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

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 September 30, 2020

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

For the transition period from _________ to _________.

FDIC Certificate No. 110

BANK OZK
(Exact name of registrant as specified in its charter)

ARKANSAS	**71-0130170**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
18000 CANTRELL ROAD, LITTLE ROCK, ARKANSAS	**72223**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Emerging growth company	☐
Smaller reporting company	☐		

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

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

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

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

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

Class	Outstanding at October 30, 2020
Common Stock, $0.01 par value per share	129,327,968

BANK OZK
FORM 10-Q
September 30, 2020

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BANK OZK
CONSOLIDATED BALANCE SHEETS
Unaudited

	September 30, 2020	December 31, 2019
	(Dollars in thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 1,934,095	$ 1,495,757
Investment securities – available for sale (“AFS”)	3,468,243	2,277,389
Federal Home Loan Bank of Dallas (“FHLB”) and other bankers’ bank stocks	38,388	21,855
Non-purchased loans	18,419,958	16,224,539
Purchased loans	938,485	1,307,504
Allowance for loan losses	(308,847)	(108,525)
Net loans	19,049,596	17,423,518
Premises and equipment, net	739,066	711,541
Foreclosed assets	16,543	19,096
Accrued interest receivable	85,858	75,208
Bank owned life insurance (“BOLI”)	753,038	738,860
Goodwill and other intangible assets, net	677,251	684,542
Other, net	126,230	107,962
Total assets	$ 26,888,308	$ 23,555,728
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Deposits:		
Demand non-interest bearing	$ 3,908,207	$ 2,795,251
Savings and interest bearing transaction	7,585,032	8,307,607
Time	9,794,166	7,371,401
Total deposits	21,287,405	18,474,259
Repurchase agreements with customers	4,994	11,249
Other borrowings	750,949	351,387
Subordinated notes	223,950	223,663
Subordinated debentures	120,335	119,916
Reserve for losses on unfunded loan commitments	68,426	—
Accrued interest payable and other liabilities	242,876	221,786
Total liabilities	22,698,935	19,402,260
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock; $0.01 par value; 100,000,000 shares authorized; no shares issued or outstanding at September 30, 2020 or December 31, 2019	—	—
Common stock; $0.01 par value; 300,000,000 shares authorized; 129,342,073 and 128,951,024 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	1,293	1,289
Additional paid-in capital	2,261,864	2,251,824
Retained earnings	1,862,012	1,869,983
Accumulated other comprehensive income	61,116	27,255
Total stockholders’ equity before noncontrolling interest	4,186,285	4,150,351
Noncontrolling interest	3,088	3,117
Total stockholders’ equity	4,189,373	4,153,468
Total liabilities and stockholders’ equity	$ 26,888,308	$ 23,555,728

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF INCOME
Unaudited

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	(Dollars in thousands, except per share amounts)			
Interest income:				
Non-purchased loans	$ 236,621	$ 244,954	$ 701,290	$ 740,900
Purchased loans	16,269	26,042	54,743	84,756
Investment securities:				
Taxable	9,666	12,511	31,480	40,992
Tax-exempt	5,193	3,363	14,636	10,930
Deposits with banks and federal funds sold	532	2,647	5,237	4,001
Total interest income	268,281	289,517	807,386	881,579
Interest expense:				
Deposits	38,273	66,248	141,206	196,727
Repurchase agreements with customers	4	5	17	39
Other borrowings	1,156	90	2,168	1,497
Subordinated notes	3,207	3,216	9,551	9,542
Subordinated debentures	984	1,178	3,420	4,570
Total interest expense	43,624	70,737	156,362	212,375
Net interest income	224,657	218,780	651,024	669,204
Provision for credit losses	7,200	7,854	196,889	21,303
Net interest income after provision for credit losses	217,457	210,926	454,135	647,901
Non-interest income:				
Service charges on deposit accounts	9,427	10,827	27,717	30,841
Trust income	1,936	1,975	5,635	5,544
BOLI income:				
Increase in cash surrender value	5,081	5,208	15,205	15,547
Death benefits	—	206	608	206
Other income from purchased loans	—	674	—	2,925
Loan service, maintenance and other fees	3,351	4,197	10,461	13,636
Gains on sales of other assets	891	189	1,674	875
Net gains on investment securities	2,244	—	4,467	713
Other	3,746	3,170	10,180	6,834
Total non-interest income	26,676	26,446	75,947	77,121
Non-interest expense:				
Salaries and employee benefits	53,119	48,376	153,003	140,801
Net occupancy and equipment	16,676	14,825	47,761	44,163
Other operating expenses	35,846	37,713	109,255	111,760
Total non-interest expense	105,641	100,914	310,019	296,724
Income before taxes	138,492	136,458	220,063	428,298
Provision for income taxes	29,251	32,574	48,707	103,189
Net income	109,241	103,884	171,356	325,109
Earnings attributable to noncontrolling interest	12	7	29	(9)
Net income available to common stockholders	$ 109,253	$ 103,891	$ 171,385	$ 325,100
Basic earnings per common share	$ 0.84	$ 0.81	$ 1.33	$ 2.52
Diluted earnings per common share	$ 0.84	$ 0.81	$ 1.32	$ 2.52

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Net income	$ 109,241	$ 103,884	$ 171,356	$ 325,109
Other comprehensive income (loss):				
Unrealized gains and losses on investment securities AFS	(511)	10,527	48,815	82,133
Tax effect of unrealized gains and losses on investment securities AFS	155	(2,572)	(11,560)	(19,840)
Reclassification of gains and losses on investment securities AFS included in net income	(2,244)	—	(4,467)	(713)
Tax effect of reclassification of gains and losses on investment securities AFS included in net income	539	—	1,073	173
Total other comprehensive income (loss)	(2,061)	7,955	33,861	61,753
Total comprehensive income	$ 107,180	$ 111,839	$ 205,217	$ 386,862

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Unaudited

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non-Controlling Interest	Total
	(Dollars in thousands, except per share amounts)					
Three months ended September 30, 2020:						
Balances – June 30, 2020	$ 1,293	$2,257,867	$1,788,329	$ 63,177	$ 3,100	$4,113,766
Net income	—	—	109,241	—	—	109,241
Earnings attributable to noncontrolling interest	—	—	12	—	(12)	—
Total other comprehensive loss	—	—	—	(2,061)	—	(2,061)
Common stock dividends, $0.2725 per share	—	—	(35,570)	—	—	(35,570)
Stock-based compensation expense	—	3,997	—	—	—	3,997
Forfeiture of 8,228 shares of unvested restricted common stock	—	—	—	—	—	—
Balances – September 30, 2020	$ 1,293	$2,261,864	$1,862,012	$ 61,116	$ 3,088	$4,189,373
Nine months ended September 30, 2020:						
Balances – December 31, 2019	$ 1,289	$2,251,824	$1,869,983	$ 27,255	$ 3,117	$4,153,468
Cumulative effect of change in accounting principle	—	—	(75,344)	—	—	(75,344)
Balances – January 1, 2020	1,289	2,251,824	1,794,639	27,255	3,117	4,078,124
Net income	—	—	171,356	—	—	171,356
Earnings attributable to noncontrolling interest	—	—	29	—	(29)	—
Total other comprehensive income	—	—	—	33,861	—	33,861
Common stock dividends, $0.8025 per share	—	—	(104,012)	—	—	(104,012)
Issuance of 4,300 shares of common stock for exercise of stock options	—	45	—	—	—	45
Issuance of 493,761 shares of unvested restricted common stock	5	(5)	—	—	—	—
Repurchase and cancellation of 61,873 shares of common stock	(1)	(1,852)	—	—	—	(1,853)
Stock-based compensation expense	—	11,852	—	—	—	11,852
Forfeiture of 45,139 shares of unvested restricted common stock	—	—	—	—	—	—
Balances – September 30, 2020	$ 1,293	$2,261,864	$1,862,012	$ 61,116	$ 3,088	$4,189,373

See accompanying notes to the consolidated financial statements.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total
	(Dollars in thousands, except per share amounts)					
Three months ended September 30, 2019:						
Balances – June 30, 2019	$ 1,289	$2,243,779	$1,728,486	$ 19,693	$ 3,131	$3,996,378
Net income	—	—	103,884	—	—	103,884
Earnings attributable to noncontrolling interest	—	—	7	—	(7)	—
Total other comprehensive income	—	—	—	7,955	—	7,955
Common stock dividends, $0.24 per share	—	—	(30,963)	—	—	(30,963)
Issuance of 10,800 shares of common stock for exercise of stock options	—	242	—	—	—	242
Repurchase and cancellation of 974 shares of common stock	—	(28)	—	—	—	(28)
Stock-based compensation expense	—	3,980	—	—	—	3,980
Forfeiture of 10,183 shares of unvested restricted common stock	—	—	—	—	—	—
Balances – September 30, 2019	$ 1,289	$2,247,973	$1,801,414	$ 27,648	$ 3,124	$4,081,448
Nine months ended September 30, 2019:						
Balances – December 31, 2018	$ 1,286	$2,237,948	$1,565,201	$ (34,105)	$ 3,035	3,773,365
Net income	—	—	325,109	—	—	325,109
Earnings attributable to noncontrolling interest	—	—	(9)	—	9	—
Total other comprehensive income	—	—	—	61,753	—	61,753
Common stock dividends, $0.69 per share	—	—	(88,887)	—	—	(88,887)
Noncontrolling interest cash contribution	—	—	—	—	80	80
Issuance of 67,350 shares of common stock for exercise of stock options	1	1,118	—	—	—	1,119
Issuance of 406,074 shares of unvested restricted common stock	4	(4)	—	—	—	—
Repurchase and cancellation of 63,716 shares of common stock	(1)	(1,674)	—	—	—	(1,675)
Stock-based compensation expense	—	10,584	—	—	—	10,584
Forfeiture of 74,398 shares of unvested restricted common stock	(1)	1	—	—	—	—
Balances – September 30, 2019	$ 1,289	$2,247,973	$1,801,414	$ 27,648	$ 3,124	$4,081,448

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 171,356	$ 325,109
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	18,892	16,511
Amortization	7,997	9,767
Earnings attributable to noncontrolling interest	29	(9)
Provision for credit losses	196,889	21,303
Provision for losses on foreclosed and other assets	2,087	1,509
Net amortization of investment securities AFS	20,240	13,708
Net gains on investment securities AFS	(4,467)	(713)
Amortization of operating lease right-of-use assets	5,779	5,561
Accretion of purchased loans	(15,926)	(20,037)
Gains on sales of other assets	(1,674)	(875)
Deferred income tax expense (benefit)	28,305	(84,072)
Increase in cash surrender value of BOLI	(15,205)	(15,548)
BOLI death benefits in excess of cash surrender value	(608)	(205)
Stock-based compensation expense	11,852	10,584
Changes in assets and liabilities:		
Accrued interest receivable	(11,216)	5,699
Other assets, net	12,614	31,844
Accrued interest payable and other liabilities	(32,384)	11,848
Cash provided by operating activities	394,560	331,984
Cash flows from investing activities:		
Proceeds from sales of FHLB and other bankers' bank stock	12,505	26,591
Purchases of FHLB and other bankers' bank stock	(29,038)	(14,307)
Proceeds from maturities/calls/paydowns of investment securities AFS	760,108	418,834
Proceeds from sales of investment securities AFS	273,963	97,210
Purchases of investment securities AFS	(2,180,457)	—
Proceeds from sale of loans	198,713	—
Net increase of non-purchased loans	(2,290,922)	(1,187,774)
Net payments received on purchased loans	244,741	527,434
Purchases of premises and equipment	(41,089)	(78,373)
Proceeds from BOLI death benefits	1,636	1,461
Proceeds from sales of other assets	20,017	26,838
Net cash invested in unconsolidated investments and noncontrolling interest	(27,354)	(19,165)
Net cash used by investing activities	(3,057,177)	(201,251)
Cash flows from financing activities:		
Net increase in deposits	2,813,146	501,663
Proceeds from callable fixed-rate advances	750,000	—
Net (repayments of) proceeds from other borrowings	(350,438)	204,729
Net decrease in repurchase agreements with customers	(6,255)	(8,408)
Proceeds from exercise of stock options	45	1,119
Cash dividends paid on common stock	(103,690)	(88,887)
Repurchase and cancellation of shares of common stock	(1,853)	(1,675)
Net cash provided by financing activities	3,100,955	608,541
Net increase in cash and cash equivalents	438,338	739,274
Cash and cash equivalents – beginning of period	1,495,757	290,672
Cash and cash equivalents – end of period	$ 1,934,095	$ 1,029,946

See accompanying notes to the consolidated financial statements.

1. Organization and Principles of Consolidation

Bank OZK ("the Bank") is headquartered in Little Rock, Arkansas and provides a wide range of retail and commercial banking services. At September 30, 2020 the Bank conducted operations through more than 250 offices, including offices in Arkansas, Georgia, Florida, North Carolina, Texas, Alabama, South Carolina, California, New York and Mississippi. The Bank owns eight 100%-owned finance subsidiary business trusts - Ozark Capital Statutory Trust II, Ozark Capital Statutory Trust III, Ozark Capital Statutory Trust IV, Ozark Capital Statutory Trust V, Intervest Statutory Trust II, Intervest Statutory Trust III, Intervest Statutory Trust IV and Intervest Statutory Trust V. In addition, the Bank owns a subsidiary that holds its investment securities, a subsidiary engaged in the development of real estate, a subsidiary that holds an ownership interest in a private aircraft and various other entities that hold loans, foreclosed assets or tax credits or engage in other activities. The consolidated financial statements include the accounts of the Bank, the investment subsidiary, 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.

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

In July 2020, the Bank entered into agreements to sell its two branches in Alabama (Mobile and Geneva) and its two branches in South Carolina (Bluffton and Hilton Head). The sale of our Mobile, Alabama branch occurred in October 2020. All regulatory approvals for the sale of our Geneva, Alabama branch have been received, and the Bank expects the sale of this branch to close in the fourth quarter of 2020. The sale of our two South Carolina branches is pending regulatory approval, and is currently expected to close during the first quarter of 2021. As of September 30, 2020, the two Alabama branches contained total loan and deposit balances of approximately $28 million and $89 million, respectively, and the two South Carolina branches contained total loan and deposit balances of approximately $1 million and $124 million, respectively.

2. Basis of Presentation and Significant Accounting Policy Changes

The accompanying interim consolidated financial statements have been prepared by the Bank, 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 Bank's Annual Report on Form 10-K filed with the FDIC for the year ended December 31, 2019.

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 materially differ from those estimates. In the opinion of management, all adjustments considered necessary, consisting of normal recurring items, have been included for a fair statement of the accompanying consolidated financial statements. Operating results for the three and nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the full year or future periods. Certain reclassifications of prior year's amounts have been made to conform to the 2020 financial statements presentation. These reclassifications had no impact on prior year's net income, as previously reported.

Effective January 1, 2020, the Bank adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This new guidance replaced the incurred loss method that was utilized in estimating the Bank's allowance for loan losses ("ALL") as of December 31, 2019 with a methodology that requires the Bank to estimate credit losses expected to occur over the life of the financial instrument and to recognize those estimated losses at the time of loan origination. This revised methodology is what FASB describes as the current expected credit loss ("CECL") method.

The Bank adopted ASU 2016-13 using the modified retrospective method; therefore, results for reporting periods beginning on or after January 1, 2020 are presented in accordance with this new guidance while prior period results are reported in accordance with the previously applicable GAAP. The adoption of ASU 2016-13 on January 1, 2020 resulted in a $39.6 million increase in the Bank's ALL for outstanding loans and a $54.9 million reserve for losses on unfunded loan commitments, resulting in a total increase in the Bank's allowance for credit losses ("ACL") of $94.5 million. These transition adjustments, net of related tax effects, were recorded as a cumulative effect from the change in accounting principle and reduced the Bank's retained earnings by $75.3 million. As required by

ASU 2016-13, the portion of the ACL for the outstanding balance of the Bank's loan portfolio is reported as ALL on its consolidated balance sheet and the reserve for losses on unfunded loan commitments is reported as a liability on its consolidated balance sheet.

The following table shows the impact of adopting ASU 2016-13.

	January 1, 2020		
	As Reported Under ASU 2016-13	Pre-adoption of ASU 2016-13	Impact of Adoption
		(Dollars in thousands)	
Purchased credit deteriorated ("PCD") loans	$ 87,106	$ 81,199	$ 5,907
Allowance for loan losses	148,113	108,525	39,588
Reserve for losses on unfunded loan commitments	54,924	—	54,924
Retained earnings	1,794,639	1,869,983	(75,344)

Additionally, all purchased loans that were previously accounted for and reported as loans with credit deterioration at the date of acquisition, or purchased credit impaired ("PCI") loans, are now considered PCD loans. For periods prior to January 1, 2020, PCI loans were carried at their net present value of future expected cash flows. For periods subsequent to January 1, 2020, PCD loans are carried at their amortized cost basis less a non-credit discount. Upon adoption of, and as provided for under ASU 2016-13, the Bank utilized the "gross up" approach whereby the Bank adjusted PCD loans by their respective CECL ALL of $5.9 million, which became part of the revised amortized cost basis of such loans. The remaining difference of $14.6 million between the PCD loans' amortized cost basis and the par value of the loans is a non-credit discount that is being amortized into interest income over the remaining life of the loans.

The Bank's ACL under the CECL methodology is established through a provision for credit losses charged against income. All, or portions of, loans deemed to be uncollectible are charged against the ACL when the Bank believes that collectability of all, or some portion of, outstanding principal is unlikely. Subsequent recoveries, if any, of loans previously charged off are credited to the ACL. For credit risk related to a contractual obligation to extend credit, the Bank estimates expected credit losses over the contractual period considering the likelihood that funding will occur.

In conjunction with the adoption of ASU 2016-13, the Bank implemented a dual risk rating scale that utilizes quantitative models and qualitative factors ("score cards") in determining the risk rating for its commercial loans. This dual risk rating methodology incorporates an obligor risk rating ("ORR") and a facility risk rating ("FRR") which are combined to create a two-dimensional risk rating for commercial loans. The ORR is influenced by a loan's probability of default ("PD") as determined from the score cards, with such score card PDs affected by various financial metrics, such as projected cash flow, loan-to-value ("LTV"), property and/or market characteristics, borrower financial strength and other financial and loan characteristics. Thus, the higher a loan's PD, the more adverse the loan's ORR. The FRR is influenced by a loan's loss given default ("LGD") as determined from the score cards. Score card LGDs are affected by the estimated loss when a borrower cannot or will not repay the loan. Estimated losses take into consideration the Bank's underwriting standards and protections including collateral and collateral margin requirements, lien position, support required from guarantors, insurance and other factors. The higher a loan's LGD, the more adverse the loan's FRR. The combined dual risk rating provides an annualized expected loss estimate for each commercial loan, and based on such loss estimate, a risk rating is assigned. The Bank utilizes this risk rating in evaluating its credit quality, and output from the score cards is utilized in determining the necessary ACL for risk-rated loans. While the Bank's consumer loans are not risk rated, the Bank utilizes output from the score cards on consumer loans for purposes of determining the necessary ACL for consumer loans.

The Bank separates loans into similar risk characteristics in determining its ACL. In determining the ACL, the Bank utilizes score card estimates of credit loss that categorize loans based on loan type. The loan types segregated by score card are as follows:

- Construction Real Estate – In assessing estimated credit losses on construction real estate loans, the Bank utilizes various project and borrower metrics, including, but not limited to, projected cash flow, LTV, property and/or market characteristics, and borrower financial strength.
- Commercial and Industrial – In assessing estimated credit losses on commercial and industrial loans, the Bank utilizes various borrower and loan metrics, including, but not limited to, borrower's financial position and results from operations, LTV, and borrower and/or guarantor financial strength.
- Consumer Mortgages – In assessing estimated credit losses on consumer mortgage loans, the Bank utilizes borrower information such as borrower's cash flow, credit score and LTV, among others.
- Consumer Recreational Vehicle ("RV") and Marine – In assessing estimated credit losses on RV and marine loans, the Bank utilizes various borrower information such as payment-to-income, credit score and LTV, among others.
- Other Consumer – In assessing estimated credit losses on other consumer loans, the Bank utilizes various borrower origination information such as vintage, credit score and product, among others.

The Bank obtains an estimate of credit loss for all loans from the applicable score card, unless the Bank determines that the loan does not share risk characteristics similar to those contained within its respective loan segment and an individual loan assessment may be performed.

The ACL is maintained at a level the Bank believes will be adequate to absorb expected credit losses in future periods associated with its loan portfolio and unfunded loan commitments. Provisions to and the adequacy of the ACL are based on evaluations of the loan portfolio utilizing objective and subjective criteria. The objective criteria primarily include estimated losses that are modeled from the respective score cards and the outputs from the Bank's CECL platform. In addition to these objective criteria, the Bank subjectively assesses the adequacy of the ACL and the need for changes thereto, with consideration given to the nature and mix of the portfolio, national, regional and local business and economic conditions that may affect borrowers' ability to pay, concentrations of credit, changes in the experience, ability and depth of lending management and other relevant staff, changes in the nature and volume of the portfolio and in the terms of the loans, overall portfolio quality, historical loss experience and other relevant factors. Changes in these criteria or the availability of new information could require adjustment of the ACL in future periods. In addition, for loans that do not share risk characteristics similar to those contained within their respective loan segments, the Bank may perform an individual assessment of the ACL utilizing expected cash flows, collateral values or a combination thereof. When foreclosure is probable, and for certain loans that are collateral dependent but foreclosure is not considered probable, expected credit losses may be based on the fair value of collateral adjusted for selling costs, if any. While an individual assessment and related ACL has been calculated for non-performing loans, no portion of the Bank's ACL is restricted to any individual loan or group of loans, and the entire ACL is available to absorb losses from any and all loans including unfunded loan commitments.

The score cards utilized in determining the ACL use quantitative data related to the Bank's loans and unfunded loan commitments. In determining the estimated loss, the quantitative data utilized by the score card models includes, but is not limited to, estimated debt service coverage ratios, LTV ratios, total assets, total revenue and margin, and for consumer loans, individual credit scores. In addition, the score cards and the Bank's CECL platform incorporate varying future economic forecasts in estimating its ACL. While the Bank's score card models and CECL platform produce an estimated lifetime loss for all loans not individually evaluated, the score card models and CECL platform may have certain limitations. To address potential limitations, the Bank's methodology considers additional qualitative adjustments that are applied to its CECL calculations. Those qualitative adjustments utilized at September 30, 2020 are intended to adjust for imprecision in economic forecasts, including the velocity and severity of the negative effects of COVID-19 on the economy and financial markets in recent months, model data limitations, and other factors. In determining the ACL, the Bank utilizes a reasonable and supportable forecast period which, as of September 30, 2020, was two years followed by a reversion of estimated losses back to the historical mean. Expected credit losses are estimated over the contractual term of the loan, adjusted for anticipated or expected prepayments. The contractual term of the loan excludes expected extensions or modifications unless the Bank has a reasonable expectation that a troubled debt restructuring will be executed with the expected extension or modification.

