease in other borrowings for the three and six months ended June 30, 2015 compared to the same period in 2014 is due to our prepaying \$90 million of fixed rate callable FHLB advances during the fourth quarter of 2014 and prepaying \$30 million of fixed rate callable FHLB advances during the first quarter of 2015. The increase in subordinated debentures is primarily due to the \$52.2 million (net of purchase accounting adjustments) of subordinated debentures assumed in the Intervest transaction.

Table of Contents

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources

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”) (collectively, the “Ozark Trusts”), 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 “Intervest Trusts”; and together with Ozark Trusts, the “Trusts”). At June 30, 2015, we had the following issues of trust preferred securities and subordinated debentures owed to the Trusts.

	<u>Subordinated Debentures Owed to Trust</u>	<u>Unamortized Discount at June 30, 2015</u>	<u>Carrying Value of Subordinated Debentures at June 30, 2015</u>	<u>Trust Preferred Securities of the Trusts</u>	<u>Contractual Interest Rate at June 30, 2015</u>
	(Dollars in thousands)				
Ozark II	\$ 14,433	\$ —	\$ 14,433	\$ 14,000	3.18%
Ozark III	14,434	—	14,434	14,000	3.24
Ozark IV	15,464	—	15,464	15,000	2.50
Ozark V	20,619	—	20,619	20,000	1.89
Intervest II	15,464	(678)	14,786	15,000	3.23
Intervest III	15,464	(785)	14,679	15,000	3.07
Intervest IV	15,464	(1,428)	14,036	15,000	2.68
Intervest V	10,310	(1,358)	8,952	10,000	1.94
	<u>\$ 121,652</u>	<u>\$ (4,249)</u>	<u>\$ 117,403</u>	<u>\$ 118,000</u>	

On February 10, 2015, in conjunction with the Intervest acquisition, the Company acquired the Intervest Trusts with outstanding subordinated debentures totaling \$56.7 million and related trust preferred securities totaling \$55.0 million. On the date of such acquisition, the Company recorded the assumed subordinated debentures owed to the Intervest Trusts 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 owed to the Intervest Trusts.

These subordinated debentures and securities generally mature 30 years after issuance and may be prepaid at par, subject to regulatory approval, on or after approximately five years from the date of issuance, or at an earlier date upon certain changes in tax laws, investment company laws or regulatory capital requirements. These subordinated debentures and the related trust preferred securities provide us additional regulatory capital to support our expected future growth and expansion.

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, 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. We have an effective shelf registration statement on file with the SEC which provides us increased flexibility and more efficient access to the public debt and equity markets if needed. 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.

Common Stockholders' Equity and Reconciliation of Non-GAAP Financial Measures. We use non-GAAP financial measures, specifically 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.

[Table of Contents](#)

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

	<u>June 30,</u>		<u>December 31,</u>
	<u>2015</u>	<u>2014</u>	<u>2014</u>
	(Dollars in thousands)		
Total common stockholders' equity before noncontrolling interest	\$1,209,254	\$ 850,204	\$ 908,390
Less intangible assets:			
Goodwill	(122,884)	(78,669)	(78,669)
Core deposit and bank charter intangibles, net of accumulated amortization	(28,266)	(29,971)	(26,907)
Total intangibles	(151,150)	(108,640)	(105,576)
Total tangible common stockholders' equity	<u>\$1,058,104</u>	<u>\$ 741,564</u>	<u>\$ 802,814</u>
Total assets	\$8,710,435	\$6,297,975	\$ 6,766,499
Less intangible assets:			
Goodwill	(122,884)	(78,669)	(78,669)
Core deposit and bank charter intangibles, net of accumulated amortization	(28,266)	(29,971)	(26,907)
Total intangibles	(151,150)	(108,640)	(105,576)
Total tangible assets	<u>\$8,559,285</u>	<u>\$6,189,335</u>	<u>\$ 6,660,923</u>
Ratio of total common stockholders' equity to total assets	<u>13.88%</u>	<u>13.50%</u>	<u>13.42%</u>
Ratio of total tangible common stockholders' equity to total tangible assets	<u>12.36%</u>	<u>11.98%</u>	<u>12.05%</u>