In addition, for the Bank's available for sale ("AFS") investment securities in an unrealized loss position, CECL has replaced the previous other-than-temporary valuation methodology with a methodology that requires the Bank to evaluate its intent or likelihood of disposing of securities that are in an unrealized loss position. Under the new methodology, if the Bank intends to sell an AFS security, or if it is more likely than not that it will be required to sell an AFS security before recovery of its amortized cost basis, the securities' amortized cost basis is written down to fair value through current period expense. If the Bank does not intend to sell an AFS security or if it is more likely than not that the Bank will not sell an AFS security that is in an unrealized loss position, the Bank is required to assess whether the decline in fair value has resulted from credit losses or non-credit factors. If the Bank's assessment determines a credit loss exists, the present value of cash flows expected to be collected from the AFS security is compared to the amortized cost basis of the security and if the present value cash flows expected to be collected is less than amortized cost, an allowance for credit losses and a provision for credit loss expense is recorded. If the Bank's assessment determines that a credit loss does not exist, the Bank records the decline in fair value through other comprehensive income, net of related income tax effects.

3. 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 and restricted stock units using the treasury stock method. Options to purchase 1,756,254 shares and 1,820,850 shares, respectively, of the Bank's common stock for the three months ended September 30, 2020 and 2019, and options to purchase 1,785,667 shares and 1,836,099 shares, respectively, of the Bank's common stock for the nine months ended September 30, 2020 and 2019 were excluded from the diluted EPS calculations as inclusion of such options would have been anti-dilutive. There were no anti-dilutive restricted stock units for the three months or nine months ended September 30, 2020 and 2019.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands, except per share amounts)			
Numerator:				
Net income available to common stockholders	$ 109,253	$ 103,891	$ 171,385	$ 325,100
Denominator:				
Denominator for basic EPS – weighted-average common shares	129,346	128,946	129,309	128,916
Effect of dilutive securities – stock options	124	66	88	79
Denominator for diluted EPS – weighted-average common shares and assumed conversions	129,470	129,012	129,397	128,995
Basic EPS	$ 0.84	$ 0.81	$ 1.33	$ 2.52
Diluted EPS	$ 0.84	$ 0.81	$ 1.32	$ 2.52

4. Investment Securities AFS

At both September 30, 2020 and December 31, 2019, the Bank classified 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, that do not include a credit component reported as a separate component of stockholders' equity and included in accumulated other comprehensive income. Unrealized losses that include a credit component are considered in determining the Bank's ACL. At September 30, 2020 and December 31, 2019, management had determined that no unrealized loss on any of the Bank's individual investment securities included a credit component.

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
September 30, 2020:				
Obligations of state and political subdivisions	$ 1,531,692	$ 27,855	$ (288)	$ 1,559,259
U.S. Government agency mortgage-backed securities	1,717,403	54,071	(991)	1,770,483
U.S. Government agency securities	138,710	55	(264)	138,501
Total investment securities AFS	$ 3,387,805	$ 81,981	$ (1,543)	$ 3,468,243
December 31, 2019:				
Obligations of state and political subdivisions	$ 503,399	$ 18,250	$ (19)	$ 521,630
U.S. Government agency mortgage-backed securities	1,732,671	19,170	(1,480)	1,750,361
Corporate obligations	5,229	169	—	5,398
Total investment securities AFS	$ 2,241,299	$ 37,589	$ (1,499)	$ 2,277,389

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)					
September 30, 2020:						
Obligations of state and political subdivisions	$ 77,430	$ 275	$ 3,050	$ 13	$ 80,480	$ 288
U.S. Government agency mortgage-backed securities	245,275	974	2,639	17	247,914	991
U.S. Government agency securities	27,237	264	—	—	27,237	264
Total	$ 349,942	$ 1,513	$ 5,689	$ 30	$ 355,631	$ 1,543
December 31, 2019:						
Obligations of state and political subdivisions	$ 997	$ 2	$ 4,945	$ 17	$ 5,942	$ 19
U.S. Government agency mortgage-backed securities	176,631	387	280,526	1,093	457,157	1,480
Total	$ 177,628	$ 389	$ 285,471	$ 1,110	$ 463,099	$ 1,499

In evaluating the Bank's unrealized loss positions for credit losses of its investment securities portfolio, management considers the credit quality, financial condition and near term prospects of the issuer, the nature and cause of the unrealized loss and other factors. While the Bank periodically evaluates its investment strategy relative to current economic and business conditions, at the present time, the Bank 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; thus, no allowance was established for investment securities as of September 30, 2020.

The following table shows the amortized cost and estimated fair value of investment securities AFS by maturity or estimated date of repayment as of September 30, 2020.

Maturity or Estimated Repayment	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
One year or less	$ 901,189	$ 918,985
After one year to five years	1,442,758	1,478,011
After five years to ten years	248,296	259,828
After ten years	795,562	811,419
Total	$ 3,387,805	$ 3,468,243

For purposes of this maturity or estimated repayment distribution, all investment securities AFS are shown based on their contractual maturity date or estimated date of repayment, except (i) mortgage-backed securities are allocated among various maturities or repayment categories based on an estimated repayment schedule utilizing Bloomberg median prepayment speeds or other estimates of prepayment speeds and interest rate levels at the measurement date and (ii) callable investment securities for which the Bank has received notification of call are included in the maturity or repayment category in which the call occurs or is expected to occur. 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.

At September 30, 2020, the Bank had approximately $504 million of variable rate demand notes ("VRDNs"). While most of the VRDNs have a final maturity that results in the inclusion of those securities in the "after ten years" category in the above table, the VRDNs are subject to weekly puts, at the Bank's option, and individual securities may be put, by the Bank, back to the issuer prior to the maturity date of such securities.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Sales proceeds	$ 47,070	$ —	$ 273,963	$ 97,210
Gross realized gains	2,244	—	4,467	1,071
Gross realized losses	—	—	—	(358)
Net gains on investment securities	$ 2,244	$ —	$ 4,467	$ 713

The Bank sold $44.8 million and $269.5 million of investment securities AFS during the three and nine months ended September 30, 2020. The Bank had net gains of $2.2 million from the sale of investment securities AFS during the three months ended September 30, 2020 and had net gains of $4.5 million from the sale of investment securities AFS for the nine months ended September 30, 2020. The Bank had no sales of investment securities AFS during the three months ended September 30, 2019 and the Bank had net gains of $0.7 million from the sale of $96.5 million of investment securities AFS for the nine months ended September 30, 2019.

5. Allowance for Credit Losses ("ACL") and Credit Quality Indicators

Allowance for Credit Losses

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

	Allowance for Loan Losses	Reserve for Losses on Unfunded Loan Commitments	Total Allowance for Credit Losses
		(Dollars in thousands)	
Three months ended September 30, 2020:			
Balances – June 30, 2020	$ 306,196	$ 68,298	$ 374,494
Net charge-offs	(4,421)	—	(4,421)
Provision for credit losses	7,072	128	7,200
Balances – September 30, 2020	$ 308,847	$ 68,426	$ 377,273
Nine months ended September 30, 2020:			
Balances – December 31, 2019	$ 108,525	$ —	$ 108,525
Adoption of CECL methodology	39,588	54,924	94,512
Balances – January 1, 2020	148,113	54,924	203,037
Net charge-offs	(22,653)	—	(22,653)
Provision for credit losses	183,387	13,502	196,889
Balances – September 30, 2020	$ 308,847	$ 68,426	$ 377,273
Three months ended September 30, 2019:			
Balances – June 30, 2019	$ 106,642	$ —	$ 106,642
Net charge-offs	(5,495)	—	(5,495)
Provision for credit losses	7,854	—	7,854
Balances – September 30, 2019	$ 109,001	$ —	$ 109,001
Nine months ended September 30, 2019:			
Balances – December 31, 2018	$ 102,264	$ —	$ 102,264
Net charge-offs	(14,566)	—	(14,566)
Provision for credit losses	21,303	—	21,303
Balances – September 30, 2019	$ 109,001	$ —	$ 109,001

The calculations of the Bank's provision for credit losses for the third quarter and first nine months of 2020 and its total ACL at September 30, 2020 were based on a number of key estimates, assumptions and economic forecasts. Management utilized several economic forecasts provided by Moody's, including their baseline forecast that was updated on October 12, 2020 and certain of their other economic scenarios. In selecting the weightings for the various economic scenarios for purposes of determining our ACL at September 30, 2020, we assigned the largest weighting to the Moody's S3 (Moderate Recession) and Moody's S4 (Protracted Slump) scenarios and assigned lesser weighting to the Moody's baseline scenario. Our selection and weightings of these scenarios reflected the uncertainty about the course and duration of the COVID-19 pandemic, the timing and magnitude of any additional U.S. fiscal policy stimulus, the results and ultimate consequence of the upcoming U.S. elections, global trade and geopolitical matters, and various other factors. These forecasts included a number of economic variables, including gross domestic product ("GDP"), unemployment rates, and commercial and residential real estate prices, among others. For purposes of the forecasts used in the Bank's CECL models, management utilized a reasonable and supportable forecast period of two years, followed by a reversion of estimated losses back to the Bank's historical mean. Management also utilized certain qualitative adjustments to increase the Bank's ACL estimates in order to capture items that management believed were not fully reflected in the various economic forecasts utilized and the Bank's modeled results.

The following table is a summary of the Bank's ACL for the periods indicated.

	Beginning Balance	Impact of Adopting CECL	Charge-offs	Recoveries	Provision	Ending Balance
			(Dollars in thousands)			
Three months ended September 30, 2020:						
ACL for funded loans:						
Real estate:						
Residential 1-4 family	$ 28,367	$ —	$ (138)	$ 271	$ 3,712	$ 32,212
Non-farm/non-residential	109,814	—	(334)	68	(30,017)	79,531
Construction/land development	65,143	—	(5)	52	25,263	90,453
Agricultural	3,487	—	(30)	2	(213)	3,246
Multifamily residential	15,313	—	—	146	1,833	17,292
Commercial and industrial	21,915	—	(2,110)	317	1,780	21,902
Consumer	47,504	—	(2,157)	266	5,000	50,613
Other	14,653	—	(914)	145	(286)	13,598
Total ACL for funded loans	306,196	—	(5,688)	1,267	7,072	308,847
Reserve for losses on unfunded loan commitments	68,298	—	—	—	128	68,426
Total ACL	$ 374,494	$ —	$ (5,688)	$ 1,267	$ 7,200	$ 377,273
Nine months ended September 30, 2020:						
ACL for funded loans:						
Real estate:						
Residential 1-4 family	$ 14,008	$ 4,004	$ (263)	$ 665	$ 13,798	$ 32,212
Non-farm/non-residential	17,289	12,587	(10,778)	261	60,172	79,531
Construction/land development	26,295	21,427	(25)	454	42,302	90,453
Agricultural	1,719	978	(30)	5	574	3,246
Multifamily residential	5,477	(2,277)	—	146	13,946	17,292
Commercial and industrial	5,961	6,376	(3,121)	454	12,232	21,902
Consumer	32,466	(5,870)	(9,324)	604	32,737	50,613
Other	5,310	2,363	(2,278)	577	7,626	13,598
Total ACL for funded loans	108,525	39,588	(25,819)	3,166	183,387	308,847
Reserve for losses on unfunded loan commitments	—	54,924	—	—	13,502	68,426
Total ACL	$ 108,525	$ 94,512	$ (25,819)	$ 3,166	$ 196,889	$ 377,273

The following table presents the amortized cost basis of loans on nonaccrual status with ALL and loans on nonaccrual status with no ALL as of the date indicated.

	Nonaccrual Loans with ALL[(1)]	Nonaccrual Loans with No ALL[(2)]	Total Nonaccrual
		(Dollars in thousands)	
September 30, 2020:			
Real estate:			
Residential 1-4 family	$ 19,767	$ 2,159	$ 21,926
Non-farm/non-residential	8,807	14,700	23,507
Construction/land development	2,367	916	3,283
Agricultural	1,325	558	1,883
Multifamily residential	—	673	673
Commercial and industrial	1,563	—	1,563
Consumer	2,757	—	2,757
Other	369	—	369
Total	$ 36,955	$ 19,006	$ 55,961

(1) Includes $22.1 million of non-purchased and $14.9 million of purchased nonaccrual loans with ALL at September 30, 2020.
(2) Includes $5.1 million of non-purchased and $13.9 million of purchased nonaccrual loans with no ALL at September 30, 2020.

The following table is a summary of the Bank's ALL and outstanding principal balance of its total loans as of the date indicated.

	ALL for Total Loans			Total Loans		
	ALL for Individually Evaluated Impaired Loans	ALL for All Other Loans	Total ALL	Individually Evaluated Impaired Loans[(1)]	All Other Loans	Total Loans
			(Dollars in thousands)			
December 31, 2019:						
Real estate:						
Residential 1-4 family	$ 1,272	$ 12,736	$ 14,008	$ 9,886	$ 988,746	$ 998,632
Non-farm/non-residential	159	17,130	17,289	6,439	3,950,140	3,956,579
Construction/land development	6	26,289	26,295	3,469	6,387,960	6,391,429
Agricultural	2	1,717	1,719	998	229,078	230,076
Multifamily residential	—	5,477	5,477	—	1,194,192	1,194,192
Commercial and industrial	234	5,727	5,961	1,533	660,419	661,952
Consumer	190	32,276	32,466	1,177	2,933,357	2,934,534
Other	—	5,310	5,310	375	1,164,274	1,164,649
Total	$ 1,863	$ 106,662	$ 108,525	$ 23,877	$17,508,166	$17,532,043

(1) Includes $14.6 million of loans with ALL and $9.3 million of loans with no ALL.

Management had determined that certain of the Bank's impaired loans at December 31, 2019 did not require any specific allowance because (i) management's analysis of such individual loans resulted in no impairment or (ii) all identified impairment on such loans had previously been charged off. The Bank also had $10.9 million in impaired purchased loans with no specific ALL as of December 31, 2019 that were not included in the "Individually Evaluated Impaired Loans" category in the above table.

Interest income on nonperforming loans as of September 30, 2020 and on impaired loans as of December 31, 2019 is recognized on a cash basis when and if actually collected. Total interest income recognized on nonperforming loans for the three and nine months ended September 30, 2020 and impaired loans for the three and nine months ended September 30, 2019 was not material.

Credit Quality Indicators

The following table provides the credit quality indicators for the Bank's total loans by loan segment and period of origination as of the date indicated. At September 30, 2020, the Bank had no loans risk rated as doubtful or loss. Loans are presented on an amortized cost basis which includes unamortized fees and costs but excludes accrued interest.

	Period of Origination							
	Nine Months Ended September 30, 2020	Year Ended December 31, 2019	2018	2017	2016	Prior to January 1, 2016	Revolving Loans Amortized Cost Basis	Total
	(Dollars in thousands)							
September 30, 2020:								
Residential 1-4 family[(1)]:								
Pass	$ 135,279	$ 125,475	$ 99,259	$ 84,177	$ 69,182	$ 277,182	$ 143,255	$ 933,809
Special Mention	513	1,104	404	2,191	405	3,217	42	7,876
Substandard	—	3,131	3,461	1,969	867	14,667	682	24,777
Total residential 1-4 family	135,792	129,710	103,124	88,337	70,454	295,066	143,979	966,462
Non-farm/non-residential:								
Pass	665,831	319,821	528,592	1,175,922	602,558	972,102	45,427	4,310,253
Special Mention	—	128	275	5,658	5,215	50,577	96	61,949
Substandard	—	—	731	845	13,335	28,364	—	43,275
Total non-farm/ non-residential	665,831	319,949	529,598	1,182,425	621,108	1,051,043	45,523	4,415,477
Construction/land development:								
Pass	865,362	1,875,641	1,593,087	2,477,362	368,667	111,043	67,439	7,358,601
Special Mention	104	1,879	575	91	268	2,124	1,434	6,475
Substandard	—	229	2,395	14	80	2,059	36,594	41,371
Total construction/ land development	865,466	1,877,749	1,596,057	2,477,467	369,015	115,226	105,467	7,406,447
Agricultural:								
Pass	46,068	78,198	33,135	33,513	16,352	14,172	2,849	224,287
Special Mention	—	—	—	—	—	173	—	173
Substandard	—	—	844	168	683	988	—	2,683
Total agricultural	46,068	78,198	33,979	33,681	17,035	15,333	2,849	227,143
Multifamily residential:								
Pass	39,582	21,640	167,809	765,608	216,754	133,034	491	1,344,918
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	1,467	—	1,467
Total multifamily residential	39,582	21,640	167,809	765,608	216,754	134,501	491	1,346,385
Commercial and industrial:								
Pass	481,520	78,780	160,274	103,879	7,505	25,764	65,060	922,782
Special Mention	5	23	9,939	30	108	928	978	12,011
Substandard	—	—	1,776	6,844	33	1,044	—	9,697
Total commercial and industrial	481,525	78,803	171,989	110,753	7,646	27,736	66,038	944,490
Consumer[(1)]:								
Pass	237,783	876,160	774,853	382,630	155,856	147,336	2,599	2,577,217
Special Mention	19	59	411	95	130	350	3	1,067
Substandard	68	291	716	426	390	857	3	2,751
Total consumer	237,870	876,510	775,980	383,151	156,376	148,543	2,605	2,581,035
Other[(1)]:								
Pass	233,710	561,326	314,207	284,797	247	11,263	65,055	1,470,605
Special Mention	16	—	—	—	—	13	—	29
Substandard	—	—	3	367	—	—	—	370
Total other	233,726	561,326	314,210	285,164	247	11,276	65,055	1,471,004
Total	$ 2,705,860	$ 3,943,885	$ 3,692,746	$ 5,326,586	$ 1,458,635	$ 1,798,724	$ 432,007	$ 19,358,443

(1) The Bank does not risk rate its residential 1-4 family loans (including consumer construction loans and 1-4 family properties), consumer loans, and certain "other" loans. However, for purposes of the above table, the Bank considers such loans to be (i) pass – if they are performing and less than 30 days past due, (ii) special mention – 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 table is a summary of credit quality indicators for the Bank's total loans as of the date indicated.

	Pass	Special Mention	Substandard	Total
	(Dollars in thousands)			
September 30, 2020:				
Real estate:				
Residential 1-4 family[(1)]	$ 933,809	$ 7,876	$ 24,777	$ 966,462
Non-farm/non-residential	4,310,253	61,949	43,275	4,415,477
Construction/land development	7,358,601	6,475	41,371	7,406,447
Agricultural	224,287	173	2,683	227,143
Multifamily residential	1,344,918	—	1,467	1,346,385
Commercial and industrial	922,782	12,011	9,697	944,490
Consumer[(1)]	2,577,217	1,067	2,751	2,581,035
Other[(1)]	1,470,605	29	370	1,471,004
Total	$ 19,142,472	$ 89,580	$ 126,391	$ 19,358,443

(1) The Bank does not risk rate its residential 1-4 family loans (including consumer construction loans and 1-4 family properties), consumer loans, and certain "other" loans. However, for purposes of the above table, the Bank considers such loans to be (i) pass – if they are performing and less than 30 days past due, (ii) special mention – 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 table is a summary of the credit quality indicators for the Bank's loans as of the date indicated, recast utilizing the Bank's dual risk rating methodology. At December 31, 2019, the Bank had no loans risk rated as doubtful or loss.

	Pass	Special Mention	Substandard	Total
	(Dollars in thousands)			
December 31, 2019:				
Real estate:				
Residential 1-4 family[(1)]	$ 959,864	$ 16,696	$ 22,072	$ 998,632
Non-farm/non-residential	3,850,946	71,447	34,186	3,956,579
Construction/land development	6,277,428	49,986	64,015	6,391,429
Agricultural	225,455	2,245	2,376	230,076
Multifamily residential	1,192,108	1,066	1,018	1,194,192
Commercial and industrial	653,271	6,107	2,574	661,952
Consumer[(1)]	2,926,276	5,761	2,497	2,934,534
Other[(1)]	1,163,955	270	424	1,164,649
Total	$ 17,249,303	$ 153,578	$ 129,162	$ 17,532,043

(1) The Bank does not risk rate its residential 1-4 family loans (including consumer construction loans and 1-4 family properties), consumer loans, and certain "other" loans. However, for purposes of the above table, the Bank considers such loans to be (i) pass – if they are performing and less than 30 days past due, (ii) special mention – if they are performing and 30 to 89 days past due or (iii) substandard – if they are nonperforming or 90 days or more past due.

The following categories of credit quality indicators are used by the Bank for its loans.

Pass – Loans in this category exhibit minimal or moderate levels of risk and are not expected to result in loss.

Special Mention – Loans in this category have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date.

Substandard – Loans in this category are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans in this category have all the weaknesses inherent in those classified as substandard with the added characteristics that weaknesses make collection in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable.

Loss – Loans in this category are considered uncollectible. Loans classified as loss do not mean the loan has absolutely no recovery or salvaged value but rather it is not practical or desirable to delay writing off.

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

	30-59 Days Past Due [(1)]	60-89 Days Past Due[(2)]	90 Days or More [(3)]	Total Past Due	Current[(4)]	Total
			(Dollars in thousands)			
September 30, 2020:						
Real estate:						
Residential 1-4 family	$ 4,833	$ 2,667	$ 5,035	$ 12,535	$ 953,927	$ 966,462
Non-farm/non-residential	4,329	1,889	13,822	20,040	4,395,437	4,415,477
Construction/land development	1,187	229	1,676	3,092	7,403,355	7,406,447
Agricultural	54	38	1,526	1,618	225,525	227,143
Multifamily residential	—	—	—	—	1,346,385	1,346,385
Commercial and industrial	643	88	1,052	1,783	942,707	944,490
Consumer	1,164	101	553	1,818	2,579,217	2,581,035
Other	73	3	367	443	1,470,561	1,471,004
Total	$ 12,283	$ 5,015	$ 24,031	$ 41,329	$19,317,114	$19,358,443
December 31, 2019:						
Real estate:						
Residential 1-4 family	$ 11,149	$ 6,079	$ 5,583	$ 22,811	$ 975,821	$ 998,632
Non-farm/non-residential	5,495	3,296	17,491	26,282	3,930,297	3,956,579
Construction/land development	143	128	4,438	4,709	6,386,720	6,391,429
Agricultural	289	7	1,117	1,413	228,663	230,076
Multifamily residential	—	—	—	—	1,194,192	1,194,192
Commercial and industrial	687	344	1,805	2,836	659,116	661,952
Consumer	4,594	1,877	762	7,233	2,927,301	2,934,534
Other	3	4	366	373	1,164,276	1,164,649
Total	$ 22,360	$ 11,735	$ 31,562	$ 65,657	$17,466,386	$17,532,043

(1) Includes $3.5 million and $2.7 million of loans on nonaccrual status at September 30, 2020 and December 31, 2019, respectively.
(2) Includes $2.0 million and $3.8 million of loans on nonaccrual status at September 30, 2020 and December 31, 2019, respectively.
(3) All loans greater than 90 days past due were on nonaccrual status at September 30, 2020 and December 31, 2019.
(4) Includes $26.5 million and $12.4 million of loans on nonaccrual status at September 30, 2020 and December 31, 2019, respectively.

Loans in the table above are presented on an amortized cost basis which includes unamortized fees and costs but excludes accrued interest.

6. Leases

The Bank’s net right-of-use asset, which totaled $69.0 million and $63.9 million at September 30, 2020 and December 31, 2019, respectively, is included in premises and equipment, and the Bank’s lease liability, which totaled $70.1 million and $64.5 million at September 30, 2020 and December 31, 2019, respectively, is included in accrued interest payable and other liabilities on the Bank’s consolidated balance sheet. At September 30, 2020, the Bank’s leases were comprised primarily of building and ground leases associated with certain of its branch locations or loan production offices. A portion of the Bank’s leases are tied to the consumer price index and rent escalations associated with these leases are measured on a periodic basis. The majority of the Bank’s lease agreements do not contain residual value guarantees or restricted covenants. In addition, many of the Bank’s ground leases contain renewal options. The Bank is reasonably certain that such options will be exercised; thus, the Bank has included the effects of extending these ground leases in the determination of the lease term.