Calculation of the Ratio of Tangible Book Value Per Common Share

	<u>June 30,</u>		<u>December 31,</u>
	<u>2015</u>	<u>2014</u>	<u>2014</u>
	(In thousands, except per share amounts)		
Total common stockholders' equity before noncontrolling interest	\$1,209,254	\$ 850,204	\$ 908,390
Less intangible assets:			
Goodwill	(122,884)	(78,669)	(78,669)
Core deposit and bank charter intangibles, net of accumulated amortization	(28,266)	(29,971)	(26,907)
Total intangibles	(151,150)	(108,640)	(105,576)
Total tangible common stockholders' equity	<u>\$1,058,104</u>	<u>\$ 741,564</u>	<u>\$ 802,814</u>
Shares of common stock outstanding	<u>86,811</u>	<u>79,662</u>	<u>79,924</u>
Book value per common share	<u>\$ 13.93</u>	<u>\$ 10.67</u>	<u>\$ 11.37</u>
Tangible book value per common share	<u>\$ 12.19</u>	<u>\$ 9.31</u>	<u>\$ 10.04</u>

[Table of Contents](#)

Calculation of Return on Average Tangible Common Stockholders' Equity

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Net income available to common stockholders	\$ 44,776	\$ 26,486	\$ 84,670	\$ 51,762
Average common stockholders' equity before noncontrolling interest	\$1,191,798	\$749,692	\$1,121,225	\$696,360
Less average intangible assets:				
Goodwill	(122,884)	(44,083)	(112,883)	(24,770)
Core deposit and bank charter intangibles, net of accumulated amortization	(29,161)	(16,033)	(28,996)	(14,973)
Total average intangibles	(152,045)	(60,116)	(141,879)	(39,743)
Average tangible common stockholders' equity	<u>\$1,039,753</u>	<u>\$689,576</u>	<u>\$ 979,346</u>	<u>\$656,617</u>
Return on average common stockholders' equity	<u>15.07%</u>	<u>14.17%</u>	<u>15.23%</u>	<u>14.99%</u>
Return on average tangible common stockholders' equity	<u>17.27%</u>	<u>15.41%</u>	<u>17.43%</u>	<u>15.90%</u>

Common Stock Dividend Policy. During the quarter ended June 30, 2015, we paid a dividend of \$0.135 per common share compared to \$0.115 per common share in the quarter ended June 30, 2014. On July 1, 2015, our board of directors approved a dividend of \$0.14 per common share that was paid on July 24, 2015. The determination of future dividends on our common stock will depend on conditions existing at that time and approval of our board of directors.

Regulatory Capital Compliance

Bank and bank holding company regulatory authorities in the United States impose certain capital standards on all bank holding companies and banks. These capital standards require compliance with capital adequacy guidelines and prompt corrective action regulations and involve quantitative measures of assets, liabilities and certain off-balance-sheet items, which are subject to risk weightings and various other factors.

On July 9, 2013, the FDIC and other federal banking regulators issued a final rule that substantially revised the risk-based capital requirements applicable to bank holding companies and insured depository institutions, including the Company and the Bank, to make them consistent with agreements that were 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 Company and 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 (set forth in the table below) of common equity tier 1 capital, tier 1 capital and total capital (as defined in the regulations) to risk-weighted assets (as defined), and of tier 1 capital to adjusted quarterly average assets (as defined).

Under the new 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 our holding company consists of common equity tier 1 capital and \$118 million of trust preferred securities issued by the Trusts. The Basel III Rules include certain provisions that would require trust preferred securities to be phased out of qualifying tier 1 capital. Currently, our trust preferred securities are grandfathered under the Basel III Rules and will continue to be included as tier 1 capital. However, should we continue to grow and exceed \$15 billion in total assets, the grandfather provisions applicable to our trust preferred securities may no longer apply, depending on whether we cross the \$15 billion threshold through organic growth or by acquisition. The common equity tier 1 capital and the tier 1 capital are the same for our bank subsidiary.

Basel III Rules allow for insured depository institutions to make a one-time election not to include most elements of accumulated other comprehensive income in regulatory capital and instead effectively use the existing treatment under the general risk-based capital rules. Insured depository institutions, including the Company and Bank, must make their accumulated

Table of Contents

other comprehensive income opt-out election in the first Consolidated Reports of Condition and Income (“Call Report”), Consolidated Financial Statements for Bank Holding Companies (“FR Y-9C”) and Parent Company Only Financial Statements for Large Bank Holding Companies (“FR Y-9LP”) reports that are filed for the first quarter of 2015. We made this opt-out election in our Call Report, FR Y-9C and FR Y-9LP filed for the first quarter of 2015 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 ALLL and any trust preferred securities that are excluded from tier 1 capital.

The Basel III Rules also changed the risk-weights of assets to better reflect 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 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 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” 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 capital conservation buffer will be phased in beginning January 1, 2016, at 0.625% of risk-weighted assets, increasing each year until fully implemented at 2.5% on January 1, 2019. When fully phased in on January 1, 2019, the Basel III Rules will require us to maintain (i) a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 7.0% upon full implementation, (ii) a minimum ratio of tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer, which effectively results in a minimum ratio of 8.50% upon full implementation, (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus the 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%.

Table of Contents

The following table presents actual and required capital ratios as of June 30, 2015 for the Company and the Bank under the Basel III Rules. The minimum required capital amounts presented include the minimum required capital levels as of June 30, 2015 based on the phase-in provisions of the Basel III Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Rules.

	<u>Actual</u>		<u>Minimum Capital Required – Basel III Phase-In Schedule</u>		<u>Minimum Capital Required – Basel III Fully Phased-In</u>		<u>Required to be Considered Well Capitalized</u>	
	<u>Capital Amount</u>	<u>Ratio</u>	<u>Capital Amount</u>	<u>Ratio</u>	<u>Capital Amount</u>	<u>Ratio</u>	<u>Capital Amount</u>	<u>Ratio</u>
(Dollars in thousands)								
June 30, 2015:								
Common equity tier 1 to risk-weighted assets:								
Company	\$1,054,014	11.18	424,366	\$ 4.50%	\$660,124	7.00%	N/A	N/A
Bank	1,148,610	12.20	423,547	4.50	658,850	7.00	\$611,789	6.50%
Tier 1 capital to risk-weighted assets:								
Company	1,172,014	12.43	565,821	6.00	801,579	8.50	N/A	N/A
Bank	1,148,610	12.20	564,729	6.00	800,032	8.50	752,972	8.00
Total capital to risk-weighted assets:								
Company	1,228,763	13.03	754,428	8.00	990,186	10.50	N/A	N/A
Bank	1,205,359	12.81	752,972	8.00	988,275	10.50	941,215	10.00
Tier 1 leverage to average assets:								
Company	1,172,014	14.41	325,434	4.00	325,434	4.00	N/A	N/A
Bank	1,148,310	14.13	325,111	4.00	325,111	4.00	406,389	5.00

The following table presents actual and required capital ratios as of December 31, 2014 for the Company and the Bank under the regulatory capital rules then in effect.

	<u>Actual</u>		<u>Required For Capital Adequacy Purposes</u>		<u>Required To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
(Dollars in thousands)						
December 31, 2014:						
Tier 1 capital to risk-weighted assets:						
Company	\$851,682	11.74%	\$ 290,213	4.00%	\$435,319	6.00%
Bank	824,120	11.37	290,130	4.00	435,194	6.00
Total capital to risk-weighted assets:						
Company	904,600	12.47	580,425	8.00	725,532	10.00
Bank	877,038	12.10	580,259	8.00	725,324	10.00
Tier 1 leverage to average assets:						
Company	851,681	12.92	197,711	3.00	329,518	5.00
Bank	824,120	12.52	197,465	3.00	329,108	5.00

As of June 30, 2015, capital levels at both the Company and the Bank exceed all capital adequacy requirements under the Basel III Rules on a fully phased-in basis. Based on the ratios presented above, capital levels as of June 30, 2015 exceed the minimum levels necessary to be considered “well capitalized.”