For the three and nine months ended September 30, 2020, the Bank incurred $2.8 million and $8.2 million, respectively, in operating cost that is included in net occupancy and equipment expense in the Bank’s consolidated statement of income. For the three and nine months ended September 30, 2019, the Bank incurred $2.9 million and $8.3 million, respectively, in operating cost that is included in net occupancy and equipment expense in the Bank’s consolidated statement of income. The Bank’s variable lease costs were not material for the three months or nine months ended September 30, 2020. At September 30, 2020, the Bank’s weighted average remaining life for its right-of-use lease assets and weighted average interest rate for its lease liability were 16.0 years and 3.2%, respectively.

7. Goodwill and Intangible Assets

At September 30, 2020 and December 31, 2019, the Bank had goodwill totaling $660.8 million. Goodwill is the Bank's most significant intangible asset and is the largest item in adjusting its total common stockholders' equity before noncontrolling interest to tangible common stockholders' equity. As a result, the Bank reviews goodwill annually, or more frequently if events or changes in circumstances indicate the carrying value might be impaired. This review compares the estimated fair value of banking operations (the reporting unit) with the Bank's net book value. The Bank performed its annual impairment test of goodwill as of September 30, 2020. The annual impairment test included various valuation considerations including comparable peer data, precedent transaction comparables, discounted cash flow analysis, overall financial performance, share price of the Bank's common stock and other factors. The annual impairment test as of September 30, 2020 indicated no impairment of the Bank's goodwill.

8. Supplemental Data for Cash Flows

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

	Nine Months Ended September 30,	
	2020	**2019**
	(Dollars in thousands)	
Cash paid during the period for:		
Interest	$ 164,057	$ 213,598
Taxes	30,503	146,884
Supplemental schedule of non-cash investing and financing activities:		
Net change in unrealized gains/losses on investment securities AFS	44,348	81,421
Loans and other assets transferred to foreclosed assets	18,101	27,348
Unsettled investment securities AFS purchases	15,894	—

9. Commitments and Contingencies

Outstanding standby letters of credit are contingent commitments issued by the Bank generally to guarantee the performance of a customer in third party arrangements. The maximum amount of future payments the Bank could be required to make under these guarantees at September 30, 2020 was $8.8 million. The Bank holds collateral to support guarantees when deemed necessary. Collateralized commitments at September 30, 2020 totaled $8.1 million.

At September 30, 2020, the Bank had outstanding commitments totaling $11.60 billion to extend credit, consisting primarily of loans closed but not yet funded. These commitments may or may not fund in whole or part prior to maturity; however, such funding is subject to a number of factors, including, among others, economic conditions, real estate market conditions and competitive factors.

The following table shows, as of the date indicated, the contractual maturities of such outstanding commitments.

Contractual Maturities at September 30, 2020	
Maturity	**Amount**
(Dollars in thousands)	
2020	$ 320,701
2021	2,128,517
2022	2,664,056
2023	3,588,647
2024	2,661,033
Thereafter	241,660
Total	$ 11,604,614

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses, may require payment of a fee and may expire without being drawn upon. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. The type of collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and other real or personal property.

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

10. Stock-Based Compensation

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

The Bank previously had a nonqualified stock option plan for non-employee directors. All options previously granted under this plan were exercisable immediately and expire ten years after issuance.

All employee options previously granted under the Option Plan and outstanding at September 30, 2020 were issued with a vesting date three years after issuance and an expiration date seven years after issuance.

No stock options were granted under the Omnibus Plan during the three months or nine months ended September 30, 2020.

The following table summarizes stock option activity for the Option Plan, non-employee director stock option plan and Omnibus Plan for the period indicated.

	Options	Weighted-Average Exercise Price/Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Nine Months Ended September 30, 2020:				
Outstanding – January 1, 2020	1,857,212	$ 45.60		
Granted	—	—		
Exercised	(4,300)	10.59		
Forfeited	(94,389)	47.61		
Outstanding – September 30, 2020	1,758,523	45.58	3.3	$ 92.0 (1)
Fully vested and exercisable – September 30, 2020	1,092,199	$ 46.41	2.5	$ 92.0 (1)

(1) Based on closing price of $21.32 per share on September 30, 2020.

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 and nine months ended September 30, 2020 was not material. The total intrinsic value of options exercised during the three months and nine months ended September 30, 2019 was $0.1 million and $0.9 million, respectively.

Stock-based compensation expense for stock options included in non-interest expense was $0.5 million and $1.1 million for the three months ended September 30, 2020 and 2019, respectively, and $1.6 million and $3.0 million for the nine months ended September 30, 2020 and 2019, respectively. Total unrecognized compensation cost related to non-vested stock option grants was $1.3 million at September 30, 2020 and is expected to be recognized over a weighted-average period of 1.0 years.

During the nine months ended September 30, 2020, the Bank issued 447,085 shares of restricted common stock to employees under the Omnibus Plan. These grants of restricted stock cliff vest 100% three years after issuance, assuming continuous employment by the participant during this period. During the nine months ended September 30, 2020, the Bank also issued 46,676 shares of restricted common stock to directors under the Omnibus Plan, which cliff vest 100% one year after issuance.

The following table summarizes non-vested restricted stock activity for the 2009 Plan, Director Plan and Omnibus Plan for the period indicated.

	2009 and Director Plans	Omnibus Plan	Total of All Plans
Nine Months Ended September 30, 2020:			
Outstanding – January 1, 2020	682,200	—	682,200
Granted	—	493,761	493,761
Forfeited	(22,310)	(22,829)	(45,139)
Vested	(182,128)	(5,117)	(187,245)
Outstanding – September 30, 2020	477,762	465,815	943,577
Weighted-average grant date fair value	$ 37.79	$ 27.40	$ 32.66

Restricted stock awards totaling 493,761 shares with a weighted-average grant date fair value of $27.44 were granted pursuant to the Omnibus Plan during the nine months ended September 30, 2020. The fair value of the restricted stock awards is amortized to compensation expense over the vesting period and is based on the market price of the Bank's common stock at the date of grant multiplied by the number of shares granted. Stock-based compensation expense for restricted stock included in non-interest expense was $2.6 million and $2.4 million for the three month periods ended September 30, 2020 and 2019 and $7.9 million and $6.3 million for the nine months ended September 30, 2020 and 2019, respectively. Unrecognized compensation expense for non-vested restricted stock awards was $14.9 million at September 30, 2020 and is expected to be recognized over a weighted-average period of 1.8 years.

On January 22, 2020, pursuant to the Omnibus Plan, the Bank's P&C Committee awarded its executive officers an aggregate of 175,065 performance stock units ("PSUs"). The PSUs granted contain both performance and market conditions. The PSUs will be earned and vest depending on the Bank's relative performance with respect to total shareholder return ("TSR"), return on average equity ("ROAE") and return on average assets ("ROAA"), over a three-year period, compared to the companies that comprise the KBW Regional Banking Index ("KRX") at January 1, 2020 (for the TSR component) and compared to the Bank's 2019 executive compensation peer group (for the ROAE and ROAA component) over the same three-year period. Measurement is determined on a percentile basis relative to the KRX or the Bank's peer group. For each metric, if the Bank's performance over the performance period is: (i) at or below the 25th percentile compared to the applicable peer group, no PSUs for that metric would be earned; (ii) at threshold performance (26th percentile), 4% of the target would be earned; (iii) at target performance (50th percentile), 100% of the target would be earned; (iv) at the 75th percentile, 150% of the target would be earned; and (v) at maximum performance (95th percentile), 200% of the target would be earned. Achievement of results between levels previously described will result in award payouts determined based on a linear interpolation between payout levels. In the event the Bank's TSR over the performance period is negative, no more than 100% of the target PSUs for the relative TSR component will be earned, and the value of a PSU earned at the end of the performance period for the relative TSR component cannot exceed six times (6x) the grant date stock price. The PSUs contain a three-year vesting period followed by a one-year post-vest hold period and are eligible to accrue dividend equivalents that are subject to the same vesting criteria as the underlying PSUs.

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

	Nine Months Ended September 30, 2020
Risk-free interest rate	1.52%
Expected dividend yield	3.70%
Expected stock volatility	30.86%
Post-vest hold period	1 year

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

	Nine Months Ended September 30, 2020
Outstanding – January 1, 2020	141,870
Granted	175,065
Forfeited	—
Outstanding – September 30, 2020	316,935

The valuation date stock price index was 101% for the TSR component and 100% for the ROAE and ROAA component. The weighted-average PSU grant date fair values were $25.03 for TSR and $24.88 for both ROAE and ROAA.

Compensation expense for PSU awards included in non-interest expense was $0.9 million and $0.5 million for the three months ended September 30, 2020 and 2019, respectively, and $2.3 million and $1.3 million for the nine months ended September 30, 2020 and 2019, respectively. Unrecognized compensation expense for non-vested PSU awards was $6.3 million at September 30, 2020 and is expected to be recognized over a weighted-average period of 2.0 years.

11. Fair Value Measurements

The Bank measures certain of its assets and liabilities on a fair value basis using various valuation techniques and assumptions, depending on the nature of the asset or liability. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, fair value is used either on a periodic basis, typically at least quarterly, or on a non-recurring basis to evaluate certain assets and liabilities for impairment or for disclosure purposes. The Bank had no material liabilities that were accounted for at fair value at September 30, 2020 or December 31, 2019.

The Bank applies the following fair value hierarchy.

Level 1 − Quoted prices for identical instruments in active markets.

Level 2 − Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable.

Level 3 − Instruments whose inputs are unobservable.

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

	Level 1	Level 2	Level 3	Total
		(Dollars in thousands)		
September 30, 2020:				
Investment securities AFS :				
U.S. Government agency mortgage-backed securities	$ —	$ 1,770,483	$ —	$ 1,770,483
Obligations of state and political subdivisions	—	1,547,473	11,786	1,559,259
U.S. Government agency securities	—	138,501	—	138,501
Total investment securities AFS	—	3,456,457	11,786	3,468,243
Nonaccrual loans	—	—	43,228	43,228
Foreclosed assets	—	—	16,543	16,543
Total assets at fair value	$ —	$ 3,456,457	$ 71,557	$ 3,528,014
December 31, 2019:				
Investment securities AFS:				
U.S. Government agency mortgage-backed securities	$ —	$ 1,750,361	$ —	$ 1,750,361
Obligations of state and political subdivisions	—	507,527	14,103	521,630
Corporate obligations	—	5,398	—	5,398
Total investment securities AFS	—	2,263,286	14,103	2,277,389
Impaired non-purchased loans	—	—	22,014	22,014
Impaired purchased loans	—	—	10,910	10,910
Foreclosed assets	—	—	19,096	19,096
Total assets at fair value	$ —	$ 2,263,286	$ 66,123	$ 2,329,409

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

Description	Fair Value at September 30, 2020	Technique	Unobservable Inputs
	(Dollars in thousands)		
Nonaccrual loans	$ 43,228	Third party appraisal [1] or discounted cash flows	1. Management discount based on underlying collateral characteristics and market conditions 2. Life of loan
Foreclosed assets	$ 16,543	Third party appraisal, [1] broker price opinions and/or discounted cash flows	1. Management discount based on underlying collateral characteristics and market conditions 2. Discount rate 3. Holding period

(1) The Bank utilizes valuation techniques consistent with the market, cost, and income approaches, or a combination thereof in determining fair value.

The following methods and assumptions are used to estimate the fair value of the Bank's assets that are accounted for at fair value.

Investment securities AFS – The Bank utilizes independent third parties as its principal pricing sources for determining fair value of investment securities AFS which are measured on a recurring basis. As a result, the Bank considers estimates of fair value from at least two independent pricing sources for the majority of its individual securities within its investment portfolio. For investment securities AFS 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 AFS traded in a market that is not active, fair value is determined using unobservable inputs. All fair value estimates of the Bank's investment securities are reviewed on a quarterly basis.

The Bank has determined that certain of its investment securities AFS had a limited to non-existent trading market at September 30, 2020. As a result, the Bank considers these investments as Level 3 in the fair value hierarchy. Specifically, the fair values of certain obligations of state and political subdivisions consisting primarily of certain unrated private placement bonds (the "private placement bonds") in the amount of $11.8 million at September 30, 2020 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 Bank's third party pricing sources for comparable unrated municipal securities or (ii) par value. At September 30, 2020, the third parties' pricing matrices valued the Bank's portfolio of private placement bonds at $11.8 million, which was approximately the same as the aggregate par value of the private placement bonds. Accordingly, at September 30, 2020, the Bank reported the private placement bonds at $11.8 million.

Nonaccrual loans – Fair values are measured on a non-recurring basis and are based on the underlying collateral value of the nonaccrual loan, reduced for holding and selling costs, or the estimated discounted cash flows for such loan. At September 30, 2020 the Bank had reduced the carrying value of its nonaccrual loans by $31.8 million to the estimated fair value of $43.2 million. The $31.8 million adjustment to reduce the carrying value of such nonaccrual loans to estimated fair value consisted of $19.1 million of partial charge-offs and $12.7 million of specific allowance allocations for credit losses.

Foreclosed assets – Repossessed personal properties and real estate acquired through or in lieu of foreclosure, excluding purchased foreclosed assets, are measured on a non-recurring basis and are initially recorded at fair value less estimated cost to sell at the date of repossession or foreclosure. Purchased foreclosed assets are initially recorded at fair value as of the date of acquisition. Valuations of these assets are periodically reviewed by management with the carrying value of such assets adjusted through non-interest expense to the then estimated fair value net of estimated selling costs, if lower, until disposition. At September 30, 2020, the Bank had $16.5 million of foreclosed assets.

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

	Investment Securities AFS
	(Dollars in thousands)
Balance – December 31, 2019	$ 14,103
Total realized gains (losses) included in earnings	—
Total unrealized gains (losses) included in comprehensive income	(1)
Paydowns and maturities	(2,316)
Sales	—
Transfers in and/or out of Level 3	—
Balance – September 30, 2020	$ 11,786
Balance – December 31, 2018	$ 15,236
Total realized gains (losses) included in earnings	—
Total unrealized gains (losses) included in comprehensive income	250
Paydowns and maturities	(1,175)
Sales	—
Transfers in and/or out of Level 3	—
Balance – September 30, 2019	$ 14,311

12. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments.

Cash and cash equivalents – For these short-term instruments, the carrying amount of cash and cash equivalents, including interest earning deposits and due from banks, is a reasonable estimate of fair value.

Investment securities AFS – The Bank utilizes independent third parties as its principal pricing sources for determining fair value of investment securities AFS which are measured on a recurring basis. As a result, the Bank receives estimates of fair value from at least two independent pricing sources for the majority of its individual securities within its investment portfolio. For investment securities AFS 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 AFS traded in a market that is not active, fair value is determined using unobservable inputs. All fair value estimates of the Bank's investment securities are reviewed on a quarterly basis.

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

Deposit liabilities – The fair value of demand deposits, savings accounts, money market deposits and other transaction accounts is the amount payable on demand at the reporting date. The fair value of fixed maturity time deposits is estimated using the rate currently available for deposits of similar remaining maturities.

Repurchase agreements – For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Other borrowed funds – For these short-term instruments, the carrying amount is a reasonable estimate of fair value. The fair value of long-term instruments is estimated based on the current rates available to the Bank for borrowings with similar terms and remaining maturities.

Subordinated notes and debentures – The fair values of these instruments are based primarily upon discounted cash flows using rates for securities with similar terms and remaining maturities.

Off-balance sheet instruments – The fair values of outstanding commitments and letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements. The fair values of outstanding commitments and letters of credit were not material at September 30, 2020 or December 31, 2019.

The fair values of certain of these instruments were calculated by discounting expected cash flows, which contain numerous uncertainties and involve significant judgments by management. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments, the Bank does not know whether these 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, as of the dates indicated, and the fair value hierarchy of the Bank's financial instruments.

	Fair Value Hierarchy	September 30, 2020 Carrying Amount	September 30, 2020 Estimated Fair Value	December 31, 2019 Carrying Amount	December 31, 2019 Estimated Fair Value
		(Dollars in thousands)			
Financial assets:					
Cash and cash equivalents	Level 1	$ 1,934,095	$ 1,934,095	$ 1,495,757	$ 1,495,757
Investment securities AFS	Levels 2 and 3	3,468,243	3,468,243	2,277,389	2,277,389
Loans, net of ALL	Level 3	19,049,596	18,988,682	17,423,518	17,487,910
Financial liabilities:					
Demand, savings and interest bearing transaction deposits	Level 1	$ 11,493,239	$ 11,493,239	$11,102,858	$ 11,102,858
Time deposits	Level 2	9,794,166	9,841,481	7,371,401	7,372,832
Repurchase agreements with customers	Level 1	4,994	4,994	11,249	11,249
Other borrowings	Level 2	750,949	808,303	351,387	351,392
Subordinated notes	Level 2	223,950	227,557	223,663	224,651
Subordinated debentures	Level 2	120,335	105,320	119,916	106,494

13. Repurchase Agreements With Customers

At September 30, 2020 and December 31, 2019, securities sold under agreements to repurchase ("repurchase agreements") totaled $5.0 million and $11.2 million, respectively. Securities utilized as collateral for repurchase agreements are primarily U.S. Government agency mortgage-backed securities and are maintained by the Bank's safekeeping agents. These securities are reviewed by the Bank on a daily basis, and the Bank may be required to provide additional collateral due to changes in the fair market value of these securities. The terms of the Bank's repurchase agreements are continuous but may be cancelled at any time by the Bank or the customer.

14. Changes In and Reclassifications From Accumulated Other Comprehensive Income (Loss) ("AOCI")

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	(Dollars in thousands)			
Beginning balance of AOCI – unrealized gains and losses on investment securities AFS	$ 63,177	$ 19,693	$ 27,255	$ (34,105)
Other comprehensive income (loss):				
Unrealized gains and losses on investment securities AFS	(511)	10,527	48,815	82,134
Tax effect of unrealized gains and losses on investment securities AFS	155	(2,572)	(11,560)	(19,841)
Amounts reclassified from AOCI	(2,244)	—	(4,467)	(713)
Tax effect of amounts reclassified from AOCI	539	—	1,073	173
Total other comprehensive income (loss)	(2,061)	7,955	33,861	61,753
Ending balance of AOCI – unrealized gains and losses on investment securities AFS	$ 61,116	$ 27,648	$ 61,116	$ 27,648

15. Other Operating Expenses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Professional and outside services	$ 8,647	$ 9,204	$ 23,629	$ 25,874
Software and data processing	5,431	5,095	15,550	14,561
Deposit insurance and assessments	3,595	2,505	11,600	9,645
Telecommunication services	2,352	2,094	6,863	8,248
Postage and supplies	1,808	2,040	5,753	6,201
Advertising and public relations	1,557	2,067	4,964	5,421
ATM expense	1,604	1,277	3,766	3,363
Travel and meals	689	2,777	3,501	8,385
Loan collection and repossession expense	1,030	317	2,581	2,218
Writedowns of foreclosed and other assets	488	354	2,087	1,509
Amortization of intangibles	1,914	2,907	7,291	9,064
Other	6,731	7,076	21,670	17,271
Total other operating expense	$ 35,846	$ 37,713	$ 109,255	$ 111,760

16. Recent Accounting Pronouncements

In January 2017, FASB issued ASU 2017-04 *"Intangibles – Goodwill and Other (Topic 350)"* which amends the requirement that entities compare the implied fair value of goodwill with its carrying amount as part of step two of the goodwill impairment test. As a result, entities should perform their annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment if the carrying amount exceeds the reporting unit's fair value. ASU 2017-04 was effective for annual periods beginning after December 15, 2019. The adoption of ASU 2017-04 did not have a significant effect on any of the Bank's goodwill impairment test, including its annual impairment test performed as of September 30, 2020, and did not have a material effect on its financial position or results of operations.

In August 2018, FASB issued ASU 2018-13 *"Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement."* ASU 2018-13 modifies various disclosure requirements on fair value measurements in Topic 820. These modifications include, but are not limited to, the removal of the requirement to disclose the reasons for and amounts of transfers between Level 1 and Level 2 assets and liabilities, and certain other disclosures that are no longer considered cost beneficial. In addition, ASU 2018-13 requires additional disclosures related to certain Level 3 unobservable inputs as well as disclosures related to changes in unrealized gains and losses for Level 3 assets and liabilities. ASU 2018-13 was effective for interim and annual periods beginning after December 15, 2019. The Bank adopted ASU 2018-13 beginning January 1, 2020 and the adoption of the provisions of ASU 2018-13 did not have a significant effect on the Bank's financial statement disclosures.

In August 2018, FASB issued ASU 2018-15 *"Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract."* ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract was not affected by these amendments. ASU 2018-15 was effective for interim and annual periods beginning after December 15, 2019. The Bank adopted ASU 2018-15 on a prospective basis beginning January 1, 2020 and the adoption of the provisions of ASU 2018-15 did not have a material effect on the Bank's financial position or results of operations.

In December 2019, FASB issued ASU 2019-12 *"Income Taxes (Topic 740) Simplifying the Accounting for Income Taxes"* which simplifies the accounting related to franchise taxes and other taxes partially based on income. In addition, ASU 2019-12 clarifies when a step-up in basis should be considered as part of a business combination, as well as when entities should recognize enacted changes in tax law. ASU 2019-12 is effective for annual reporting periods beginning after December 15, 2020 with early adoption permitted. The Bank believes the adoption of ASU 2019-12 will not have a material impact on its financial position or results of operations.

In May 2020, FASB issued ASU 2020-04 *"Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting."* Reference rate reform relates to the effects undertaken to eliminate certain reference rates such as the London Interbank Offered Rate and introduce new reference rates that may be based on larger or more liquid observations and transactions. ASU 2020-04 provides optional exceptions for applying GAAP to contracts, hedging relationships and other contracts. Generally, ASU 2020-04 would allow entities to consider contract modifications due to reference rate reform to be a continuation of an existing contract; thus, the Bank would not have to determine if the modification is considered insignificant. ASU 2020-04 was effective upon issuance and terminates December 31, 2022 such that changes made to contracts beginning on or after January 1, 2023 would not apply. The Bank is currently evaluating the impact of ASU 2020-04 and has not determined if reference rate reform and the adoption of the standard will have a material effect on the Bank's financial position or results of operations.

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

Unless the context otherwise requires, references in this quarterly report on Form 10-Q to terms such as "Bank," "we," "us," and "our" refer to Bank OZK (the "Bank") and its consolidated subsidiaries.

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 public filings made by us and other oral and written statements or reports by us and our management include certain forward-looking statements that are intended to be covered by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management's expectations as well as certain assumptions and estimates made by, and information available to, management at the time. Those statements are not guarantees of future results or performance and are subject to certain known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Forward-looking statements include, without limitation, statements and discussions about economic, real estate market, competitive, employment, credit market and interest rate conditions, including expectations for further changes in monetary and interest rate policy by the Board of Governors of the Federal Reserve System ("FRB"); our plans, goals, beliefs, expectations, thoughts, estimates and outlook for the future with respect to our revenue growth; net income and earnings per common share; net interest margin; net interest income; non-interest income, including service charges on deposit accounts, trust income, bank owned life insurance ("BOLI") income, loan service, maintenance and other fees, and gains (losses) on investment securities and sales of other assets; 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; nonperforming assets; net charge-offs and net charge-off ratios; provision and allowance for credit losses; past due loans; current or future litigation; interest rate sensitivity, including the effects of possible interest rate changes; future growth and expansion opportunities, including plans for making additional acquisitions; problems with obtaining regulatory approval of or integrating or managing acquisitions; plans for opening new offices or relocating, selling or closing existing offices; opportunities and goals for future market share growth; expected capital expenditures; loan and deposit growth, including growth from unfunded closed loans; changes in the volume, yield and value of our investment securities portfolio; availability of unused borrowings; the need to issue debt or equity securities and other similar forecasts and statements of expectation. Forward-looking statements also include statements related to our continuing response to the coronavirus ("COVID-19") pandemic. Words such as "anticipate," "assume," "believe," "could," "estimate," "expect," "goal," "hope," "intend," "look," "may," "plan," "project," "seek," "target," "trend," "will," "would," and similar words and expressions, as they relate to us or our management, identify forward-looking statements.

Actual future performance, outcomes and results may differ materially from those expressed in, or implied by, forward-looking statements made by us and our management due to certain risks, uncertainties and assumptions. Certain factors that may affect our future results include, but are not limited to, potential delays or other problems in implementing our growth, expansion and acquisition strategies, including delays in identifying satisfactory sites, hiring or retaining qualified personnel, obtaining regulatory or other approvals, obtaining permits and designing, constructing and opening new offices or relocating, selling or closing existing offices; the ability to enter into and/or close additional acquisitions; the availability of and access to capital; possible downgrades in our credit ratings or outlook which could increase the costs or availability of funding from capital markets; the ability to attract new or retain existing or acquired deposits or to retain or grow loans, including growth from unfunded closed loans; the ability to generate future revenue growth or to control future growth in non-interest expense; interest rate fluctuations, including changes in the yield curve between short-term and long-term interest rates or changes in the relative relationships of various interest rate indices; the potential impact of the proposed phase-out of the London Interbank Offered Rate ("LIBOR") or other changes involving LIBOR; competitive factors and pricing pressures, including their effect on our net interest margin or core spread; general economic, unemployment, credit market and real estate market conditions, and the effect of such conditions on the creditworthiness of borrowers, collateral values, the value of investment securities and asset recovery values; changes in legal, financial and/or regulatory requirements; recently enacted and potential legislation and regulatory actions and the costs and expenses to comply with new and/or existing legislation and regulatory actions, including those actions in response to the COVID-19 pandemic such as the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") and any similar or related rules and regulations; changes in U.S. Government monetary and fiscal policy, including any changes that result from the recent U.S. elections; Federal Deposit Insurance Corporation ("FDIC") special assessments or changes to regular assessments; the ability to keep pace with technological changes, including changes regarding maintaining cybersecurity; the impact of failure in, or breach of, our operational or security systems or infrastructure, or those of third parties with whom we do business, including as a result of cyber attacks or an increase in the incidence or severity of fraud, illegal payments, security breaches or other illegal acts impacting us or our customers; natural disasters or acts of war or terrorism; the adverse effects of the ongoing global COVID-19 pandemic, including the magnitude and duration of the pandemic, and actions taken to contain or treat COVID-19 on us, our employees, our customers, the global economy and the financial markets; international or political instability; impairment of our goodwill or other intangible assets; adoption of new accounting standards, including the effects from the adoption of the current expected credit loss ("CECL") methodology on January 1, 2020, or changes in existing standards; and adverse results (including costs, fines, reputational harm and/or other negative effects) from current or future litigation, regulatory examinations or other legal and/or regulatory actions or rulings as well as other factors described in this quarterly report on Form 10-Q or as detailed from time to time in the other public reports we file with the FDIC, including those factors identified 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, 2019. Should one or more of the foregoing risks materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described in, or implied by, such forward-looking statements. We disclaim any obligation to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information or otherwise.

SELECTED AND SUPPLEMENTAL FINANCIAL DATA

The following tables set forth selected unaudited consolidated financial data as of and for the three months and nine months ended September 30, 2020 and 2019 and supplemental unaudited quarterly financial data for each of the most recent eight quarters beginning with the fourth quarter of 2018 through the third quarter of 2020. These tables are qualified in their entirety by our consolidated financial statements and related notes presented in Part I, Item 1 – Financial Statements in this quarterly report on Form 10-Q. The calculation of our pre-tax pre-provision net revenue ("PPNR") and the reconciliation to generally accepted accounting principles ("GAAP") are included in this MD&A under "Analysis of Results of Operations" 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 GAAP are included in this MD&A under "Capital Management" in this quarterly report on Form 10-Q.

Selected Consolidated Financial Data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands, except per share amounts)			
Income statement data:				
Interest income	$ 268,281	$ 289,517	$ 807,386	$ 881,579
Interest expense	43,624	70,737	156,362	212,375
Net interest income	224,657	218,780	651,024	669,204
Provision for credit losses	7,200	7,854	196,889	21,303
Non-interest income	26,676	26,446	75,947	77,121
Non-interest expense	105,641	100,914	310,019	296,724
Net income available to common stockholders	109,253	103,891	171,385	325,100
Pre-tax pre-provision net revenue ("PPNR")	145,692	144,312	416,952	449,601
Common share and per common share data:				
Earnings – diluted	$ 0.84	$ 0.81	$ 1.32	$ 2.52
Book value	32.37	31.63	32.37	31.63
Tangible book value	27.13	26.30	27.13	26.30
Dividends per share	0.2725	0.2400	0.8025	0.6900
Weighted-average diluted shares outstanding (thousands)	129,470	129,012	129,398	128,995
End of period shares outstanding (thousands)	129,342	128,946	129,342	128,946
Balance sheet data at period end:				
Total assets	$ 26,888,308	$ 23,402,679	$ 26,888,308	$ 23,402,679
Total loans	19,358,443	17,734,851	19,358,443	17,734,851
Non-purchased loans	18,419,958	16,307,621	18,419,958	16,307,621
Purchased loans	938,485	1,427,230	938,485	1,427,230
Allowance for loan losses	308,847	109,001	308,847	109,001
Foreclosed assets	16,543	33,319	16,543	33,319
Investment securities – AFS	3,468,243	2,414,722	3,468,243	2,414,722
Goodwill and other intangible assets, net	677,251	687,397	677,251	687,397
Deposits	21,287,405	18,440,078	21,287,405	18,440,078
Other borrowings	750,949	301,421	750,949	301,421
Subordinated notes	223,950	223,567	223,950	223,567
Subordinated debentures	120,335	119,775	120,335	119,775
Unfunded balance of closed loans	11,604,614	11,429,918	11,604,614	11,429,918
Reserve for losses on unfunded loan commitments	68,426	—	68,426	—
Total common stockholders' equity	4,186,285	4,078,324	4,186,285	4,078,324
Loan (including purchased loans) to deposit ratio	90.94%	96.18%	90.94%	96.18%
Average balance sheet data:				
Total average assets	$ 26,661,557	$ 22,786,827	$ 25,421,110	$ 22,673,159
Total average common stockholders' equity	4,148,409	4,032,066	4,125,578	3,925,321
Average common equity to average assets	15.56%	17.69%	16.23%	17.31%
Performance ratios:				
Return on average assets[(1)]	1.63%	1.81%	0.90%	1.92%
Return on average common stockholders' equity[(1)]	10.48	10.22	5.55	11.07
Return on average tangible common stockholders' equity[(1)]	12.52	12.33	6.65	13.44
Net interest margin – FTE[(1)]	3.69	4.26	3.79	4.41
Efficiency ratio	41.77	40.98	42.38	39.58
Common stock dividend payout ratio	32.56	29.81	60.69	27.34
Asset Quality ratios:				
Net charge-offs to average non-purchased loans[(1)(2)]	0.09%	0.07%	0.07%	0.08%
Net charge-offs to average total loans[(1)]	0.09	0.12	0.16	0.11
Nonperforming loans to total loans[(3)]	0.15	0.17	0.15	0.17
Nonperforming assets to total assets[(3)]	0.17	0.26	0.17	0.26
Allowance for loan losses as a percentage of[(4)]:				
Total loans	1.60%	0.61%	1.60%	0.61%
Total nonperforming loans	540%	200%	540%	200%
Capital ratios at period end:				
Common equity tier 1	12.88%	13.28%	12.88%	13.28%
Tier 1 risk based capital	12.88	13.28	12.88	13.28
Total risk based capital	15.34	15.08	15.34	15.08
Tier 1 leverage	13.42	15.17	13.42	15.17

(1) Ratios annualized based on actual days.
(2) Excludes purchased loans and net charge-offs related to such loans.
(3) Excludes purchased loans, except for their inclusion in total assets.
(4) Excludes reserve for losses on unfunded loan commitments.

Supplemental Quarterly Financial Data

	12/31/18	3/31/19	6/30/19	9/30/19	12/31/19	3/31/20	6/30/20	9/30/20
	(Dollars in thousands, except per share amounts)							
Earnings Summary:								
Net interest income	$ 228,382	$ 225,888	$ 224,536	$ 218,780	$ 214,977	$ 209,775	$ 216,593	$ 224,657
Federal tax (FTE) adjustment	1,219	1,207	1,136	1,038	1,028	1,133	1,753	1,605
Net interest income (FTE)	229,601	227,095	225,672	219,818	216,005	210,908	218,346	226,262
Provision for credit losses	(7,271)	(6,681)	(6,769)	(7,854)	(4,938)	(117,663)	(72,026)	(7,200)
Non-interest income	27,560	24,072	26,603	26,446	30,406	27,680	21,591	26,676
Non-interest expense	(94,893)	(96,678)	(99,131)	(100,914)	(104,406)	(103,425)	(100,953)	(105,641)
Pretax income (FTE)	154,997	147,808	146,375	137,496	137,067	17,500	66,958	140,097
FTE adjustment	(1,219)	(1,207)	(1,136)	(1,038)	(1,028)	(1,133)	(1,753)	(1,605)
Provision for income taxes	(38,750)	(35,889)	(34,726)	(32,574)	(35,240)	(4,509)	(14,948)	(29,251)
Noncontrolling interest	3	(6)	(10)	7	7	8	9	12
Net income available to common stockholders	$ 115,031	$ 110,706	$ 110,503	$ 103,891	$ 100,806	$ 11,866	$ 50,266	$ 109,253
Earnings per common share – diluted	$ 0.89	$ 0.86	$ 0.86	$ 0.81	$ 0.78	$ 0.09	$ 0.39	$ 0.84
Non-interest Income:								
Service charges on deposit accounts	$ 10,585	$ 9,722	$ 10,291	$ 10,827	$ 10,933	$ 10,009	$ 8,281	$ 9,427
Trust income	1,821	1,730	1,839	1,975	2,010	1,939	1,759	1,936
BOLI income:								
Increase in cash surrender value	5,269	5,162	5,178	5,208	5,167	5,067	5,057	5,081
Death benefits	482	—	—	206	2,989	608	—	—
Other income from purchased loans	2,370	795	1,455	674	759	—	—	—
Loan service, maintenance and other fees	5,245	4,874	4,565	4,197	4,282	3,716	3,394	3,351
Gains on sales of other assets	465	284	402	189	1,358	161	621	891
Net gains on investment securities	—	—	713	—	—	2,223	—	2,244
Other	1,323	1,505	2,160	3,170	2,908	3,957	2,479	3,746
Total non-interest income	$ 27,560	$ 24,072	$ 26,603	$ 26,446	$ 30,406	$ 27,680	$ 21,591	$ 26,676
Non-interest Expense:								
Salaries and employee benefits	$ 41,837	$ 44,868	$ 47,558	$ 48,376	$ 52,050	$ 51,473	$ 48,410	$ 53,119
Net occupancy and equipment	14,027	14,750	14,587	14,825	14,855	15,330	15,756	16,676
Other operating expenses	39,029	37,060	36,986	37,713	37,501	36,622	36,787	35,846
Total non-interest expense	$ 94,893	$ 96,678	$ 99,131	$ 100,914	$ 104,406	$ 103,425	$ 100,953	$ 105,641
Balance Sheet Data:								
Total assets	$ 22,388,030	$ 23,005,652	$ 22,960,731	$ 23,402,679	$ 23,555,728	$ 24,565,810	$ 26,380,409	$ 26,888,308
Non-purchased loans	15,073,791	15,610,681	15,786,809	16,307,621	16,224,539	17,030,378	18,247,431	18,419,958
Purchased loans	2,044,032	1,864,715	1,698,396	1,427,230	1,307,504	1,197,826	1,063,647	938,485
Investment securities – AFS	2,862,340	2,769,602	2,548,489	2,414,722	2,277,389	2,816,556	3,299,944	3,468,243
Deposits	17,938,415	18,476,868	18,186,215	18,440,078	18,474,259	18,809,190	20,723,598	21,287,405
Unfunded balance of closed loans	11,364,975	11,544,218	11,167,055	11,429,918	11,325,598	11,334,737	11,411,441	11,604,614
Common stockholders' equity	3,770,330	3,882,643	3,993,247	4,078,324	4,150,351	4,083,150	4,110,666	4,186,285
Allowance for Credit Losses:								
Balance at beginning of period	$ 98,200	$ 102,264	$ 105,954	$ 106,642	$ 109,001	$ 108,525	$ 316,409	$ 374,494
Adoption of CECL(1) methodology	—	—	—	—	—	94,512	—	—
Net charge-offs	(3,207)	(2,991)	(6,081)	(5,495)	(5,414)	(4,291)	(13,941)	(4,421)
Provision for credit losses	7,271	6,681	6,769	7,854	4,938	117,663	72,026	7,200
Balance at end of period	$ 102,264	$ 105,954	$ 106,642	$ 109,001	$ 108,525	$ 316,409	$ 374,494	$ 377,273
Allowance for loan losses	$ 102,264	$ 105,954	$ 106,642	$ 109,001	$ 108,525	$ 238,737	$ 306,196	$ 308,847
Reserve for losses on unfunded loan commitments	—	—	—	—	—	77,672	68,298	68,426
Total allowance for credit losses	$ 102,264	$ 105,954	$ 106,642	$ 109,001	$ 108,525	$ 316,409	$ 374,494	$ 377,273
Selected Ratios:								
Net interest margin – FTE(2)	4.55%	4.53%	4.45%	4.26%	4.15%	3.96%	3.74%	3.69%
Efficiency ratio	36.90	38.49	39.30	40.98	42.37	43.35	42.07	41.77
Net charge-offs to average non-purchased loans(2) (3)	0.06	0.05	0.12	0.07	0.10	0.08	0.05	0.09
Net charge-offs to average total loans(2)	0.07	0.07	0.14	0.12	0.12	0.10	0.29	0.09
Nonperforming loans to total loans(4)	0.23	0.22	0.15	0.17	0.15	0.16	0.18	0.15
Nonperforming assets to total assets(4)	0.23	0.21	0.25	0.26	0.18	0.19	0.19	0.17
Allowance for loan losses to total loans(5)	0.60	0.61	0.61	0.61	0.62	1.31	1.59	1.60
Loans past due 30 days or more, including past due non-accrual loans, to total loans(4)	0.28	0.28	0.13	0.14	0.19	0.18	0.13	0.13

(1) Current Expected Credit Loss.
(2) Ratios for interim periods 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) Excludes reserve for losses on unfunded loan commitments.

GENERAL

The following discussion explains our financial condition and results of operations as of and for the three months and nine months ended September 30, 2020. 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 and related notes. The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes presented in Part 1, Item 1 – Financial Statements in this quarterly report on Form 10-Q and in our annual report on Form 10-K for the year ended December 31, 2019. Annualized results for these interim periods may not be indicative of results for the full year or future periods.

Our primary business is commercial banking conducted by the Bank and various subsidiaries of the Bank. Our results of operations depend primarily on net interest income, which is the difference between the interest income from earning assets, such as loans and investments, and the interest expense incurred on interest bearing liabilities, such as deposits, borrowings, subordinated notes and subordinated debentures. We also generate non-interest income, including, among others, service charges on deposit accounts, trust income, BOLI income, loan service, maintenance and other fees and gains (losses) on investment securities and from sales of other assets.

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

RECENT DEVELOPMENTS RELATED TO COVID-19

Overview. We continue to be impacted by the ongoing outbreak of COVID-19, which in March 2020 was declared a global pandemic by the World Health Organization and a national emergency by the President of the United States. This ongoing global and national health emergency has caused significant disruption in the United States and international economies and financial markets. Efforts to limit the spread of COVID-19 included shelter-in-place orders and quarantines, the closure of schools and non-essential businesses, travel restrictions and prohibitions on public gatherings, among other things, throughout many parts of the United States and, in particular, the markets in which we do business. The pandemic also continues to cause a reduction in commercial activity, supply chain interruptions, increased unemployment, and overall economic and financial market instability. Recently, several states have seen increases in the number of cases of COVID-19, which could lead these states to re-impose previous restrictions or adopt new ones in an attempt to contain further spread. As a financial institution, we are considered an essential business and therefore continued to operate in compliance with governmental restrictions and public health authority guidelines. COVID-19 has adversely affected and is expected to continue to adversely affect our business, financial condition and results of operations. While at this time it is difficult to ascertain the ultimate adverse impact of the pandemic, it has been and is expected to continue to be material.

As the COVID-19 pandemic is ongoing and dynamic in nature, there are many uncertainties including, among other things, its ultimate geographic spread, its severity, the duration of the outbreak and the potential for additional outbreaks, the impact to our customers, employees and vendors, the impact on the financial services and banking industry, and the impact to the economy as a whole as well as the effect of actions taken, or that may yet be taken, by federal, state and local governmental authorities and public health officials to contain the current outbreak or any future outbreaks or mitigate the impact of such outbreaks (both economic and health-related). For a discussion of the risks we face with respect to COVID-19, the steps taken to mitigate the pandemic and the economic disruption resulting therefrom, see “Item 1A – Risk Factors” in Part II of this quarterly report on Form 10-Q, which should be read in conjunction with the risk factors disclosed in our annual report on Form 10-K for the year ended December 31, 2019.

Impact on Our Operations. Most states in which we operate, including Arkansas, where we are headquartered, declared states of emergency. The resulting closures of non-essential businesses during much of 2020 and related economic disruption have impacted our operations as well as the operations of our customers. Through this time of disruption, we have remained open for business and focused on supporting our employees, customers and communities, as well as maintaining our asset quality and balance sheet strength, including the following actions:

- Providing loans through the Small Business Administration’s (“SBA”) Paycheck Protection Program (“PPP”). At September 30, 2020, we have approximately 6,350 outstanding PPP loans totaling approximately $0.46 billion.
- Implementing our Disaster Relief Loan Program, which during the first nine months of 2020 provided short-term payment deferrals on approximately 3,461 loans totaling approximately $1.34 billion. As of September 30, 2020, we had approximately 583 loans totaling approximately $0.55 billion that remained on a first or second deferral.
- Capitalizing on dislocation in the bond market by purchasing approximately $2.18 billion in high-quality, short-term municipal bonds.
- Maintaining a broad-based risk management strategy, including adjusting loan pricing and tightening certain underwriting standards and achieving enhancements in the mix, duration and stability of our deposit base.
- Expanding customer care center hours and enhancing our online CD-opening process and mobile banking platforms.

- Enhancing our corporate infrastructure and adapting our technology and remote-access availability to support more than 1,100 employees working from home or other remote locations, all in accordance with our compliance and information security policies designed to ensure proper safeguarding of customer data and other information.
- Adding a new COVID-19 paid leave policy for our employees.
- Restricting all non-essential travel and instituting a mandatory quarantine period for anyone that has traveled to an impacted area.
- Redesigning customer and branch interactions to maximize social distancing while continuing to provide quality personal service and increasing health and safety protocols for those employees working in our offices.

Notwithstanding the actions that we have taken to increase the safety for our customers and employees, COVID-19 could still greatly affect our essential operations due to staff absenteeism, particularly among key personnel; further limited access to or result in closures of our branch facilities and other physical offices; operational, technical or security-related risks arising from a remote workforce; and government or regulatory agency orders, among other things. The business and operations of our third party vendors, many of whom perform critical services for our business, could also be significantly impacted, which in turn could impact us. As a result, we are currently unable to fully assess or predict the extent of the effects of COVID-19 on our operations, as the ultimate impact will depend largely on factors that are currently unknown and/or out of our control.

Impact on our Financial Condition and Results of Operations. Our financial condition and results of operations have been significantly impacted by COVID-19. The economic environment and uncertainty related to the pandemic coupled with the adoption of the new CECL accounting standard contributed to the $196.9 million of provision expense recognized during the nine months ended September 30, 2020. The continued uncertainty regarding the severity and duration of the pandemic and related economic effects will continue to affect our estimate of our allowance for credit losses (“ACL”) and resulting provision for credit losses. To the extent the impact of the pandemic is prolonged and economic conditions worsen or persist longer than forecast, such estimates may be insufficient and change significantly in the future. Our interest income may also be negatively impacted in future periods as we may find the need to increase our efforts to work with our affected borrowers to defer payments, interest and fees. Additionally, net interest margin may be reduced generally as a result of the low-rate environment. If these uncertainties and the adverse economic environment continue, our earnings and growth may continue to be impacted and we may experience a deterioration in asset quality within certain segments of our loan portfolio.

Lending Operations and Accommodations to Borrowers. The CARES Act signed into law by President Trump on March 27, 2020, created a new guaranteed, unsecured loan program under the SBA called the PPP, which we participated in, to fund operational costs of eligible businesses, organizations and self-employed persons during the pandemic period. On June 5, 2020, the Paycheck Protection Program Flexibility Act was signed into law, which made significant changes to the PPP to provide additional relief for small businesses, including increased flexibility for small businesses that have been unable to rehire employees due to lack of employee availability or have been unable to operate as normal due to COVID-19 related restrictions, an extension of the period during which businesses can use PPP funds to qualify for loan forgiveness, a relaxation of the requirements that loan recipients must adhere to in order to qualify for loan forgiveness, and an extension of the payment deferral period for PPP loans. Nearly $660 billion in funds have been authorized for the PPP, which the SBA will use to guarantee the amounts loaned under the PPP by lenders to eligible small businesses, nonprofits, veterans' organizations, and tribal businesses. One of the notable features of the PPP is that borrowers are eligible for loan forgiveness if borrowers maintain their staff and payroll and if loan amounts are used to cover payroll, mortgage interest, rents and utilities payments. These loans have a two-year term and earn interest at a rate of 1%. During much of the second quarter of 2020, we actively assisted our customers with applications for resources through the program. Recently, we have begun working with our customers to apply for loan forgiveness under the program. Currently, based on existing program requirements, we would expect the vast majority of PPP loans we originated to be forgiven and repaid by the SBA by the first half of 2021.