Table of Contents

Liquidity

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

The objective of managing liquidity risk is to ensure the cash flow requirements resulting from depositor, borrower and other creditor demands are met, as well as operating cash needs of the Company, and the cost of funding such requirements and needs is reasonable. We maintain an interest rate risk, liquidity and funds management policy and a contingency funding plan that, among other things, include policies and procedures for managing liquidity risk. Generally we rely on deposits, repayments of loans and leases, and repayments of our investment securities as our primary sources of funds. Our principal deposit sources include consumer, commercial and public funds customers in our markets. We have used these funds, together with wholesale deposit sources such as brokered deposits, along with FHLB advances, federal funds purchased and other sources of short-term borrowings, to make loans and leases, 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 and lease repayments are generally a relatively stable source of funds but are subject to the borrowers' and lessees' ability to repay the loans and leases, 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 and leases generally are not readily convertible to cash. Accordingly, we may be required from time to time to rely on secondary sources of liquidity to meet growth in loans and leases and deposit withdrawal demands or otherwise fund operations. Such secondary sources include wholesale deposit sources, FHLB advances, secured and unsecured federal funds lines of credit from correspondent banks, FRB borrowings and/or accessing the capital markets.

At June 30, 2015, we had substantial unused borrowing availability. This availability was primarily comprised of the following four options: (1) \$1.66 billion of available blanket borrowing capacity with the FHLB, (2) \$137 million of investment securities available to pledge for federal funds or other borrowings, (3) \$170 million of available unsecured federal funds borrowing lines and (4) up to \$149 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 leases and repayments of our investment securities to provide liquidity, as well as other funding sources as appropriate. Additionally, where necessary, the sources of borrowed funds described above will be used to augment our primary funding sources.

Sources and Uses of Funds. Operating activities provided net cash of \$44.9 million for the first six months of 2015 and \$20.1 million for the first six months of 2014. Net cash used or provided by operating activities is comprised primarily of net income, adjusted for non-cash items and for changes in various operating assets and liabilities.

Investing activities used net cash of \$39.2 million in the first six months of 2015 and used \$118.8 million in the first six months of 2014. The decrease in net cash used by investing activities of \$79.6 million was primarily the result of the net cash of \$274.3 million received in the Intervest acquisition. Additionally, the net activity in our investment securities portfolio provided \$76.8 million during the first six months of 2015 compared to \$43.0 million during the first six months of 2014. The current low interest rate environment has resulted in many issuers of investment securities, particularly tax-exempt municipal securities, to call higher rate securities and refinance such securities at lower interest rates. The investing cash flow provided by our Intervest transaction and investment securities portfolio was partially offset by investing activities cash flow used to purchase \$85.0 million in BOLI policies during the first six months of 2015 compared to no BOLI purchases during the first six months of 2014 and investing activities cash flow used to fund the continued growth in our loan and lease portfolio, which used \$338.0 million in the first six months of 2015 compared to \$332.3 million in the first six months of 2014.

Financing activities provided \$359.0 million and \$13.4 million in the first six months of 2015 and 2014, respectively. The increase in net cash provided by financing activities was primarily the result of an increase in net cash provided by our deposit activities, which provided \$406.3 million during the first six months of 2015 to help fund our loan and lease growth compared to \$41.2 million of net cash provided during the first six months of 2014. This increase in financing activities cash flows provided by our deposit activities was partially offset by our repayment of other borrowings, which used \$31.4 million during the first six months of 2015.

Table of Contents

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 and standby letters of credit. See Note 9 to the Consolidated Financial Statements for more information about our outstanding guarantees and commitments as of June 30, 2015.

Growth and Expansion

De Novo Growth. In 2014 we opened loan production offices for our Real Estate Specialties Group, or RESG, in Houston, Texas and in Los Angeles, California. We also opened a third retail banking office in Bradenton, Florida, a retail banking office in Cornelius, North Carolina and a retail banking office in Hilton Head Island, South Carolina. In the second half of 2015, we expect to open our fourth retail banking office in Houston, Texas and a loan production office in Greensboro, North Carolina. During 2016, we expect to open our first retail banking office in Siloam Springs in northwest Arkansas, our second retail banking office in Springdale, Arkansas, our third retail banking office in Fayetteville, Arkansas and our first retail banking office in McKinney, Texas.

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

During the first six months of 2015, we spent \$9.7 million on capital expenditures for premises and equipment. Our capital expenditures for 2015 are expected to be in the range of \$15 million to \$25 million, including progress payments on construction projects expected to be completed in 2015 and 2016, 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 or inability to obtain required approvals, potential premises and equipment expenditures associated with acquisitions, if any, and other factors.

Acquisitions. We have shown substantial growth through a combination of organic growth and acquisitions. Since 2010, we have completed 13 acquisitions, including seven FDIC-assisted transactions.

On February 10, 2015, we completed our acquisition of Interwest and its wholly-owned bank subsidiary Interwest National Bank, headquartered in New York, New York. The acquisition of Interwest added seven full service banking offices including one in New York City, five in Clearwater, Florida and one in Pasadena, Florida.

On August 5, 2015, we completed our acquisition of Bank of the Carolinas Corporation (“BCAR”) and its wholly-owned bank subsidiary Bank of the Carolinas, headquartered in Mocksville, North Carolina. The acquisition of BCAR added eight full service banking offices in North Carolina, including one each in Advance, Asheboro, Concord, Harrisburg, Landis, Lexington, Mocksville and Winston-Salem.

We expect to continue growing through both our *de novo* branching strategy and traditional acquisitions. With respect to our *de novo* branching strategy, future *de novo* branches are expected to be focused in states where we currently have banking offices and we expect to begin focusing on larger markets and MSAs across the U.S. where we currently do not have offices. Future RESG loan production offices are expected to be focused in strategically important markets (most likely Washington, D.C., Seattle, Boston and Chicago). With respect to traditional acquisitions, we are seeking acquisitions that are either immediately accretive to book value, tangible book value, and diluted earnings per share, or strategic in location, or both.

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 18 to the Consolidated Financial Statements for a discussion of certain recently issued and recently adopted accounting pronouncements.

Table of Contents

Item 3. **Quantitative and Qualitative Disclosures about Market Risk**

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

We regularly review 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. Typically, ALCO reviews on at least a quarterly basis our relative ratio of rate sensitive assets (“RSA”) to rate sensitive liabilities (“RSL”) and the related cumulative gap for different time periods. However, the primary tool used by ALCO to analyze our interest rate risk and interest rate sensitivity is an earnings simulation model.

This earnings simulation modeling process projects a baseline net interest income (assuming no changes in interest rate levels) and estimates changes to that baseline net interest income resulting from changes in interest rate levels. We rely primarily on the results of this model in evaluating our interest rate risk. This model incorporates a number of additional factors including: (1) the expected exercise of call features on various assets and liabilities, (2) the expected rates at which various RSA and RSL 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 cap 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 purchased loans and (8) other relevant factors. Inclusion of these factors in the model is intended to more accurately project our expected changes in net interest income resulting from interest rate changes. We typically model our change in net interest income assuming interest rates go up 100 bps, up 200 bps, up 300 bps, up 400 bps, down 100 bps, down 200 bps, down 300 bps and down 400 bps. Based on current conditions, we believe that modeling our change in net interest income assuming interest rates go down 100 bps, down 200 bps, down 300 bps and down 400 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 July 1, 2015. 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 or the impact of any possible future acquisitions.

Shift in Interest Rates (in bps)	% Change in Projected Baseline Net Interest Income
+400	11.6%
+300	8.3
+200	5.0
+100	2.2
-100	Not meaningful
-200	Not meaningful
-300	Not meaningful
-400	Not meaningful

In the event of a shift in interest rates, management 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, leases and deposits.

Table of Contents

Item 4. **Controls and Procedures**

(a) Evaluation of Disclosure Controls and Procedures.

An evaluation as of the end of the period covered by this quarterly report was carried out under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer and our Chief Financial Officer and Chief Accounting Officer, of the effectiveness of the design and operation of our “disclosure controls and procedures,” which are defined under SEC rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within required time periods. Based upon that evaluation, our Chairman and Chief Executive Officer and our Chief Financial Officer and Chief Accounting Officer concluded that our disclosure controls and procedures were effective.

(b) Changes in Internal Control over Financial Reporting.