Regulatory. The federal government has taken extraordinary and unprecedented steps, such as the CARES Act, to support the U.S. economy and partially mitigate the effects of the pandemic and the impact of measures taken to slow its spread. The government has provided, among other things, regulatory relief to financial institutions, liquidity to capital markets and direct support to businesses and consumers. The FRB has taken decisive and sweeping actions as well. Since March 15, 2020, these have included a reduction in the target range for the federal funds rate to 0.0%-0.25%, a program to purchase an indeterminate amount of U.S. Treasury securities and U.S. Government agency mortgage-backed securities, and numerous facilities to support the flow of credit to households and businesses. Additional actions are being considered at the federal and state levels. It is too early to determine the overall effectiveness of actions that have been taken and their ultimate impact on our financial condition and results of operations.

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 the (i) provisions to and the adequacy of the ACL, (ii) fair value of our investment securities portfolio, and (iii) accounting for our income taxes 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 ACL, (ii) the fair value of our investment securities portfolio, and (iii) accounting for our income taxes to be critical accounting policies. A detailed discussion of our critical accounting policies is included in our annual report on Form 10-K for the year ended December 31, 2019. Except as discussed below, 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, 2019.

Provisions to and adequacy of the ACL. Effective January 1, 2020, we adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This new guidance replaced the incurred loss method that was utilized in estimating our allowance for loan losses ("ALL") as of December 31, 2019 with a methodology that requires us to estimate credit losses expected to occur over the life of the financial instrument and to recognize those estimated losses at the time of loan origination. This revised methodology is what FASB describes as the CECL method.

We adopted ASU 2016-13 using the modified retrospective method; therefore, results for reporting periods beginning on or after January 1, 2020 are presented in accordance with this new guidance while prior period results are reported in accordance with the previously applicable GAAP. The adoption of ASU 2016-13 on January 1, 2020 resulted in a $39.6 million increase in our ALL for outstanding loans and the establishment of a $54.9 million reserve for losses on unfunded loan commitments, resulting in a total increase in our ACL of $94.5 million. These transition adjustments, net of related tax effects, were recorded as a cumulative effect from the change in accounting principle and reduced our retained earnings by $75.3 million. As required by ASU 2016-13, the portion of the ACL for the outstanding balance of our loan portfolio is reported as ALL on our consolidated balance sheet and the reserve for losses on unfunded loan commitments is reported as a liability on our consolidated balance sheet.

Additionally, all purchased loans that were previously accounted for and reported as loans with credit deterioration at the date of acquisition, or purchased credit impaired ("PCI") loans, are now considered purchased credit deteriorated ("PCD") loans. For periods prior to January 1, 2020, PCI loans were carried at their net present value of future expected cash flows. For periods subsequent to January 1, 2020, PCD loans are carried at their amortized cost basis less a non-credit discount. Upon adoption of, and as provided for under ASU 2016-13, we utilized the "gross up" approach whereby we adjusted PCD loans by their respective CECL ALL of $5.9 million, which became part of the revised amortized cost basis of such loans. The remaining difference of $14.6 million between the PCD loans' amortized cost basis and the par value of the loans is a non-credit discount that is being amortized into interest income over the remaining life of the loans.

Our ACL under CECL is established through a provision for credit losses charged against income. All, or portions of, loans deemed to be uncollectible are charged against the ACL when we believe that collectability of all, or some portion of, outstanding principal is unlikely. Subsequent recoveries, if any, of loans previously charged off are credited to the ACL. For credit risk related to a contractual obligation to extend credit, we estimate expected credit losses over the contractual period considering the likelihood that funding will occur.

In conjunction with the adoption of ASU 2016-13, we implemented a dual risk rating scale that utilizes quantitative models and qualitative factors ("score cards") in determining the risk rating for our commercial loans. This dual risk rating methodology incorporates an obligor risk rating ("ORR") and a facility risk rating ("FRR") which are combined to create a two-dimensional risk rating for commercial loans. The ORR is influenced by a loan's probability of default ("PD") as determined from the score cards, with such score card PDs affected by various financial metrics, such as projected cash flow, loan-to-value ("LTV"), property and/or market characteristics, borrower financial strength and other financial and loan characteristics. Thus, the higher a loan's PD, the more adverse the loan's ORR. The FRR is influenced by a loan's loss given default ("LGD") as determined from the score cards. Score card LGDs are affected by the estimated loss when a borrower cannot or will not repay the loan. Estimated losses take into consideration our underwriting standards and protections including collateral and collateral margin requirements, loan covenants, support required from guarantors, insurance and other factors. The higher a loan's LGD, the more adverse the loan's FRR. The combined dual risk rating provides an annualized expected loss estimate for each commercial loan and based on such loss estimates a risk rating is assigned. Additionally, we may apply risk rating "overrides" whereby we may further downgrade a loan to the extent we believe we have additional information about a loan or a borrower that is not fully reflected in the ORR and/or FRR. We utilize this risk rating in assigning and evaluating our credit quality; and output from the score cards is utilized in determining the necessary ACL for risk rated loans. Our consumer loans are not risk rated in the same manner as are our commercial loans. Instead, our consumer loans are risk rated based on past due status, with all such loans that are less than 30 days past due assigned a "pass rating" and all loans that are 30 days or more past due assigned a more adverse rating commensurate with each loan's perceived risk. While our consumer loans are not risk rated using the dual risk rating scale that incorporates both an ORR and an FRR, we do utilize output from the score cards on consumer loans for purposes of determining the necessary ACL for consumer loans.

The ACL is maintained at a level we believe will be adequate to absorb expected credit losses in future periods associated with our loan portfolio and unfunded loan commitments. Provisions to and the adequacy of the ACL are based on evaluations of the loan portfolio utilizing objective and subjective criteria. The objective criteria primarily includes estimated losses that are modeled from the respective score cards and the outputs from our CECL platform. In addition to these objective criteria, we subjectively assess the adequacy of the ACL and the need for changes thereto, with consideration given to the nature and mix of the portfolio, national, regional and local business and economic conditions that may affect borrowers' ability to pay, concentrations of credit, changes in the experience, ability and depth of lending management and other relevant staff, changes in the nature and volume of the portfolio and in the terms of the loans, overall portfolio quality, historical loss experience and other relevant factors. Changes in these criteria or the availability of new information could require adjustment of the ACL in future periods. In addition, for loans that do not share risk characteristics similar to those contained within their respective loan segments, we may perform an individual assessment of the ACL utilizing expected cash flows, collateral values or a combination thereof. When foreclosure is probable, and for certain loans that are collateral dependent but foreclosure is not considered probable, expected credit losses may be based on the fair value of collateral adjusted for selling costs, if any. While an individual assessment and related ACL has been calculated for certain non-performing loans, no portion of our ACL is restricted to any individual loan or group of loans, and the entire ACL is available to absorb losses from any and all loans, including unfunded loan commitments.

The score cards utilized in determining the ACL use quantitative data related to our loans and unfunded loan commitments. In determining the estimated loss, the quantitative data utilized by the score card models includes, but is not limited to, estimated debt service coverage ratios, LTV ratios, total revenue and margin, and for consumer loans, individual credit scores. In addition, the score cards and our CECL platform incorporate varying future economic forecasts in estimating our ACL. While our score card models and CECL platform produce an estimated lifetime loss for all loans not individually evaluated, the score card models and CECL platform may have certain limitations. To address potential limitations, our methodology considers additional qualitative adjustments that are applied to our CECL calculation. Those qualitative adjustments utilized at September 30, 2020 are intended to adjust for imprecision in economic forecasts, including the velocity and severity of the negative effects of COVID-19 on the economy and financial markets in recent months, model data limitations, and other factors. In determining our ACL, we utilize a reasonable and supportable forecast period which, as of September 30, 2020, was two years followed by a reversion of estimated losses back to our historical mean. Expected credit losses are estimated over the contractual term of the loan, adjusted for anticipated or expected prepayments, and include an estimate for maturity risk. The contractual term of the loan excludes expected extensions or modifications unless we have a reasonable expectation that such extension or modification will be considered a troubled debt restructuring.

ANALYSIS OF RESULTS OF OPERATIONS

General

Net income available to our common stockholders was $109.3 million for the third quarter of 2020, a 5.2% increase from $103.9 million for the third quarter of 2019. Net income available to our common stockholders was $171.4 million for the first nine months of 2020, a 47.3% decrease from $325.1 million for the first nine months of 2019. Diluted earnings per common share were $0.84 for the third quarter of 2020, a 3.7% increase from $0.81 for the third quarter of 2019. Diluted earnings per common share were $1.32 for the first nine months of 2020, a 47.6% decrease from $2.52 for the first nine months of 2019.

The COVID-19 pandemic has significantly affected the U.S. and global economies. The sudden and severe economic downturn seen during the first quarter of 2020 has continued throughout much of the second and third quarters of 2020. This downturn, in tandem with the adoption of CECL on January 1, 2020, resulted in our incurring provision for credit losses of $117.7 million in the first quarter, $72.0 million in the second quarter and $7.2 million in the third quarter, totaling $196.9 million for the nine months ended September 30, 2020. Most of the increase in our ACL was recorded as provision expense during the first and second quarters of 2020, resulting in lower provision expense during the third quarter of 2020 compared to the two previous quarters. At September 30, 2020, our ALL was $308.8 million, our reserve for losses on unfunded loan commitments was $68.4 million and our total ACL was $377.3 million. Our ACL and provision for credit losses are tied, in part, to our reasonable and supportable forecast which is related to future economic estimates and perceived economic outlook. Thus, if our reasonable and supportable forecast in future periods suggests economic conditions are expected to deteriorate, we may experience further increases in our ACL and provision. Conversely, if our reasonable and supportable forecast suggests economic conditions are expected to improve, we may experience a decrease in our ACL and provision. However, the current economic uncertainty makes predicting future economic conditions and future expectations regarding our ACL and related provision for credit losses difficult.

Our annualized return on average assets was 1.63% for the third quarter and 0.90% for the first nine months of 2020 compared to 1.81% for the third quarter and 1.92% for the first nine months of 2019. Our annualized return on average common stockholders' equity was 10.48% for the third quarter and 5.55% for the first nine months of 2020 compared to 10.22% for the third quarter and 11.07% for the first nine months of 2019. Our annualized return on average tangible common stockholders' equity was 12.52% for the third quarter and 6.65% for the first nine months of 2020 compared to 12.33% for the third quarter and 13.44% for the first nine months of 2019. The calculations of our average tangible common stockholders' equity and our annualized return on average tangible common stockholders' equity and the reconciliations to GAAP are included under the heading "Capital Management" in this MD&A.

Total assets were $26.89 billion at September 30, 2020 compared to $23.56 billion at December 31, 2019. Total loans were $19.36 billion at September 30, 2020 compared to $17.53 billion at December 31, 2019. Non-purchased loans were $18.42 billion at September 30, 2020 compared to $16.22 billion at December 31, 2019. Purchased loans were $0.94 billion at September 30, 2020 compared to $1.31 billion at December 31, 2019. Deposits were $21.29 billion at September 30, 2020 compared to $18.47 billion at December 31, 2019.

Common stockholders' equity was $4.19 billion at September 30, 2020 compared to $4.15 billion at December 31, 2019. Tangible common stockholders' equity was $3.51 billion at September 30, 2020 compared to $3.47 billion at December 31, 2019. Book value per common share was $32.37 at September 30, 2020 compared to $32.19 at December 31, 2019. Tangible book value per common share was $27.13 at September 30, 2020 compared to $26.88 at December 31, 2019. The calculations of our tangible common stockholders' equity and tangible book value per common share and the reconciliations to GAAP are included under the heading "Capital Management" in this MD&A.

Net Interest Income

Net interest income is our largest source of our revenue and represents the amount by which interest income on interest earning assets exceeds the interest expense paid on interest bearing liabilities. Net interest income is affected by many factors, including our volume and mix of average earning assets; our volume and mix of deposits and other interest bearing liabilities; our net interest margin; our core spread, which is how we describe the difference between the yield on our non-purchased loans and our cost of interest bearing deposits; and other factors.

Net interest income and net interest margin are analyzed in this discussion on a fully taxable equivalent ("FTE") basis. The adjustment to convert net interest income to a FTE basis consists of dividing tax-exempt interest income by one minus the statutory federal income tax rate of 21%. The FTE adjustments to net interest income were $1.6 million and $1.0 million for the three months ended September 30, 2020 and 2019, respectively, and $4.5 million and $3.4 million for the nine months ended September 30, 2020 and 2019, 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 ("IRC") as a result of investments in certain tax-exempt securities.

Net interest income for the third quarter of 2020 increased 2.9% to $226.3 million compared to $219.8 million for the third quarter of 2019. Net interest income for the first nine months of 2020 decreased 2.5% to $655.5 million compared to $672.6 million for the first nine months of 2019. The increase in net interest income for the third quarter of 2020 compared to the same period in 2019 was primarily due to an increase in average interest earning assets, which increased 19.4% to $24.43 billion for the third quarter of 2020 compared to $20.46 billion for the third quarter of 2019, partially offset by a 57 basis point ("bps") decrease in our net interest margin. The decrease in net interest income for the first nine months of 2020 compared to the same period in 2019 was primarily due to a 62 bps decrease in our net interest margin, partially offset by an increase in our average interest earning assets, which increased 13.4% to $23.12 billion for the first nine months of 2020 compared to $20.40 billion for the first nine months of 2019.

Our net interest margin was 3.69% for the third quarter and 3.79% for the first nine months of 2020 compared to 4.26% for the third quarter and 4.41% for the first nine months of 2019. The 57 bps decrease in net interest margin for the third quarter of 2020 compared to the same period in 2019 was due primarily to a 123 bps decrease in yield on earning assets, partially offset by an 84 bps decrease in the rate paid on interest bearing liabilities. The 62 bps decrease in net interest margin for the first nine months of 2020 compared to the same period of 2019 was due primarily to a 111 bps decrease in yield on earning assets, partially offset by a 62 bps decrease in the rate paid on interest bearing liabilities.

The yield on interest earning assets was 4.40% for the third quarter and 4.69% for the first nine months of 2020 compared to 5.63% for the third quarter and 5.80% for the first nine months of 2019. The yield on our non-purchased loans decreased 95 bps to 5.15% for the third quarter of 2020 compared to 6.10% for the comparable period in 2019. For the first nine months of 2020, the yield on our non-purchased loans decreased 97 bps to 5.33% compared to 6.30% for the comparable period in 2019. These decreases were primarily due to decreases in LIBOR and various other interest rates. At September 30, 2020, approximately 76% of our non-purchased loans are variable rate and generally reprice with movements in LIBOR and/or the Wall Street Journal Prime Rate ("WSJ Prime").

The yield on our purchased loan portfolio decreased 17 bps to 6.48% for the third quarter of 2020 compared to 6.65% for the third quarter of 2019. The yield on our purchased loan portfolio increased two bps to 6.46% for the first nine months of 2020 compared to 6.44% for the first nine months of 2019. The yield on our purchased loan portfolio is significantly affected by both the volume and timing of early payoffs and paydowns which typically result in any remaining purchase accounting valuation amounts treated as yield adjustments. Because the volume and timing of purchased loan payoffs and paydowns may vary significantly from period to period, the yield on such loans will also vary from period to period. At September 30, 2020, approximately 36% of our purchased loans had variable interest rates. Additionally, as a result of the adoption of ASU 2016-13 effective January 1, 2020, income previously reported as "other income from purchased loans" is now included as interest income on purchased loans.

At September 30, 2020, approximately 93% of our total variable rate loans were at their floors. To the extent that the Federal Reserve increases the federal funds target rate in future periods and LIBOR and/or WSJ Prime also increase, we would expect some delay before the yield on our variable rate loans would increase until such time as individual loans within those portfolios are able to reprice above their respective floor rates.

The yield on our aggregate investment securities portfolio decreased 78 bps to 1.89% for the third quarter and decreased 47 bps to 2.28% for the first nine months of 2020 compared to 2.67% for the third quarter and 2.76% for the first nine months of 2019. During the third quarter and first nine months of 2020, we increased our on-balance sheet liquidity through the purchase of high-quality, short-term securities. The yield on such purchases was significantly lower than the yield on our existing securities portfolio, resulting in the lower yields for the third quarter and first nine months of 2020 compared to the same periods in 2019.

The overall decrease in rates on average interest bearing liabilities, which decreased 84 bps for the third quarter and 62 bps for the first nine months of 2020 compared to the same periods in 2019, was primarily due to a decrease in rates on interest bearing deposits, which decreased 82 bps for the third quarter and 58 bps for the first nine months of 2020 compared to the same periods in 2019. These decreases in rates on our interest bearing deposits, the largest component of our interest bearing liabilities, were primarily due to decreases in the federal funds target rate and rates paid on time deposits as well as an improvement in our deposit base to consumer and commercial deposits. At September 30, 2020, we had approximately $8.63 billion of time deposits with a weighted-average rate of approximately 1.23% maturing in the next twelve months, including approximately $2.24 billion with a weighted-average rate of approximately 1.58% maturing by December 31, 2020. To the extent that we can renew and/or replace those time deposits at rates currently offered on such deposits, we would expect to experience decreases in our rates on interest bearing deposits in future periods.

Our other borrowing sources include (i) repurchase agreements with customers ("repos"), (ii) other borrowings, comprised primarily of FHLB advances and, to a lesser extent, federal funds purchased, (iii) subordinated notes and (iv) subordinated debentures. The rates on our other borrowings decreased 63 bps to 0.58% for the third quarter of 2020 compared to 1.21% for the same period of 2019. The rate on our other borrowings decreased 123 bps to 0.41% for the first nine months of 2020 compared to 1.64% for the same period in 2019. The rates on our other borrowings have been significantly affected by decreases in the federal funds rate and capitalized interest associated with the construction of our new corporate headquarters facility that was completed during the second quarter of 2020. Additionally, during 2020, we utilized FHLB term advances to support our funding sources and provide us with additional primary liquidity. Our subordinated notes consist of $225 million in aggregate principal amount of 5.50% fixed-to-floating rate subordinated notes. The rate on these subordinated notes includes amortization of debt issuance costs using a level-yield methodology over the estimated holding period of seven years. The rates paid on our subordinated debentures, which are tied to spreads over the 90-day LIBOR and reset periodically, decreased primarily due to decreases in LIBOR on the applicable reset dates, and, to a lesser extent, capitalized interest associated with the construction of our new corporate headquarters.

The increase in average earning assets for the third quarter and first nine months of 2020 compared to the same periods in 2019 was primarily due to an increase in the average balances of non-purchased loans, interest earning deposits and federal funds sold and investment securities, partially offset by a decrease in the average balance of purchased loans. Average non-purchased loans increased $2.38 billion, or 14.9%, to $18.31 billion for the third quarter and increased $1.88 billion, or 11.9%, to $17.60 billion for the first nine months of 2020 compared to the same periods in 2019. The increase in the average balance of our non-purchased loans was due primarily to continued growth in loan fundings, including our participation in the SBA's PPP, as well as a decrease in loan repayments compared to previous periods. Average interest earning deposits and federal funds sold increased $1.22 billion or 250.8% to $1.71 billion for the third quarter and increased $1.22 billion or 502.0% to $1.46 billion for the first nine months of 2020 compared to the same periods in 2019. The increase in the average balance of interest earning deposits and federal funds sold for the three and nine months ended September 30, 2020 is due to increased on-balance sheet liquidity. Additionally, the average balance of our aggregate investment securities portfolio increased $0.92 billion, or 36.9%, to $3.41 billion for the third quarter of 2020 and increased $0.26 billion, or 9.7%, for the first nine months of 2020 compared to the same periods in 2019 primarily due to purchases of high-quality, short-term securities during the first nine months of 2020. The average balance of our purchased loans decreased $0.55 billion, or 35.7%, to $1.00 billion for the third quarter and decreased $0.63 billion, or 35.7%, to $1.13 billion for the first nine months of 2020 compared to the same periods in 2019. This decrease was due to continued paydown and payoff activity in that portfolio.

The increase in average interest bearing liabilities for the third quarter and first nine months of 2020 compared to the same periods in 2019 was primarily due to the increase in the average balance of interest bearing deposits and other borrowings. Average interest bearing deposits increased $1.92 billion or 12.4% to $17.35 billion for the third quarter and increased $1.28 billion or 8.3% to $16.59 billion for the first nine months of 2020 compared to the same periods in 2019. Average other borrowings increased $0.76 billion and $0.59 billion during the third quarter and first nine months, respectively, compared to the same periods in 2019. The increase in the average balance of interest bearing deposits and other borrowings was due to funding needed to support our growth in interest earning assets and on-balance sheet liquidity compared to previous periods. Also, the increase in the average balance of interest bearing deposits was aided by deposits from PPP loans and government stimulus payments to our customers.

The following table sets forth certain information relating to our average balances of assets and liabilities and our net interest income for the periods indicated.

Average Consolidated Balance Sheets and Net Interest Analysis – FTE

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2020			2019			2020			2019		
	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												
Interest earning assets:												
Interest earning deposits and federal funds sold	$ 1,705,652	$ 532	0.12%	$ 486,174	$ 2,647	2.16%	$ 1,459,814	$ 5,237	0.48%	$ 242,476	$ 4,001	2.21%
Investment securities:												
Taxable	2,216,041	9,666	1.74	2,027,267	12,511	2.45	1,979,368	31,480	2.12	2,169,218	40,992	2.53
Tax-exempt – FTE	1,193,407	6,573	2.19	462,927	4,256	3.65	944,552	18,527	2.62	495,694	13,835	3.73
Non-purchased loans – FTE	18,311,166	236,846	5.15	15,934,033	245,099	6.10	17,602,817	701,892	5.33	15,727,447	741,375	6.30
Purchased loans	999,438	16,269	6.48	1,553,398	26,042	6.65	1,132,334	54,743	6.46	1,760,740	84,756	6.44
Total earning assets – FTE	24,425,704	269,886	4.40	20,463,799	290,555	5.63	23,118,885	811,879	4.69	20,395,575	884,959	5.80
Non-interest earning assets	2,235,853			2,323,028			2,302,225			2,277,584		
Total assets	$26,661,557			$22,786,827			$25,421,110			$22,673,159		
LIABILITIES AND STOCKHOLDERS' EQUITY												
Interest bearing liabilities:												
Deposits:												
Savings and interest bearing transaction	$ 7,581,707	$ 5,496	0.29%	$ 8,792,998	$ 30,108	1.36%	$ 7,742,865	$ 32,945	0.57%	$ 9,318,915	$103,721	1.49%
Time deposits of $100 or more	6,101,542	20,858	1.36	3,564,862	19,803	2.20	5,259,616	66,813	1.70	3,292,375	52,056	2.11
Other time deposits	3,664,931	11,919	1.29	3,069,997	16,337	2.11	3,584,047	41,448	1.54	2,697,660	40,950	2.03
Total interest bearing deposits	17,348,180	38,273	0.88	15,427,857	66,248	1.70	16,586,528	141,206	1.14	15,308,950	196,727	1.72
Repurchase agreements with customers	7,093	4	0.24	9,037	5	0.24	7,686	17	0.29	14,062	39	0.37
Other borrowings (1)	793,350	1,156	0.58	29,422	90	1.21	711,408	2,168	0.41	122,254	1,497	1.64
Subordinated notes	223,899	3,207	5.70	223,516	3,216	5.71	223,801	9,551	5.70	223,419	9,542	5.71
Subordinated debentures (1)	120,253	984	3.26	119,700	1,178	3.90	120,119	3,420	3.80	119,558	4,570	5.11
Total interest bearing liabilities	18,492,775	43,624	0.94	15,809,532	70,737	1.78	17,649,542	156,362	1.18	15,788,243	212,375	1.80
Non-interest bearing liabilities:												
Non-interest bearing deposits	3,764,063			2,728,596			3,391,162			2,736,350		
Other non-interest bearing liabilities	253,211			213,505			251,723			220,126		
Total liabilities	22,510,049			18,751,633			21,292,427			18,744,719		
Common stockholders' equity	4,148,409			4,032,066			4,125,578			3,925,321		
Noncontrolling interest	3,099			3,128			3,105			3,119		
Total liabilities and stockholders' equity	$26,661,557			$22,786,827			$25,421,110			$22,673,159		
Net interest income – FTE		$226,262			$219,818			$655,517			$672,584	
Net interest margin – FTE			3.69%			4.26%			3.79%			4.41%

(1) The interest expense and the rates for "other borrowings" and for "subordinated debentures" were affected by capitalized interest. Capitalized interest included in other borrowings totaled $0.03 million for the third quarter and $0.65 million for the first nine months of 2020 compared to $0.11 million for the third quarter and $0.86 million for the first nine months of 2019. In the absence of this interest capitalization, these rates on other borrowings would have been 0.59% for the third quarter and 0.53% for the first nine months of 2020 and 2.69% for the third quarter and 2.57% for the first nine months of 2019. Capitalized interest included in subordinated debentures totaled $0.01 million for the third quarter and $0.18 million for the first nine months of 2020, compared to $0.45 million for both the third quarter and first nine months of 2019. In the absence of this interest capitalization, the rates on subordinated debentures would have been 3.27% for the third quarter and 4.00% for the first nine months of 2020 and 5.39% for the third quarter and 5.61% for the first nine months of 2019.