Our management, including our Chairman and Chief Executive Officer and our Chief Financial Officer and Chief Accounting Officer, has evaluated any changes in our internal control over financial reporting that occurred during the quarterly period covered by this report and has concluded that there were no changes during the quarterly period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On January 5, 2012, the Company and the Bank were served with a summons and complaint filed on December 19, 2011, in the Circuit Court of Lonoke County, Arkansas, Division III, styled *Robert Walker, Ann B. Hines and Judith Belk vs. Bank of the Ozarks, Inc. and Bank of the Ozarks*, Case No. CV-2011-777. In addition, on December 21, 2012, the Bank was served with a summons and complaint filed on December 20, 2012, in the Circuit Court of Pulaski County, Arkansas, Ninth Division, styled *Audrey Muzingo v. Bank of the Ozarks*, Case No. 60 CV-12-6043. The complaint in each case alleges that the Company and/or Bank have harmed the plaintiffs, current or former customers of the Bank, by improper, unfair, and unconscionable assessment and collection of excessive overdraft fees from the plaintiffs. According to the complaints, plaintiffs claim that the Bank employs sophisticated software to automate its overdraft system, and that this system unfairly and inequitably manipulates and alters customers' transaction records in order to maximize overdraft penalties, particularly utilizing a practice of posting of items in "high-to-low" order, despite the actual sequence in which such items are presented for payment. Plaintiffs claim that the Bank's deposit agreements with customers do not adequately disclose the Bank's overdraft assessment policies and are ambiguous, deceptive, unfair, and misleading. The complaint in each case alleges that these actions and omissions constitute breach of contract, breach of the implied covenant of good faith and fair dealing, unconscionable conduct, conversion, unjust enrichment, and violation of the Arkansas Deceptive Trade Practices Act. The complaint in the *Walker* case also includes a count for conversion. Each of the complaints seeks to have the cases certified by the court as a class action for all Bank account holders similarly situated, and seeks a declaratory judgment as to the wrongful nature of the Bank's overdraft fee policies, restitution of overdraft fees paid by the plaintiffs and the putative class (defined as all Bank customers residing in Arkansas) as a result of the actions cited in the complaints, disgorgement of profits as a result of the alleged wrongful actions, and unspecified compensatory and statutory or punitive damages, together with pre-judgment interest, costs, and plaintiffs' attorneys' fees.

The Company and Bank filed a motion to dismiss and to compel arbitration in the *Walker* case. The trial court denied the motion and found that the arbitration provision contained in the controlling Consumer Deposit Account Agreement was unconscionable and thus unenforceable on the grounds that the provision was the result of unequal bargaining power. The Company and Bank appealed the trial court's ruling to the Arkansas Court of Appeals on an interlocutory basis. On September 18, 2013, a three-judge panel of the Arkansas Court of Appeals reversed the trial court's ruling and remanded the case to the trial court for the purpose of entering an order compelling arbitration. On October 7, 2013, the plaintiffs filed petitions for reconsideration and review before the Arkansas Court of Appeals and Arkansas Supreme Court, respectively. On October 30, 2013, the Arkansas Court of Appeals denied the plaintiffs' petition for reconsideration. In January 2014, the Arkansas Supreme Court granted the plaintiff's petition for review. Oral arguments were presented to the Arkansas Supreme Court on May 1, 2014. On May 15, 2014, the Arkansas Supreme Court vacated the Arkansas Court of Appeals' decision, reversing and remanding the case to the trial court to determine, in the first instance, whether there is a valid agreement to arbitrate disputes between the named plaintiffs and the Bank.

An evidentiary hearing was conducted by the trial court on the arbitration issue on October 1, 2014, and the trial court took the matter under advisement. On October 30, 2014, the trial court issued an order once again denying the Company and Bank's motion to dismiss and to compel arbitration. The trial court ruled that the Consumer Deposit Account Agreement containing the arbitration provision was not enforceable because of a lack of mutual agreement and lack of mutual obligation. The Company and Bank have appealed the trial court's ruling to the Arkansas Supreme Court on an interlocutory basis. The Company and Bank filed their initial appellate brief on April 14, 2015. The plaintiffs filed their appellate brief on May 14, 2015, and the Company and the Bank filed their reply brief on May 29, 2015. The Arkansas Supreme Court has determined that oral arguments are unnecessary. A ruling from the Arkansas Supreme Court is expected in September or October of 2015.

The Plaintiff in the *Muzingo* case has agreed to stay the proceedings in that case pending the outcome of the appeal in the *Walker* case. The Company and the Bank believe the Plaintiffs' claims in each of these cases are unfounded and subject to meritorious defenses and intend to vigorously defend against these claims.