Average balances in the previous table are derived from daily average balances for such assets and liabilities. The yields and rates are derived by dividing interest income or interest expense by the average balance of the related assets or liabilities, respectively. The average balances of investment securities are computed based on amortized cost adjusted for unrealized gains and losses on investment securities available for sale ("AFS") and other-than-temporary impairment write downs, if any. The yields on investment securities include amortization of premiums and accretion of discounts. The average balance of non-purchased loans and purchased loans includes loans on which we have discontinued accruing interest. The yields on loans include late fees, any prepayment penalties, yield maintenance or minimum interest provisions on loan repayments and amortization of certain deferred fees, origination costs and dealer fees (for non-purchased indirect marine and recreational vehicle ("RV") loans). Yields on purchased loans include accretion or amortization of any purchase accounting yield adjustment and yields on PCD loans include non-credit discounts. Interest expense and rates on our other borrowing sources are presented net of interest capitalized on construction projects and include the amortization of debt issuance costs, if any. Interest expense on subordinated notes includes amortization of debt issuance costs. The interest expense on the subordinated debentures assumed through an acquisition includes the amortization of any purchase accounting adjustments.

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 September 30, 2020 Over Three Months Ended September 30, 2019			Nine Months Ended September 30, 2020 Over Nine Months Ended September 30, 2019		
	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	$ 380	$ (2,495)	$ (2,115)	$ 4,367	$ (3,131)	$ 1,236
Investment securities:						
Taxable	823	(3,668)	(2,845)	(3,020)	(6,492)	(9,512)
Tax-exempt – FTE	4,024	(1,707)	2,317	8,804	(4,112)	4,692
Non-purchased loans – FTE	30,747	(39,000)	(8,253)	74,778	(114,261)	(39,483)
Purchased loans	(9,017)	(756)	(9,773)	(30,380)	367	(30,013)
Total interest income – FTE	26,957	(47,626)	(20,669)	54,549	(127,629)	(73,080)
Interest expense:						
Savings and interest bearing transaction	(878)	(23,734)	(24,612)	(6,706)	(64,070)	(70,776)
Time deposits of $100 or more	8,672	(7,617)	1,055	24,990	(10,233)	14,757
Other time deposits	1,934	(6,352)	(4,418)	10,251	(9,753)	498
Repurchase agreements with customers	(1)	—	(1)	(14)	(8)	(22)
Other borrowings	1,113	(47)	1,066	1,796	(1,125)	671
Subordinated notes	5	(14)	(9)	16	(7)	9
Subordinated debentures	4	(198)	(194)	15	(1,165)	(1,150)
Total interest expense	10,849	(37,962)	(27,113)	30,348	(86,361)	(56,013)
Increase (decrease) in net interest income – FTE	$ 16,108	$ (9,664)	$ 6,444	$ 24,201	$ (41,268)	$ (17,067)

Non-Interest Income

Our non-interest income consists primarily of, among others, service charges on deposit accounts, trust income, BOLI income, loan service, maintenance and other fees and gains on investment securities and on sales of other assets. Non-interest income for the third quarter of 2020 increased 0.9% to $26.7 million compared to $26.4 million for the third quarter of 2019. Non-interest income for the first nine months of 2020 decreased 1.5% to $75.9 million compared to $77.1 million for the first nine months of 2019.

Service charges on deposit accounts, our largest component of non-interest income, decreased 12.9% to $9.4 million for the third quarter of 2020 compared to $10.8 million for the third quarter of 2019. Service charges on deposit accounts decreased 10.1% to $27.7 million for the first nine months of 2020 compared to $30.8 million for the first nine months of 2019. The COVID-19 pandemic has significantly changed customer activity, which reduced service charges on deposit accounts for both the third quarter and first nine months of 2020.

Trust income decreased 2.0% to $1.9 million for the third quarter of 2020 compared to $2.0 million for the third quarter of 2019. Trust income increased 1.6% to $5.6 million for the first nine months of 2020 compared to $5.5 million for the first nine months of 2019.

BOLI income from the increase in cash surrender value decreased 2.4% to $5.1 million for the third quarter of 2020 compared to $5.2 million for the third quarter of 2019, and decreased 2.2% to $15.2 million for the first nine months of 2020 compared to $15.5 million for the first nine months of 2019. There was no BOLI income from death benefits for the third quarter of 2020 compared to $0.2 million for the third quarter of 2019. BOLI income from death benefits was $0.6 million in the first nine months of 2020 compared to $0.2 million for the first nine months of 2019.

Other income from purchased loans was $0.7 million for the third quarter of 2019 and $2.9 million for the first nine months of 2019. Concurrent with the adoption of ASU 2016-13, effective January 1, 2020, our income previously reported as "Other income from purchased loans" is now included in interest income on purchased loans.

Loan service, maintenance and other fees, which includes fees that are not considered yield adjustments, decreased 20.2% to $3.4 million for the third quarter of 2020 compared to $4.2 million for the third quarter of 2019 and decreased 23.3% to $10.5 million during the first nine months of 2020 compared to $13.6 million during the first nine months of 2019. While income from these items may vary significantly from period to period, we generally expect the income from these items to continue to decrease in 2020.

We had net gains on investment securities of $2.2 million during the third quarter and $4.5 million during the first nine months of 2020 compared to no net gains during the third quarter and $0.7 million during the first nine months of 2019. Gains on sales of other assets were $0.9 million for the third quarter and $1.7 million for the first nine months of 2020 compared to $0.2 million for the third quarter and $0.9 million for the first nine months of 2019.

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

Non-Interest Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Service charges on deposit accounts	$ 9,427	$ 10,827	$ 27,717	$ 30,841
Trust income	1,936	1,975	5,635	5,544
BOLI income:				
Increase in cash surrender value	5,081	5,208	15,205	15,547
Death benefits	—	206	608	206
Other income from purchased loans	—	674	—	2,925
Loan service, maintenance and other fees	3,351	4,197	10,461	13,636
Net gains on investment securities	2,244	—	4,467	713
Gains on sales of other assets	891	189	1,674	875
Other	3,746	3,170	10,180	6,834
Total non-interest income	$ 26,676	$ 26,446	$ 75,947	$ 77,121

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 4.7% to $105.6 million for the third quarter of 2020 compared to $100.9 million for the third quarter of 2019. Non-interest expense increased 4.5% to $310.0 million for the first nine months of 2020 compared to $296.7 million for the first nine months of 2019.

Salaries and employee benefits, our largest component of non-interest expense, increased 9.8% to $53.1 million in the third quarter of 2020 compared to $48.4 million in the third quarter of 2019. Salaries and employee benefits increased 8.7% to $153.0 million in the first nine months of 2020 compared to $140.8 million in the first nine months of 2019. While total full-time equivalent employees of 2,742 at September 30, 2020 is down slightly from 2,756 at September 30, 2019, we had net additions of approximately 211 full-time equivalent employees over the course of 2019.

Net occupancy and equipment expenses increased 12.5% to $16.7 million for the third quarter of 2020 compared to $14.8 million for the third quarter of 2019. Net occupancy and equipment expenses increased 8.1% to $47.8 million for the first nine months of 2020 compared to $44.2 million for the first nine months of 2019. During the second quarter of 2020, we opened our new corporate headquarters facility, which has contributed to the increase in net occupancy and equipment expense in 2020.

Our aggregate other operating expenses decreased 5.0% to $35.8 million for the third quarter of 2020 compared to $37.7 million for the third quarter of 2019. Our aggregate other operating expenses decreased 2.2% to $109.3 million for the first nine months of 2020 compared to $111.8 million for the first nine months of 2019. During the third quarter and first nine months of 2020, we experienced decreases in certain non-interest expenses, including travel and meals that have been significantly affected by the COVID-19 pandemic.

Our efficiency ratio (non-interest expense divided by the sum of net interest income – FTE and non-interest income) was 41.8% for the third quarter and 42.4% for the first nine months of 2020 compared to 41.0% for the third quarter and 39.6% for the first nine months of 2019.

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

Non-Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Salaries and employee benefits	$ 53,119	$ 48,376	$ 153,003	$ 140,801
Net occupancy and equipment	16,676	14,825	47,761	44,163
Other operating expenses:				
Professional and outside services	8,647	9,204	23,629	25,874
Software and data processing	5,431	5,095	15,550	14,561
Deposit insurance and assessments	3,595	2,505	11,600	9,645
Telecommunication services	2,352	2,094	6,863	8,248
Postage and supplies	1,808	2,040	5,753	6,201
Advertising and public relations	1,557	2,067	4,964	5,421
ATM expense	1,604	1,277	3,766	3,363
Travel and meals	689	2,777	3,501	8,385
Loan collection and repossession expense	1,030	317	2,581	2,218
Writedowns of foreclosed and other assets	488	354	2,087	1,509
Amortization of intangibles	1,914	2,907	7,291	9,064
Other	6,731	7,076	21,670	17,271
Total non-interest expense	$ 105,641	$ 100,914	$ 310,019	$ 296,724

Pre-Tax Pre-Provision Net Revenue ("PPNR")

As a result of the volatility of our provision for credit losses under CECL, we use PPNR, which is a non-GAAP financial measure, to measure our core earnings and trends thereof. PPNR is a measure of earnings before provision for credit losses and income tax expense. This non-GAAP financial measure should not be viewed as a substitute for financial measures determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP financial measures that may be presented by other companies. The reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure is included in the following table for the periods indicated.

Calculation of Pre-Tax Pre-Provision Net Revenue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Income before taxes	$ 138,492	$ 136,458	$ 220,063	$ 428,298
Provision for credit losses	7,200	7,854	196,889	21,303
PPNR	$ 145,692	$ 144,312	$ 416,952	$ 449,601

Income Taxes

The provision for income taxes was $29.3 million for the third quarter and $48.7 million for the first nine months of 2020 compared to $32.6 million for the third quarter and $103.2 million for the first nine months of 2019. The effective income tax rate was 21.1% for the third quarter and 22.1% for the first nine months of 2020 compared to 23.9% for the third quarter and 24.1% for the first nine months of 2019. The decrease in the effective tax rate for the third quarter of 2020 and the first nine months of 2020 compared to the same periods of 2019 was primarily due to an increase in various federal tax credits realized during the third quarter and first nine months of 2020, as well as changes in various other factors related to non-taxable income and non-deductible expenses including, but not limited to, changes in non-taxable income associated with our investment securities portfolio. Accounting for our income taxes is deemed a critical accounting policy and is discussed in the Critical Accounting Policies section of our annual report on Form 10-K for the year ended December 31, 2019.

ANALYSIS OF FINANCIAL CONDITION

RISK ELEMENTS

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

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

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

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

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

Credit Risk Management

Overview. Credit risk is defined as the risk that arises from the potential that a borrower or counterparty will fail to perform its financial or contractual obligations. Credit risk arises primarily from our lending activities, including our off-balance sheet credit instruments comprised primarily of construction loans that have closed but have not yet funded. The Board is responsible for approving overall credit policies relating to the management of credit risk, along with overseeing and monitoring credit risk. Our lending policies also contain various measures to limit concentration exposures, including customer and CRE exposures for both funded balances and unfunded balances in the aggregate, as well as by property type and geography. The Directors' Loan Committee ("DLC") has primary responsibility for monitoring our credit approval process. DLC consists of four or more directors and is chaired by our Chief Credit Officer ("CCO"). Loans and aggregate loan relationships exceeding $20 million up to the limits established by our Board must be approved by the DLC. At least quarterly, our Board, BRC and/or DLC review various reports regarding our credit management activities including, but not limited to, summary reports of past due loans, internally classified and watch list loans, lending concentration reports, and various other loan and credit management reports.

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

We have detailed, comprehensive standards for evaluating credit risk, both at the point of origination and thereafter. We utilize a dual risk rating scale that incorporates quantitative models and qualitative factors ("score cards") in determining the risk rating for our commercial loans. This dual risk rating methodology incorporates an ORR and an FRR which are combined to create a two-dimensional risk rating for commercial loans. The ORR is influenced by a loan's PD as determined from the score cards. The FRR is influenced by a loan's LGD as determined from the score cards. The combined dual risk rating provides an annualized expected loss estimate for each commercial loan and, based on such loss estimates, a risk rating is assigned. Our consumer loans are not risk rated in the same manner as are our commercial loans. Instead, consumer loans are risk rated based on past due status with all such loans that are less than 30 days past due assigned a "pass rating" and all loans that are 30 days or more past due assigned a more adverse rating commensurate with each loan's perceived risk. While our consumer loans are not risk rated using a dual risk rating scale that incorporates both an ORR and an FRR, we do utilize output from the score cards on consumer loans for purposes of determining the necessary ACL for consumer loans.

Oversight of credit risk is provided through loan policy, clearly defined processes and detailed procedures. These policies, processes and procedures place emphasis on strong underwriting standards and detection of potential credit problems in order to develop and implement any necessary action plan(s) on a timely basis to mitigate potential losses and are carried out by our lenders and lending support personnel, our credit administration group, our underwriters and various other officers and personnel in the Bank that have credit management responsibilities, including our CCO. Additionally, our policies, processes and procedures are subject to review by our Credit Risk Management ("CRM") group (second line oversight), our BRC and periodic audits by our Internal Audit group (third line oversight).

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

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

Loan Portfolio. At September 30, 2020, our total loan portfolio was $19.36 billion compared to $17.53 billion at December 31, 2019. 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 $14.36 billion, or 74.2% of total loans, at September 30, 2020 compared to $12.77 billion, or 72.8% of total loans, at December 31, 2019.

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

Total Loan Portfolio

	September 30, 2020		December 31, 2019	
	(Dollars in thousands)			
Real estate:				
Residential 1-4 family	$ 966,462	5.0%	$ 998,632	5.7%
Non-farm/non-residential	4,415,477	22.8	3,956,579	22.6
Construction/land development	7,406,447	38.2	6,391,429	36.4
Agricultural	227,143	1.2	230,076	1.3
Multifamily residential	1,346,385	7.0	1,194,192	6.8
Total real estate	14,361,914	74.2	12,770,908	72.8
Commercial and industrial[(1)]	944,490	4.9	661,952	3.8
Consumer	2,581,035	13.3	2,934,534	16.8
Other	1,471,004	7.6	1,164,649	6.6
Total loans	19,358,443	100.0%	17,532,043	100.0%
Allowance for loan losses	(308,847)		(108,525)	
Net loans	$ 19,049,596		$ 17,423,518	

(1) Includes approximately $464.2 million of loans as of September 30, 2020 provided through the SBA's PPP.

Included in our consumer loans at September 30, 2020 and December 31, 2019 are loans totaling approximately $2.52 billion and $2.84 billion, respectively, which were originated to finance the acquisition of RV and marine collateral.

Included in "other" loans at September 30, 2020 and December 31, 2019 are loans totaling approximately $1.27 billion and approximately $1.08 billion, respectively, which were originated to acquire promissory notes from non-depository financial institutions and are typically collateralized by an assignment of the promissory note and all related note documents including mortgages, deeds of trust, etc. While such loans are considered "other" loans in accordance with FDIC instructions for the Federal Financial Institutions Examination Council 041 Consolidated Reports of Condition and Income ("Call Report"), we underwrite these lending transactions based on the fundamentals of the underlying collateral, repayment sources and guarantors, among others, consistent with other similar lending transactions.

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

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

Top Ten Geographies and MSAs for Real Estate Loans

Geography or MSA	Funded Balance	Unfunded Balance	Total Commitment
		(Dollars in thousands)	
September 30, 2020:			
New York–Newark–Jersey City, NY–NJ–PA MSA	$ 3,623,481	$ 1,736,520	$ 5,360,001
Los Angeles–Long Beach–Anaheim, CA MSA	1,686,441	783,791	2,470,232
Miami–Fort Lauderdale–West Palm Beach, FL MSA	1,052,600	945,659	1,998,259
Chicago–Naperville–Elgin, IL–IN–WI MSA	400,098	753,766	1,153,864
Tampa–St. Petersburg–Clearwater, FL MSA	487,648	563,400	1,051,048
Dallas–Fort Worth–Arlington, TX MSA	596,976	380,825	977,801
Atlanta–Sandy Springs–Roswell, GA MSA	601,127	341,111	942,238
San Francisco–Oakland–Hayward, CA MSA	406,075	426,877	832,952
Phoenix–Mesa–Scottsdale, AZ MSA	335,959	359,065	695,024
Philadelphia–Camden–Wilmington, PA–NJ–DE–MD MSA	146,368	498,616	644,984
All other geographies	5,025,141	3,169,365	8,194,506
Total real estate loans	$ 14,361,914	$ 9,958,995	$ 24,320,909
December 31, 2019:			
New York–Newark–Jersey City, NY–NJ–PA MSA	$ 3,398,399	$ 2,179,440	$ 5,577,839
Miami–Fort Lauderdale–West Palm Beach, FL MSA	1,047,660	1,059,369	2,107,029
Los Angeles–Long Beach–Anaheim, CA MSA	702,184	762,133	1,464,317
Dallas–Fort Worth–Arlington, TX MSA	809,761	372,700	1,182,461
Tampa–St. Petersburg–Clearwater, FL MSA	407,898	628,637	1,036,535
Chicago–Naperville–Elgin, IL–IN–WI MSA	375,933	550,437	926,370
Atlanta–Sandy Springs–Roswell, GA MSA	606,212	202,125	808,337
Phoenix–Mesa–Scottsdale, AZ MSA	178,756	429,223	607,979
San Francisco–Oakland–Hayward, CA MSA	292,690	308,799	601,489
Washington–Arlington–Alexandria, DC–VA–MD–WV–MSA	220,354	367,928	588,282
All other geographies	4,731,061	2,893,321	7,624,382
Total real estate loans	$ 12,770,908	$ 9,754,112	$ 22,525,020

Loans originated to acquire promissory notes from non-depository financial institutions may have the underlying property located in one or more of the geographies or MSAs listed above. Such loans are reported as “other” in accordance with Call Report instructions and are excluded from the above table.

In addition to the top ten geographies and MSAs shown above, as of September 30, 2020, we had 66 additional geographies and MSAs that contain total committed balances (both funded and unfunded) of $10 million or more, compared to 73 additional geographies and MSAs at December 31, 2019.

Given that we have substantial balances of certain categories of CRE lending (i.e., non-farm/non-residential and construction/land development lending), we have provided further detail on these two categories of loans. The funded amount and type of non-farm/non-residential loans, as of the dates indicated, and their respective percentage of the total non-farm/non-residential loan portfolio are reflected in the following table.

Total Non-Farm/Non-Residential Loans

	September 30, 2020		December 31, 2019	
	(Dollars in thousands)			
Hotels and motels	$ 1,049,889	23.8%	$ 857,276	21.7%
Office, including medical offices	1,037,967	23.5	949,119	24.0
Mixed use properties	678,404	15.4	295,423	7.5
Retail, including shopping centers and strip centers	369,855	8.4	431,970	10.9
Churches and schools	268,468	6.1	311,027	7.9
Manufacturing and industrial facilities	263,676	6.0	264,048	6.7
Restaurants and bars	156,511	3.5	178,307	4.5
Nursing homes and assisted living centers	113,820	2.6	125,353	3.2
Gasoline stations and convenience stores	79,403	1.8	88,158	2.2
Office warehouse, warehouse and mini-storage	72,062	1.6	69,512	1.8
Golf courses, entertainment and recreational facilities	30,050	0.7	29,165	0.7
Hospitals, surgery centers and other medical	20,184	0.5	29,533	0.7
Other non-farm/non-residential (1)	275,188	6.1	327,688	8.2
Total	$ 4,415,477	100.0%	$ 3,956,579	100.0%

(1) Includes non-farm/non-residential loans collateralized by other miscellaneous real property.

The funded 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

	September 30, 2020		December 31, 2019	
	(Dollars in thousands)			
Unimproved land	$ 267,492	3.6%	$ 237,614	3.7%
Land development and lots:				
1-4 family residential and multifamily	438,484	5.9	352,100	5.5
Non-residential	493,199	6.7	532,139	8.3
Construction:				
1-4 family residential:				
Owner occupied	6,999	0.1	5,844	0.1
Non-owner occupied:				
Pre-sold	1,855,053	25.0	2,031,251	31.8
Speculative	119,327	1.6	135,377	2.1
Multifamily	1,251,461	16.9	827,122	12.9
Industrial, commercial and other:				
Mixed use properties	1,368,990	18.5	1,335,959	20.9
Hotels and motels	597,323	8.1	430,175	6.7
Office warehouse, warehouse and mini-storage	649,321	8.8	304,371	4.8
Manufacturing and industrial facilities	199,612	2.7	85,268	1.3
Churches and schools	48,007	0.6	24,193	0.4
Agricultural	34,661	0.5	17,156	0.3
Retail, including shopping centers and strip centers	20,633	0.3	19,395	0.3
Restaurants and bars	7,989	0.1	11,859	0.2
Other	47,896	0.6	41,426	0.7
Total	$ 7,406,447	100.0%	$ 6,391,429	100.0%

Many of our construction and development loans provide for the use of interest reserves. When we underwrite construction and development loans, we consider the expected total project costs, including hard costs such as land, site work and construction costs and soft costs such as architectural and engineering fees, closing costs, leasing commissions and construction period interest, among others. For any construction and development loan with interest reserves, we also consider the construction period interest in our underwriting process (otherwise, our underwriting of such loans with and without interest reserves is virtually identical). Based on the total project costs and other factors, we determine the required borrower cash equity contribution and the maximum amount we are willing to lend. In the vast majority of cases, we require that all of the borrower's equity and all other required subordinated elements of the capital structure be fully funded prior to any significant loan advance. As a result of this practice, the borrower's cash equity typically goes toward the purchase of the land and early stage hard costs and soft costs. This results in our funding the loan later as the project progresses, and accordingly, we typically fund the majority of the construction period interest through loan advances.