The Company is party to various other legal proceedings, as both plaintiff and defendant, arising in the ordinary course of business, including claims of lender liability, broken promises, and other similar lending-related claims. While the ultimate resolution of these various claims and proceedings cannot be determined at this time, management of the Company believes that such claims and proceedings, individually or in the aggregate, will not have a material adverse effect on the future results of operations, financial condition, or liquidity of the Company.

Table of Contents

Item 1A. **Risk Factors**

There were no material changes from the risk factors set forth under Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Item 2. **Unregistered Sales of Equity Securities and Use of Proceeds**

We had no unregistered sales of equity securities and did not purchase any shares of our common stock during the period covered by this report.

Item 3. **Defaults Upon Senior Securities**

Not Applicable.

Item 4. **Mine Safety Disclosures**

Not Applicable.

Item 5. **Other Information**

None.

Item 6. **Exhibits**

Reference is made to the Exhibit Index set forth immediately following the signature page of this report.

[Table of Contents](#)

SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: August 7, 2015

Bank of the Ozarks, Inc.

/s/ Greg McKinney

Greg McKinney

Chief Financial Officer and

Chief Accounting Officer

(Principal Financial Officer and Authorized Officer)

Table of Contents

Bank of the Ozarks, Inc.

Exhibit Index

<u>Exhibit Number</u>	
2.1	Agreement and Plan of Merger among Bank of the Ozarks, Inc., Bank of the Ozarks, Summit Bancorp, Inc. and Summit Bank, dated as of January 30, 2014 (previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the Commission on January 30, 2014, and incorporated herein by this reference).
2.2	Agreement and Plan of Merger among Bank of the Ozarks, Inc., Bank of the Ozarks, Intervest Bancshares Corporation and Intervest National Bank, dated as of July 31, 2014 (previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the Commission on July 31, 2014, and incorporated herein by this reference).
3.1	Amended and Restated Articles of Incorporation of Bank of the Ozarks, Inc., dated May 22, 1997 (previously filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 filed with the Commission on May 22, 1997, as amended, Commission File No. 333-27641, and incorporated herein by this reference).
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation of Bank of the Ozarks, Inc. dated December 9, 2003 (previously filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K filed with the Commission on March 12, 2004 for the year ended December 31, 2003, and incorporated herein by this reference).
3.3	Articles of Amendment to the Amended and Restated Articles of Incorporation of Bank of the Ozarks, Inc. dated December 10, 2008 (previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on December 10, 2008, and incorporated herein by this reference).
3.4	Articles of Amendment to the Amended and Restated Articles of Incorporation of Bank of the Ozarks, Inc. dated May 19, 2014 (previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on May 20, 2014).
3.5	Amended and Restated Bylaws of Bank of the Ozarks, Inc., dated November 18, 2014 (previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on November 21, 2014, and incorporated herein by this reference).
10.1*	Bank of the Ozarks, Inc. Amended and Restated Stock Option Plan, effective May 18, 2015 (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on May 18, 2015 and incorporated herein by this reference).
10.2*	Form of Stock Option Grant Agreement, effective May 18, 2015, for employees under the Amended and Restated Stock Option Plan (previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on May 18, 2015 and incorporated herein by this reference)
10.3*	Bank of the Ozarks, Inc. Non-Employee Director Stock Plan, effective May 18, 2015 (previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Commission on May 18, 2015 and incorporated herein by this reference).
11.1	Earnings Per Share Computation (included in Note 4 to the Consolidated Financial Statements).
12.1	Computation of Ratios of Earnings to Fixed Charges, filed herewith.
31.1	Certification of Chairman and Chief Executive Officer, pursuant to Section 302 of the Sarbanes Oxley Act of 2002, filed herewith.
31.2	Certification of Chief Financial Officer and Chief Accounting Officer, pursuant to Section 302 of the Sarbanes Oxley Act of 2002, filed herewith.
32.1	Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.
32.2	Certification of Chief Financial Officer and Chief Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.

[Table of Contents](#)

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Definition Linkbase
101.LAB	XBRL Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Management contract or a compensatory plan or arrangement.

[\(Back To Top\)](#)

Section 2: EX-12.1 (EX-12.1)

Exhibit 12.1

Bank of the Ozarks, Inc. Calculation of Ratio of Earnings to Fixed Charges

The following table presents the calculation of the consolidated ratio of earnings to fixed charges for the periods presented.