Generally, as part of our underwriting process, we require the borrower's cash equity to cover a majority, or all, of the soft costs, including an amount equal to construction period interest and an appropriate portion of the hard costs. While we advance interest reserves as part of the funding process, we believe that the borrowers have in most cases provided for these sums as part of their initial equity contribution. During the three and nine months ended September 30, 2020 and 2019, there were no situations where interest reserves were advanced outside of the terms of the contractual loan agreement to avoid such loan from becoming nonperforming. At September 30, 2020 and December 31, 2019, we had no construction and development loans with interest reserves that were nonperforming.

During the third quarter and first nine months of 2020, we recognized approximately $64.9 million and $193.8 million, respectively, of interest income on construction and development loans from the advance of interest reserves, compared to approximately $70.9 million and $222.7 million, respectively, during the comparable periods in 2019. We advanced construction period interest on construction and development loans totaling approximately $64.0 million and $191.8 million, respectively, in the third quarter and first nine months of 2020 compared to approximately $73.5 million and $225.8 million, respectively, in the third quarter and first nine months of 2019.

The maximum committed balance of all construction and development loans which provide for the use of interest reserves at September 30, 2020 was approximately $15.90 billion, of which $7.00 billion was outstanding at September 30, 2020 and $8.90 billion remained to be advanced. The weighted-average LTC on such loans, assuming such loans are ultimately fully advanced, was approximately 51%, which means that the weighted-average cash equity contributed on such loans, assuming such loans are ultimately fully advanced, was approximately 49%. The weighted-average LTV ratio on such loans, based on the most recent appraisals and assuming such loans are ultimately fully advanced, was approximately 44%.

Purchased Loans. Between 2010 and 2016, we made 15 acquisitions and continue to have substantial balances of purchased loans. Purchased loans, which are the remaining loans from such acquisitions, accounted for 4.8% of our total loan portfolio at September 30, 2020 compared to 7.5% at December 31, 2019. This portfolio will continue to decrease in future periods as such loans are repaid.

For purchased loans, we segregate this portfolio into loans that contain evidence of credit deterioration, which we refer to as PCD loans, and loans that do not contain evidence of credit deterioration. Unless individually evaluated, all purchased commercial loans, including both PCD and non-PCD loans, are dual risk rated through our score cards, which were previously discussed under "Credit Risk Management – Credit Management Actions" above. While our purchased consumer loans, including both PCD and non-PCD, are not risk rated, we utilize output from the various consumer score cards for purposes of determining the appropriate ACL for such loans.

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

Purchased Loans

	September 30, 2020	December 31, 2019
	(Dollars in thousands)	
Loans not deemed PCD:		
Unpaid principal balance	$ 884,966	$ 1,243,327
Valuation discount	(12,231)	(17,022)
Carrying value	872,735	1,226,305
PCD loans(1):		
Unpaid principal balance	75,411	101,741
Valuation discount	(9,661)	(20,542)
Carrying value	65,750	81,199
Total carrying value	$ 938,485	$ 1,307,504

(1) As of December 31, 2019, these loans were classified as PCI.

Nonperforming Assets. Our nonperforming assets consist of (1) nonaccrual loans, (2) accruing loans 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 and (4) real estate or other assets that have been acquired in partial or full satisfaction of loan obligations or upon foreclosure.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. We generally place a loan on nonaccrual status when such loan is (i) nonperforming or (ii) 90 days or more past due, or earlier when doubt exists as to the ultimate collection of payments. We may continue to accrue interest on certain loans contractually past due 90 days or more if such loans are both well secured and in the process of collection. At the time a loan is placed on nonaccrual status, interest previously accrued but uncollected is reversed and charged against interest income. Nonaccrual loans are generally returned to accrual status when payments are no longer past due, the loan has performed in accordance with its contractual terms for a reasonable period of time (generally at least six months), and is expected to continue to perform in accordance with its contractual terms. If a loan is determined to be uncollectible, the portion of the principal determined to be uncollectible is charged against the ACL. 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 nonperforming loans. Income on nonaccrual loans, including nonperforming loans, is recognized on a cash basis when and if actually collected. Income on TDRs is recognized on a cash basis until such time as the TDR has performed in accordance with its modified terms for a reasonable period of time (generally at least six months) and is expected to continue to perform. Once such performance and expected performance conditions are met, the TDR is returned to accrual status but continues to be reported as a nonperforming loan.

During the first nine months of 2020, we implemented our Disaster Relief Loan Program which provided short-term payment deferrals on approximately 3,461 loans totaling approximately $1.34 billion. As of September 30, 2020, we had approximately 583 loans totaling approximately $0.55 billion that continued to be subject to such short-term payment deferrals. In accordance with applicable guidance, these deferrals are not considered TDRs.

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

Nonperforming Assets

	September 30, 2020	December 31, 2019
	(Dollars in thousands)	
Nonaccrual loans[1]	$ 23,896	$ 19,337
Accruing loans 90 days or more past due	—	—
TDRs – nonaccruing	3,285	3,884
TDRs – accruing	1,251	656
Total nonperforming loans, excluding purchased loans	28,432	23,877
Nonperforming purchased loans	28,780	23,201
Total nonperforming loans	57,212	47,078
Foreclosed assets[2]	16,543	19,096
Total nonperforming assets	$ 73,755	$ 66,174
Nonperforming loans to total loans, excluding purchased loans	0.15%	0.15%
Nonperforming loans to total loans	0.30	0.27
Nonperforming assets to total assets, excluding purchased loans	0.17	0.18
Nonperforming assets to total assets	0.27	0.28

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

At September 30, 2020 and December 31, 2019 substandard loans, excluding purchased loans, not designated as nonperforming, nonaccrual or 90 days past due, totaled $54.2 million and $71.2 million, respectively. No loans were designated as doubtful or loss at September 30, 2020 or December 31, 2019. Included in substandard loans not deemed as nonperforming, nonaccrual or 90 days past due at September 30, 2020 and December 31, 2019 is a single credit at our Real Estate Specialty Group that was downgraded to substandard during the fourth quarter of 2019. This credit, which is collateralized by a lot development and townhouse construction project near Lake Tahoe, California, had an outstanding balance of $36.6 million at September 30, 2020 and $57.0 million at December 31, 2019. This credit was not past due at September 30, 2020 or December 31, 2019.

For loans that are individually evaluated and for which we utilize the loan's collateral in determining the ACL, we seek to establish an appropriate value for the collateral. This assessment may include (i) obtaining an updated appraisal, (ii) obtaining one or more broker price opinions or comprehensive market analyses, (iii) internal evaluations or (iv) other methods deemed appropriate considering the size and complexity of the loan and the underlying collateral. On an ongoing basis, we evaluate the underlying collateral on all collateral dependent nonperforming loans and, if needed, due to changes in market or property conditions, the underlying collateral is reassessed and the estimated fair value is revised. The determination of collateral value includes any adjustments considered necessary related to estimated holding periods and estimated selling costs.

At September 30, 2020, we had reduced the carrying value of our nonperforming loans by $31.8 million to the estimated fair value of such loans of $43.2 million. The adjustment to reduce the carrying value of such nonperforming loans to estimated fair value consisted of $19.1 million of partial charge-offs and $12.7 million of specific loan loss allocations. Nonperforming non-purchased loans at September 30, 2020 and December 31, 2019, respectively, included $1.3 million and $0.7 million of accruing loans that were determined to be TDRs.

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

Foreclosed Assets

	September 30, 2020	December 31, 2019
	(Dollars in thousands)	
Real estate:		
Residential 1-4 family	$ 808	$ 2,201
Non-farm/non-residential	6,656	3,989
Construction/land development	8,641	12,153
Total real estate	16,105	18,343
Commercial and industrial	—	4
Consumer	438	749
Total foreclosed assets	$ 16,543	$ 19,096

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

Activity Within Foreclosed Assets

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Balance – beginning of period	$ 18,328	$ 33,467	$ 19,096	$ 16,171
Loans and other assets transferred into foreclosed assets	5,909	4,173	18,101	28,313
Sales of foreclosed assets	(7,206)	(3,967)	(18,567)	(9,656)
Writedowns of foreclosed assets	(488)	(354)	(2,087)	(1,509)
Balance – end of period	$ 16,543	$ 33,319	$ 16,543	$ 33,319

The following table presents information concerning the geographic location of nonperforming assets at September 30, 2020. Nonperforming loans are reported in the physical location of the principal collateral. Foreclosed assets are reported in the physical location of the asset. Repossessions are reported at the physical location where the borrower resided or had its principal place of business at the time of repossession.

Geographic Distribution of Nonperforming Assets

	Total Nonperforming Loans	Foreclosed Assets and Repossessions	Total Nonperforming Assets
	(Dollars in thousands)		
Florida	$ 17,164	$ 3,204	$ 20,368
Georgia	15,222	2,851	18,073
Arkansas	12,456	3,334	15,790
North Carolina	4,808	6,569	11,377
Texas	2,820	308	3,128
Alabama	1,018	48	1,066
South Carolina	785	27	812
All other	2,939	202	3,141
Total	$ 57,212	$ 16,543	$ 73,755

Allowance for Credit Losses. Effective January 1, 2020, we adopted the provisions of ASU 2016-13. This guidance replaced the incurred loss method that was utilized in estimating our ALL at December 31, 2019 with a methodology that requires us to estimate credit losses expected to occur over the life of the financial instrument and to recognize those estimated losses at the time of the loan origination. This revised methodology is what FASB describes as the CECL method.

The adoption of CECL on January 1, 2020 resulted in a $39.6 million increase in our ALL for outstanding loans and the establishment of a $54.9 million reserve for unfunded loan commitments, resulting in a total increase to our ACL of $94.5 million. These transition adjustments, net of related tax effects, were recorded as a cumulative effect of a change in accounting principle and reduced our retained earnings by $75.3 million. For regulatory reporting purposes, we are utilizing the three-year phase-in method of inclusion of the adoption of CECL. As required by ASU 2016-13, the portion of the ACL for the outstanding balance of our loan portfolio is reported as ALL on our consolidated balance sheet and the reserve for losses on unfunded commitments is reported as a liability on our consolidated balance sheet.

Our total provision for credit losses for the quarter just ended was $7.2 million, including $7.1 million related to our ALL for outstanding loans and $0.1 million related to our reserve for losses on unfunded loan commitments. Our provision for credit losses for the nine months ended September 30, 2020 was $196.9 million, including $183.4 million related to our ALL for outstanding loans and $13.5 million related to our reserve for losses on unfunded loan commitments. Our provision for credit losses for the third quarter and first nine months of 2019, all of which was for our outstanding loans, was $7.9 million and $21.3 million, respectively. Our provision for credit losses recorded during the first nine months of 2020 increased our ALL for outstanding loans to $308.8 million, or 1.60% of total loans, and increased our reserve for losses on unfunded loan commitments to $68.4 million, or 0.59% of unfunded loan commitments, bringing our total ACL to $377.3 million. Also, concurrent with the adoption of CECL, our income previously reported as “Other income from purchased loans” is now included in interest income on purchased loans.

The calculations of the Bank’s provision for credit losses for the third quarter and first nine months of 2020 and its total ACL at September 30, 2020 were based on a number of key estimates, assumptions and economic forecasts. Management utilized several economic forecasts provided by Moody’s, including their baseline forecast that was updated on October 12, 2020 and certain of their other economic scenarios. In selecting the weightings for the various economic scenarios for purposes of determining our ACL at September 30, 2020, we assigned the largest weighting to the Moody’s S3 (Moderate Recession) and Moody’s S4 (Protracted Slump) scenarios and assigned lesser weighting to the Moody’s baseline scenario. Our selection and weightings of these scenarios reflected the uncertainty about the course and duration of the COVID-19 pandemic, the timing and magnitude of any additional U.S. fiscal policy stimulus, the results and ultimate consequence of the upcoming U.S. elections, global trade and geopolitical matters, and various other factors. These forecasts included a number of economic variables, including gross domestic product (“GDP”), unemployment rates, and commercial and residential real estate prices, among others. For purposes of the forecasts used in the Bank’s CECL methodology, management utilized a reasonable and supportable forecast period of two years, followed by a reversion of estimated losses back to the Bank’s historical mean. Management also utilized certain qualitative adjustments to increase the Bank’s ACL estimates in order to capture items that management believed were not fully reflected in the various economic forecasts utilized and the Bank’s modeled results.

CECL will increase volatility from quarter to quarter in our provision for credit losses and associated ACL. The current situation surrounding the COVID-19 pandemic continues to evolve, and the ultimate depth and duration of resulting economic impacts are not yet fully known.

Activity within the ACL for the periods indicated is shown in the following table.

Allowance for Credit Losses

	Allowance for Loan Losses	Reserve for Losses on Unfunded Loan Commitments	Total Allowance for Credit Losses
		(Dollars in thousands)	
Three months ended September 30, 2020:			
Balances – June 30, 2020	$ 306,196	$ 68,298	$ 374,494
Net charge-offs	(4,421)	—	(4,421)
Provision for credit losses	7,072	128	7,200
Balances – September 30, 2020	$ 308,847	$ 68,426	$ 377,273
Nine months ended September 30, 2020:			
Balances – December 31, 2019	$ 108,525	$ —	$ 108,525
Adoption of CECL methodology	39,588	54,924	94,512
Balances – January 1, 2020	148,113	54,924	203,037
Net charge-offs	(22,653)	—	(22,653)
Provision for credit losses	183,387	13,502	196,889
Balances – September 30, 2020	$ 308,847	$ 68,426	$ 377,273
Three months ended September 30, 2019:			
Balances – June 30, 2019	$ 106,642	$ —	$ 106,642
Net charge-offs	(5,495)	—	(5,495)
Provision for credit losses	7,854	—	7,854
Balances – September 30, 2019	$ 109,001	$ —	$ 109,001
Nine months ended September 30, 2019:			
Balances – December 31, 2018	$ 102,264	$ —	$ 102,264
Net charge-offs	(14,566)	—	(14,566)
Provision for credit losses	21,303	—	21,303
Balances – September 30, 2019	$ 109,001	$ —	$ 109,001

A summary of our net charge-off ratios and certain other ACL and ALL ratios, as of and for the periods indicated, is presented in the following table.

Net Charge-off and ACL/ALL Ratios

	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,		As of and for the Year Ended December 31,
	2020	2019	2020	2019	2019
Net charge-offs of non-purchased loans to average non-purchased loans(1)(2)	0.09%	0.07%	0.07%	0.08%	0.09%
Net charge-offs of total loans to average total loans(1)	0.09	0.12	0.16	0.11	0.11
ALL to total loans(3)	1.60	0.61	1.60	0.61	0.62
Reserve for losses on unfunded loan commitments to total unfunded loan commitments	0.59	—	0.59	—	—
ACL to total loans	1.95	0.61	1.95	0.61	0.62
ACL to total loans and unfunded loan commitments	1.22	0.37	1.22	0.37	0.38
ALL to nonperforming loans(3)	540%	200%	540%	200%	231%

(1) Ratios for interim periods annualized.
(2) Excludes purchased loans and net charge-offs related to purchased loans.
(3) Excludes reserve for losses on unfunded loan commitments.

The following table sets forth the sum of the amounts of the ACL as of the dates indicated. The amounts shown in this table are not necessarily indicative of the actual future losses that may occur within particular categories.

Allocation of ACL

	ALL	Reserve for Losses on Unfunded Loan Commitments	Total ACL
		(Dollars in thousands)	
September 30, 2020:			
Real estate:			
Residential 1-4 family	$ 32,212	$ 1,671	$ 33,883
Non-farm/non-residential	79,531	1,883	81,414
Construction/land development	90,453	50,959	141,412
Agricultural	3,246	119	3,365
Multi-family residential	17,292	1,609	18,901
Commercial and industrial	21,902	1,616	23,518
Consumer	50,613	236	50,849
All other	13,598	10,333	23,931
Total	$ 308,847	$ 68,426	$ 377,273
December 31, 2019:			
Real estate:			
Residential 1-4 family	$ 14,008	$ —	$ 14,008
Non-farm/non-residential	17,289	—	17,289
Construction/land development	26,295	—	26,295
Agricultural	1,719	—	1,719
Multi-family residential	5,477	—	5,477
Commercial and industrial	5,961	—	5,961
Consumer	32,466	—	32,466
All other	5,310	—	5,310
Total	$ 108,525	$ —	$ 108,525

Liquidity Risk Management

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

The objective of managing liquidity risk is to ensure the cash flow requirements resulting from depositor, borrower (including our ability to fund our significant balance of closed but unfunded loans) and other creditor demands are met, as well as our operating cash needs, and the cost of funding such requirements and needs is reasonable. We maintain an asset/liability and interest rate risk policy and liquidity and funds management policy, including a contingency funding plan that, among other things, include policies and procedures for managing and monitoring liquidity risk. On a quarterly basis, we perform a comprehensive liquidity stress test. This stress test is intended to identify and quantify sources of potential liquidity strain and vulnerabilities related to liquidity and to analyze possible impacts on our Bank for a variety of institution-specific and market-wide events across multiple time horizons. Also, pursuant to these various liquidity and funds management policies, we maintain a buffer of highly liquid assets to protect against cash outflows in the event of a liquidity crisis.

Liquidity Management Actions. Generally, we rely on deposits, repayments of loans, and cash flows from our investment securities as our primary sources of funds. Our principal deposit sources include consumer, commercial and public funds customers in our markets. We have used these funds, together with secondary funding sources, including wholesale deposit sources such as brokered deposits, FHLB advances, and federal funds purchased and other sources of short-term borrowings to make loans, acquire investment securities and other assets and to fund continuing operations.

Deposits. After increasing $0.33 billion in the first quarter and $1.91 billion during the second quarter of 2020, our deposits increased $0.56 billion during the third quarter of 2020. The increase in deposits during the first nine months of 2020 was a result of funding needed to support our increase in earning assets, partially aided by deposits from PPP loans and government stimulus payments to customers. The amount of deposits by account type, as of the dates indicated, and their respective percentage of total deposits are reflected in the following table.

Deposits – By Account Type

	September 30, 2020		December 31, 2019	
	(Dollars in thousands)			
Non-interest bearing	$ 3,908,207	18.4%	$ 2,795,251	15.1%
Interest bearing:				
Transaction (NOW)	2,973,192	14.0	2,706,426	14.7
Savings and money market	4,611,840	21.7	5,601,181	30.3
Time deposits less than $100	3,483,557	16.4	3,321,446	18.0
Time deposits of $100 or more	6,310,609	29.5	4,049,955	21.9
Total deposits	$ 21,287,405	100.0%	$ 18,474,259	100.0%

In recent quarters, we have tried to improve the quality of our deposit base by growing our consumer and commercial deposits while reducing our public funds, brokered and reciprocal deposits. The amount of deposits by customer type, as of the dates indicated, and their respective percentage of total deposits are reflected in the following table.

Deposits – By Customer Type

	September 30, 2020		December 31, 2019	
	(Dollars in thousands)			
Consumer	$ 10,909,452	51.2%	$ 7,526,014	40.7%
Commercial	5,963,072	28.0	4,334,366	23.5
Public Funds	2,330,726	10.9	3,782,415	20.5
Brokered	1,580,165	7.4	2,115,193	11.4
Reciprocal	503,990	2.5	716,271	3.9
Total deposits	$ 21,287,405	100.0%	$ 18,474,259	100.0%

At September 30, 2020 brokered deposits totaled $1.58 billion, or 7.4% of total deposits, compared to $2.12 billion, or 11.4% of total deposits, at December 31, 2019. We use brokered deposits, subject to certain limitations and requirements, as a source of funding to augment deposits generated from our branch network, which are our principal source of funding. Our Board has established policies and procedures with respect to the use of brokered deposits. Such policies and procedures require, among other things, that (i) we limit the amount of brokered deposits as a percentage of total deposits and (ii) ALCO monitor our use of brokered deposits on a regular basis, including interest rates and the volume of such deposits in relation to our total deposits.

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

Average Deposit Balances and Rates

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(Dollars in thousands)							
Non-interest bearing	$ 3,764,063	—	$ 2,728,596	—	$ 3,391,162	—	$ 2,736,350	—
Interest bearing:								
Transaction (NOW)	2,913,647	0.24%	2,626,475	1.12%	2,862,834	0.47%	2,541,531	1.05%
Savings and money market	4,668,060	0.32	6,166,523	1.46	4,880,031	0.63	6,777,384	1.65
Time deposits less than $100	3,664,931	1.29	3,069,997	2.11	3,584,047	1.54	2,697,660	2.03
Time deposits of $100 or more	6,101,542	1.36	3,564,862	2.20	5,259,616	1.70	3,292,375	2.11
Total deposits	$21,112,243	0.88%	$18,156,453	1.70%	$19,977,690	1.14%	$18,045,300	1.72%

The calculation of the average rate paid on total interest bearing deposits of 0.88% for the three months ended September 30, 2020 and 1.70% for the three months ended September 30, 2019 includes interest paid and average balances of all categories of interest bearing deposits. The average rate paid for all deposits, including both interest bearing and non-interest bearing deposits, was 0.72% for the three months ended September 30, 2020 and 1.45% for the three months ended September 30, 2019. The calculation of the average rate paid on total interest bearing deposits of 1.14% for the nine months ended September 30, 2020 and 1.72% for the nine months ended September 30, 2019 includes interest paid and average balances of all categories of interest bearing deposits. The average rate paid for all deposits, including both interest bearing and non-interest bearing deposits, was 0.94% for the nine months ended September 30, 2020 and 1.46% for the nine months ended September 30, 2019.

We expect our average rate paid on total interest bearing deposits to decrease throughout the remainder of 2020. At September 30, 2020, we had approximately $8.63 billion of time deposits maturing in the next 12 months that we expect to replace at lower rates. The following table sets forth time deposits by time remaining to maturity as of the dates indicated.

Maturity Distribution of Time Deposits

	Time Deposits Under $100	Time Deposits Over $100	Total Time Deposits
		(Dollars in thousands)	
September 30, 2020:			
3 months or less	$ 858,722	$ 1,378,441	$ 2,237,163
Over 3 to 6 months	682,540	938,165	1,620,705
Over 6 to 12 months	1,504,272	3,269,232	4,773,504
Over 12 months	438,023	724,771	1,162,794
Total	$ 3,483,557	$ 6,310,609	$ 9,794,166
December 31, 2019:			
3 months or less	$ 998,825	$ 1,129,045	$ 2,127,870
Over 3 to 6 months	1,201,780	1,418,040	2,619,820
Over 6 to 12 months	950,197	1,347,387	2,297,584
Over 12 months	170,644	155,483	326,127
Total	$ 3,321,446	$ 4,049,955	$ 7,371,401

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

Deposits by State of Originating Office

Deposits Attributable to Offices In	September 30, 2020		December 31, 2019	
	(Dollars in thousands)			
Arkansas	$ 7,413,176	34.8%	$ 7,054,860	38.2%
Georgia	5,332,387	25.0	3,967,304	21.5
Florida	3,638,071	17.1	2,391,056	12.9
Texas	2,583,977	12.1	2,411,661	13.1
North Carolina	1,605,250	7.5	1,123,269	6.1
New York	497,448	2.3	1,350,774	7.3
South Carolina	127,308	0.7	84,530	0.4
Alabama	89,788	0.5	90,805	0.5
Total	$ 21,287,405	100.0%	$ 18,474,259	100.0%

Deposit levels may be affected by a number of factors including rates paid by competitors, general interest rate levels, returns available to customers on alternative investments, general economic and market conditions and other factors.