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015	Years Ended December 31,				
			2014	2013	2012	2011	2010
(Dollars in thousands)							
Earnings:							
Add:							
Net income before income taxes	\$ 68,994	\$ 127,051	\$172,447	\$131,414	\$110,999	\$151,511	\$ 90,538
Fixed charges	6,455	12,529	21,225	18,831	21,825	30,645	34,584
Other	—	1	1	3	4	3	7
Less:							
Interest capitalized	(7)	(16)	(24)	(24)	(24)	(24)	(24)
Noncontrolling interest of subsidiaries	28	52	(18)	28	20	(18)	(77)
Earnings	<u>\$ 75,470</u>	<u>\$ 139,617</u>	<u>\$193,631</u>	<u>\$150,252</u>	<u>\$132,824</u>	<u>\$182,117</u>	<u>\$125,028</u>
Fixed Charges:							
Interest expense:							
Deposits	\$ 3,917	\$ 7,454	\$ 8,566	\$ 6,103	\$ 8,982	\$ 11,686	\$ 20,047
FHLB advances and subordinated debentures	2,429	4,858	12,389	12,531	12,618	18,749	14,290
Interest capitalized	7	16	24	57	70	51	139
Estimated interest included within rental expense	102	201	246	140	155	159	108
Preferred dividend requirements	—	—	—	—	—	—	—
Fixed charges	<u>\$ 6,455</u>	<u>\$ 12,529</u>	<u>\$ 21,225</u>	<u>\$ 18,831</u>	<u>\$ 21,825</u>	<u>\$ 30,645</u>	<u>\$ 34,584</u>
Ratio of Earnings to Fixed Charges (including deposit interest)	<u>11.69</u>	<u>11.14</u>	<u>9.12</u>	<u>7.98</u>	<u>6.09</u>	<u>5.94</u>	<u>3.62</u>
Ratio of Earnings to Fixed Charges (excluding deposit interest)	<u>29.74</u>	<u>27.51</u>	<u>15.30</u>	<u>11.80</u>	<u>10.34</u>	<u>9.61</u>	<u>8.60</u>

The ratio of earnings to fixed charges is computed in accordance with item 503 of Regulation S-K by dividing (1) income before income taxes, fixed charges and amortization of capitalized interest, less interest capitalized and noncontrolling interest in income of subsidiaries that have not incurred fixed charges by (2) total fixed charges. For purposes of computing this ratio:

- fixed charges, including interest on deposits, include all interest expense, interest capitalized and the estimated portion of rental expense attributable to interest, net of income from subleases; and
- fixed charges, excluding interest on deposits, include interest expense (other than on deposits), interest capitalized and the estimated portion of rental expense attributable to interest, net of income from subleases.

[\(Back To Top\)](#)

Section 3: EX-31.1 (EX-31.1)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY
ACT OF 2002**

I, George Gleason, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bank of the Ozarks, Inc.;
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 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: August 7, 2015

/s/ George Gleason

George Gleason
Chairman and Chief Executive Officer

[\(Back To Top\)](#)

Section 4: EX-31.2 (EX-31.2)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY
ACT OF 2002**

I, Greg McKinney, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bank of the Ozarks, Inc.;
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 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: August 7, 2015

/s/ Greg McKinney

Greg McKinney
Chief Financial Officer and
Chief Accounting Officer

[\(Back To Top\)](#)

Section 5: EX-32.1 (EX-32.1)

Exhibit 32.1

**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 Quarterly Report of Bank of the Ozarks, Inc. (the Company) on Form 10-Q for the period ended June 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, George Gleason, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 7, 2015

/s/ George Gleason

George Gleason
Chairman and Chief Executive Officer

[\(Back To Top\)](#)

Section 6: EX-32.2 (EX-32.2)

Exhibit 32.2

**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 Quarterly Report of Bank of the Ozarks, Inc. (the Company) on Form 10-Q for the period ended June 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Greg McKinney, Chief Financial Officer and Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 7, 2015

/s/ Greg McKinney

Greg McKinney
Chief Financial Officer and
Chief Accounting Officer

[\(Back To Top\)](#)