Loan Portfolio. In addition to customer deposits, cash flows from our loan portfolio provide us with a significant source of liquidity. The following table reflects total loans grouped by remaining maturities at September 30, 2020 by type and by fixed or floating interest rates. This table is based on actual maturities and does not reflect amortizations, projected paydowns or the earliest repricing for floating rate loans. Many loans have principal paydowns scheduled in periods prior to the period in which they mature. In addition, many floating rate loans are subject to repricing in periods prior to the period in which they mature.

Loan Maturities

	1 Year or Less	Over 1 Through 5 Years	Over 5 Years	Total
	(Dollars in thousands)			
Real estate	$6,074,600	$6,475,636	$1,811,678	$14,361,914
Commercial and industrial	52,957	840,411	51,122	944,490
Consumer	11,598	41,251	2,528,186	2,581,035
Other	675,801	783,996	11,207	1,471,004
Total	$6,814,956	$8,141,294	$4,402,193	$19,358,443
Fixed rate	$ 394,504	$1,661,000	$2,921,425	$ 4,976,929
Floating rate (not at a floor or ceiling rate) (1)	422,898	121,998	519,334	1,064,230
Floating rate (at floor rate) (1)	5,997,190	6,358,057	961,382	13,316,629
Floating rate (at ceiling rate)	364	239	52	655
Total	$6,814,956	$8,141,294	$4,402,193	$19,358,443

(1) We have included a floor rate in many of our floating rate loans. As a result of such floor rates, floating rate loans may not immediately reprice in a rising rate environment if the interest rate index and margin on such loans continue to result in a computed interest rate less than the applicable floor rate.

Loan repayments are generally a relatively stable source of funds but are subject to the borrowers' ability to repay the loans, which can be adversely affected by a number of factors including changes in general economic conditions, adverse trends or events affecting business industry groups or specific businesses, declines in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and other factors. Furthermore, loans generally are not readily convertible to cash. Additionally, the magnitude of the current economic downturn as a result of the effects of COVID-19 and our implementation in March 2020 of our Disaster Relief Loan Program in accordance with regulatory criteria has resulted, and may continue to result, in providing a number of short-term deferrals (generally three months) on various loans in our portfolio. During the first nine months of 2020, we had approved short-term deferrals on approximately 3,461 loans totaling approximately $1.34 billion. As of September 30, 2020 we had approximately 583 loans totaling $0.55 billion that remained on deferral. Such deferrals may have some limited effect on the availability and amount of loan repayments as a source of funds.

As of September 30, 2020 we have approximately 6,350 outstanding loans totaling approximately $0.46 billion originated under the SBA's PPP. Such loans are structured to be fully guaranteed by the SBA and, pursuant to the PPP, are expected to be forgiven and repaid by the SBA in the first half of 2021.

At September 30, 2020, we had $11.60 billion in unfunded balances on loans already closed, the vast majority of which is attributable to construction and development loans for which construction has commenced. In most cases the borrower's equity and all other required subordinated elements of the capital structure must be fully funded before we advance funds. Typically we are the last to advance funds and the first to be repaid. In many cases we do not advance funds on loans for many months after closing because the borrower's equity and other funding sources must fund first. This conservative practice for handling construction loans has led to the large unfunded balance of closed loans. As a result, we maintain a detailed 36-month forward funding forecast projecting all loan fundings and loan pay downs and pay offs. Our ability to project monthly net portfolio growth with a substantial degree of accuracy is an important part of our liquidity management process.

Investment Securities AFS. Cash flows from our investment securities portfolio also provide us with an additional source of liquidity. The following table reflects the expected maturity distribution of our investment securities, at estimated fair value, at September 30, 2020.

Expected Maturity Distribution of Investment Securities

	1 Year Or Less	Over 1 Through 5 Years	Over 5 Through 10 Years	Over 10 Years	Total
			(Dollars in thousands)		
Obligations of states and political subdivisions	$ 377,722	$ 279,154	$ 105,418	$ 796,965	$ 1,559,259
U.S. Government agency mortgage-backed securities	541,263	1,060,356	154,410	14,454	1,770,483
U.S. Government agency securities	—	138,501	—	—	138,501
Total	$ 918,985	$ 1,478,011	$ 259,828	$ 811,419	$ 3,468,243
Percentage of total	26.5%	42.6%	7.5%	23.4%	100.0%
Cumulative percentage of total	26.5%	69.1%	76.6%	100.0%	

The maturity for all investment securities in the previous table is shown based on each security's contractual maturity date, except (1) mortgage-backed securities, which are allocated among various maturities based on an estimated repayment schedule utilizing Bloomberg median prepayment speeds or other estimates of prepayment speeds and interest rate levels at September 30, 2020 and (2) callable investment securities for which we have received notification of call, which are included in the maturity category in which the call occurs or is expected to occur. Actual maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

At September 30, 2020, we had approximately $504 million of variable rate demand notes ("VRDNs") included in the "Obligations of states and political subdivisions" category in the above table. While most of these VRDNs have a final maturity that results in the inclusion of those securities in the "over ten years" category, these securities are subject to weekly puts, at our option, and individual securities may be put, by us, back to the issuer prior to the maturity date of such securities.

Other Interest Bearing Liabilities. Given that deposit levels, loan repayments and cash flow from our investment securities portfolio may be affected by a number of factors, we may be required from time to time to rely on secondary sources of liquidity to meet growth in loans and deposit withdrawal demands or otherwise fund operations. Such secondary sources include, among others, repurchase agreements with customers, secured and unsecured federal funds lines of credit from correspondent banks, other borrowings (primarily FHLB advances and, to a lesser extent, federal funds purchased), FRB borrowings, subordinated notes, subordinated debentures and/or accessing the capital markets.

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

Average Balances and Rates of Other Interest Bearing Liabilities

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
	Average Balance	Rate Paid	Average Balance	Rate Paid	Average Balance	Rate Paid	Average Balance	Rate Paid
				(Dollars in thousands)				
Repurchase agreements with customers	$ 7,093	0.24%	$ 9,037	0.24%	$ 7,686	0.29%	$ 14,062	0.37%
Other borrowings(1)	793,350	0.58	29,422	1.21	711,408	0.41	122,254	1.64
Subordinated notes	223,899	5.70	223,516	5.71	223,801	5.70	223,419	5.71
Subordinated debentures(1)	120,253	3.26	119,700	3.90	120,119	3.80	119,558	5.11
Total other interest bearing liabilities	$1,144,595	1.86%	$381,675	4.67%	$ 1,063,014	1.90%	$479,293	4.37%

(1) The interest expense and rates for "other borrowings" and "subordinated debentures" were impacted by interest capitalized. Capitalized interest included in other borrowings totaled $0.03 million for the third quarter and $0.65 million for the first nine months of 2020 compared to $0.11 million for the third quarter and $0.86 million for the first nine months of 2019. In the absence of this interest capitalization, the rates on other borrowings would have been 0.59% for the third quarter and 0.53% for the first nine months of 2020 and 2.69% for the third quarter and 2.57% for the first nine months of 2019. Capitalized interest included in subordinated debentures totaled $0.01 million for the third quarter and $0.18 million in the first nine months of 2020, compared to $0.45 million for both the third quarter and first nine months of 2019. In the absence of this interest capitalization, the rates on subordinated debentures would have been 3.27% for the third quarter and 4.00% for the first nine months of 2020 and 5.39% for the third quarter and 5.61% for the first nine months of 2019.

During the first nine months of 2020, we utilized FHLB advances to support our funding sources and provide additional primary liquidity to the Bank. Details of those FHLB advances, at September 30, 2020, are shown in the following table.

FHLB Advances

Borrowing Type	Balance	Rate at September 30, 2020	Maturity Date	Lockout Term
		(Dollars in thousands)		
Fixed-rate FOTO advance(1)	$ 500,000	0.48%	February 28, 2035	One-year
Fixed-rate FOTO advance(1)	250,000	0.65%	February 28, 2035	Two-year
Other FHLB advances(2)	949	Various	Various	N/A
Total	$ 750,949	0.54%		

(1) These borrowings are FHLB advances where the FHLB owns the option ("FOTO"), at its sole discretion, to terminate the advance on a quarterly basis after the lockout term.
(2) These other FHLB advances have rates ranging from 1.30% to 4.54% and a weighted-average rate of 3.45%. Final maturity dates on these advances range from January 2021 to March 2023.

At September 30, 2020, we had substantial unused borrowing availability. This availability was primarily comprised of the following four options: (1) $4.1 billion of available blanket borrowing capacity with the FHLB, (2) $2.7 billion of investment securities available to pledge for federal funds or other borrowings, (3) $0.9 billion of available unsecured federal funds borrowing lines and (4) up to $0.6 billion of available borrowing capacity from borrowing programs of the FRB.

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

Sources and Uses of Funds. Operating activities provided net cash of $395 million for the first nine months of 2020 and $332 million for the first nine months of 2019. Net cash provided by operating activities is comprised primarily of net income, adjusted for certain non-cash items and for changes in various operating assets and liabilities.

Investing activities used net cash of $3.06 billion in the first nine months of 2020 and $201 million in the first nine months of 2019. The increase in net cash used by investing activities was primarily the result of growth in our investment securities portfolio, which used $1.16 billion in the first nine months of 2020 and provided $528 million in the first nine months of 2019, and growth in our total loan portfolio, which used $1.84 billion in the first nine months of 2020 and used $660 million in the first nine months of 2019.

Financing activities provided $3.10 billion in the first nine months of 2020 and $609 million in the first nine months of 2019. The increase in net cash provided by financing activities was primarily the result of growth of our deposits, which provided $2.81 billion in the first nine months of 2020 compared to $502 million in the first nine months of 2019, and proceeds from callable fixed-rate advances, which provided $750 million in the first nine months of 2020 compared to none in the first nine months of 2019. Net proceeds from other borrowings used $350 million in the first nine months of 2020 and provided $205 million in the first nine months of 2019.

Market and Interest Rate Risk Management

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

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

Interest Rate Risk Management Actions. ALCO regularly reviews our exposure to changes in interest rates. Among the factors considered are changes in the mix of interest earning assets and interest bearing liabilities, interest rate spreads and repricing periods. ALCO uses an earnings simulation model, which analyzes the expected change in near term (one year) net interest income in response to changes in interest rates, and economic value of equity ("EVE"), which measures the expected change in the fair value of equity in response to changes in interest rates, to analyze our interest rate risk and interest rate sensitivity.

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

The following table presents the earnings simulation model's projected impact of a change in interest rates on the projected baseline net interest income for the 12-month period commencing October 1, 2020. This change in interest rates assumes parallel shifts in the yield curve and does not take into account changes in the slope of the yield curve.

Earnings Simulation Model Results

Change in Interest Rates (in bps)	% Change in Projected Baseline Net Interest Income
+300	9.1%
+200	4.9
+100	1.8
-100	(3.0)

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

EVE Model. EVE is calculated as the fair value of all assets minus the fair value of liabilities. We measure changes in the dollar amount of EVE for parallel shifts in interest rates. Due to embedded optionality and asymmetric rate risk, changes in EVE can be useful in quantifying risks not apparent for small rate changes. We typically run our EVE model assuming interest rates go up 100 bps, up 200 bps, down 100 bps and down 200 bps. Based on current conditions, we believe modeling our EVE assuming rates go down 200 bps is not meaningful.

The following table presents our EVE results as of September 30, 2020.

EVE Model Results

Change in Interest Rates (in bps)	% Change in Projected Baseline EVE
+200	6.7%
+100	3.8
-100	(8.6)

Variable Rate Loans and Loan Repricing. At September 30, 2020, approximately 74% of our total loans had variable rates, including 76% of our non-purchased loans and 36% of our purchased loans. Additionally, approximately 98% of our total variable rate loans had floor rates. The following table reflects a summary, at September 30, 2020, of the funded balance of our total variable rate loans at a floor given changes in interest rates.

Variable Rate Loan Analysis

Changes in Interest Rate	Percentage of Variable Rate Loans at Floor
Up 200 bps	12%
Up 150 bps	32
Up 100 bps	53
Up 75 bps	65
Up 50 bps	74
Up 25 bps	86
Currently at floor	93
Down 25 bps	96
Down 50 bps	97
Down 75 bps	97
Down 100 bps	97

The following table reflects total loans as of September 30, 2020 grouped by expected amortizations, expected paydowns or the earliest repricing opportunity for floating rate loans. This cash flow or repricing schedule approximates our ability to reprice the outstanding principal of loans either by adjusting rates on existing loans or reinvesting principal cash flow in new loans.

Loan Cash Flows or Repricing

	1 Year or Less	Over 1 Through 2 Years	Over 2 Through 3 Years	Over 3 Through 5 Years	Over 5 Years	Total
			(Dollars in thousands)			
Fixed rate	$ 1,607,625	$ 952,416	$658,666	$ 855,803	$902,419	$ 4,976,929
Floating rate (not at a floor or ceiling rate)(1)	788,683	122,689	71,294	73,235	8,329	1,064,230
Floating rate (at floor rate)(1)	12,785,875	220,059	143,313	153,048	14,334	13,316,629
Floating rate (at ceiling rate)	584	29	2	40	—	655
Total	$15,182,767	$1,295,193	$873,275	$1,082,126	$925,082	$19,358,443
Percentage of total	78.4%	6.7%	4.5%	5.6%	4.8%	100.0%
Cumulative percentage of total	78.4%	85.1%	89.6%	95.2%	100.0%	

(1) We have included a floor rate in many of our floating rate loans. As a result of such floor rates, floating rate loans may not immediately reprice in a rising rate environment if the interest rate index and margin on such loans continue to result in a computed interest rate less than the applicable floor rate.

At September 30, 2020, most of our floating rate loans are tied to three major benchmark interest rates, the 1-month LIBOR, 3-month LIBOR and WSJ Prime. The following table is a summary of our floating rate loan portfolio and contractual interest rate indices as of September 30, 2020.

Contractual Indices of Floating Rate Loans

Contractual Interest Rate Index	Floating Rate (at floor rate)	Floating Rate (not at a floor or ceiling rate)	Floating Rate (at ceiling rate)	Total Floating Rate
		(Dollars in thousands)		
1-month LIBOR	$ 11,129,051	$ 474,206	$ —	$ 11,603,257
3-month LIBOR	245,528	6,383	—	251,911
WSJ Prime	1,775,680	518,992	655	2,295,327
Other contractual interest rate indices	166,370	64,649	—	231,019
Total	$ 13,316,629	$ 1,064,230	$ 655	$ 14,381,514

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

Our subordinated debentures and related trust preferred securities, our subordinated notes and significant portions of our loan portfolio are tied to LIBOR benchmark interest rates. The LIBOR index is expected to be phased-out by the end of 2021. The Federal Reserve formed the Alternative Reference Rates Committee ("ARRC") to guide the transition process in the United States. ARRC has issued a number of recommendations including the adoption of the Secured Overnight Financing Rate ("SOFR") as a replacement for LIBOR. We created an internal working group that is managing our transition away from LIBOR. This working group is a cross-functional team composed of representatives from credit, lending, deposits, retail, investment securities, loan administration, operations, compliance, legal and other support functions to address issues related to the LIBOR transition and phase-out. We are in the process of reviewing loan documentation, along with the procedures we will need to implement for the transition. The majority of our loans that are tied to LIBOR benchmark interest rates include fallback language for when LIBOR ceases to exist. For our loans that are tied to LIBOR benchmark interest rates that do not include fallback language, we identified loans that will mature prior to 2021 and we expect to be able to change the reference rate if those loans are renewed, and for the loans that mature after 2021, we are currently developing plans for modifying these loans prior to the end of 2021. The financial impact regarding pricing, valuation and operations of the transition is not yet known. For further details see the following Risk Factors in the 2019 Annual Report: Part I — Item 1A — Risk Factors — Market and Liquidity Risks —Changes to or possible elimination of London Interbank Offered Rates ("LIBOR") may adversely affect the holder of, the market value of, and the interest expense paid on our subordinated notes and our subordinated debentures and related trust preferred securities, and may affect certain of our loans.

Market Risk Management Actions. We are exposed to market risk primarily through changes in fair value of our fixed income investment securities portfolio. Investment portfolio strategies are set by senior management and are subject to the oversight and direction of ALCO. At September 30, 2020 and December 31, 2019, we classified all of our investment securities portfolio as available for sale. Accordingly, our investment securities are reported at estimated fair value with the unrealized gains and losses, net of related income tax, reported as a separate component of stockholders' equity and included in other comprehensive income (loss). At September 30, 2020, we had $80.4 million of net unrealized gain in our investment securities portfolio that was reported, net of applicable income taxes, 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.

Investment Securities – AFS

	September 30, 2020		December 31, 2019	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
	(Dollars in thousands)			
Obligations of state and political subdivisions	$ 1,531,692	$ 1,559,259	$ 503,399	$ 521,630
U.S. Government agency mortgage-backed securities	1,717,403	1,770,483	1,732,671	1,750,361
U.S. Government agency securities	138,710	138,501	—	—
Corporate obligations	—	—	5,229	5,398
Total	$ 3,387,805	$ 3,468,243	$ 2,241,299	$ 2,277,389

Our investment securities portfolio is reported at estimated fair value, which included gross unrealized gains of $81.9 million and gross unrealized losses of $1.5 million at September 30, 2020 and gross unrealized gains of $37.6 million and gross unrealized losses of $1.5 million at December 31, 2019. We believe that all unrealized losses on individual investment securities at September 30, 2020 and December 31, 2019 are the result of fluctuations in interest rates and do not reflect deterioration in the credit quality of these investments. The CECL standard replaced the previous other-than-temporary valuation methodology with a methodology that requires the Bank to evaluate its intent or likelihood of disposing of securities that are in an unrealized loss position. Under the new methodology, if the Bank intends to sell an AFS security, or if it is more likely than not that the Bank will be required to sell an AFS security before recovery of its amortized cost basis, the security's amortized cost basis is written down to fair value through current period expense. If the Bank does not intend to sell an AFS security or if it is more likely than not that the Bank will not sell an AFS security that is in an unrealized loss position, the Bank is required to assess whether the decline in fair value has resulted from credit losses or non-credit factors. If the Bank's assessment determines a credit loss exists, the present value of cash flows expected to be collected from the AFS security is compared to the amortized cost basis of the security and if the present value cash flows expected to be collected is less than amortized cost, an allowance for credit losses and a provision for credit loss expense is recorded. If the Bank's assessment determines that a credit loss does not exist, the Bank records the decline in fair value through other comprehensive income, net of related tax effects.

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

Unaccreted Discount and Unamortized Premium

	Amortized Cost	Unaccreted Discount	Unamortized Premium	Par Value
	(Dollars in thousands)			
September 30, 2020:				
Obligations of states and political subdivisions	$ 1,531,692	$ 1,151	$ (30,097)	$ 1,502,746
U.S. Government agency mortgage-backed securities	1,717,403	183	(41,370)	1,676,216
U.S. Government agency securities	138,710	62	—	138,772
Total	$ 3,387,805	$ 1,396	$ (71,467)	$ 3,317,734
December 31, 2019:				
Obligations of states and political subdivisions	$ 503,399	$ 1,260	$ (18,241)	$ 486,418
U.S. Government agency mortgage-backed securities	1,732,671	254	(33,131)	1,699,794
Corporate obligations	5,229	93	—	5,322
Total	$ 2,241,299	$ 1,607	$ (51,372)	$ 2,191,534

We recognized premium amortization, net of discount accretion, of $9.3 million during the three months and $20.2 million during the nine months ended September 30, 2020 compared to $4.3 million during the three months and $13.7 million during the nine months ended September 30, 2019. Any premium amortization or discount accretion is considered an adjustment to the yield of our investment securities.

We had net gains of $2.2 million from the sale of approximately $45 million of investment securities AFS during the third quarter of 2020. We had net gains of $4.5 million from the sale of approximately $270 million of investment securities AFS in the first nine months of 2020. We had no sales of investment securities AFS during the three months ended September 30, 2019 and we had $0.7 million in net gains from the sale of approximately $97 million of investment securities AFS in the first nine months of 2019. Investment securities AFS totaling $377 million in the third quarter and $760 million in the first nine months of 2020 and $140 million in the third quarter and $419 million in the first nine months of 2019 matured, were called or were otherwise paid down by the issuer. We purchased $0.59 billion of investment securities AFS in the third quarter and $2.18 billion in the first nine months of 2020 compared to no investment securities AFS purchased during the third quarter or first nine months of 2019.

We invest in securities we believe offer good relative value at the time of purchase, and we will, from time to time, reposition our investment securities portfolio. In making decisions to sell or purchase securities, we consider credit quality, call features, maturity dates, relative yields, corporate tax rates, current market factors, interest rate risk and interest rate environment, current and projected liquidity needs and other relevant factors. During the first nine months of 2020, our investment securities AFS portfolio increased $1.19 billion from purchases of high quality, short-term bonds.

At September 30, 2020, approximately 96% of our investment securities had an investment grade credit rating (i.e., the equivalent of a rating of BBB- or better) and approximately 4% of our investment securities were not rated. For those securities that were not rated, we have performed our own evaluation of the security and/or the underlying issuer and believe that such security or its issuer has credit characteristics equivalent to those which would warrant an investment grade credit rating.

Capital Management

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

Capital Management Actions. We primarily rely on our common stockholders' equity, comprised of common stock, additional paid-in capital, our retained earnings and our accumulated other comprehensive income (loss) to support our operations and act as a cushion to absorb unanticipated losses. Our common stockholders' equity totaled $4.19 billion at September 30, 2020 compared to $4.15 billion at December 31, 2019. Effective January 1, 2020 we adopted CECL, which resulted in day-one transition adjustments that were recorded as a cumulative effect of a change in accounting principle. The effect of those transaction adjustments, net of related tax effects, reduced our retained earnings by $75.3 million. Additionally, our common stockholders' equity is augmented by our subordinated notes, our subordinated debentures, and, to a limited extent, our ACL.

Subordinated Notes. At September 30, 2020, we had $225 million in aggregate principal amount of 5.50% Fixed-to-Floating Rate Subordinated Notes due 2026 (the "Notes"). The Notes are unsecured, subordinated debt obligations and mature on July 1, 2026. From and including the date of issuance to, but excluding July 1, 2021, the Notes bear interest at an initial rate of 5.50% per annum. From and including July 1, 2021 to, but excluding the maturity date or earlier redemption, the Notes will bear interest at a floating rate equal to three-month LIBOR as calculated on each applicable date of determination plus a spread of 442.5 basis points; provided, however, that in the event three-month LIBOR is less than zero, then three-month LIBOR shall be deemed to be zero.

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

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

Subordinated Debentures. We own eight 100%-owned finance subsidiary business trusts – Ozark Capital Statutory Trust II ("Ozark II"), Ozark Capital Statutory Trust III ("Ozark III"), Ozark Capital Statutory Trust IV ("Ozark IV"), Ozark Capital Statutory Trust V ("Ozark V"), Intervest Statutory Trust II ("Intervest II"), Intervest Statutory Trust III ("Intervest III"), Intervest Statutory Trust IV ("Intervest IV") and Intervest Statutory Trust V ("Intervest V"), (collectively, the "Trusts"). At September 30, 2020, we had the following issues of trust preferred securities and subordinated debentures owed to the Trusts.

Trust Preferred Securities and Subordinated Debentures

	Subordinated Debentures Owed to Trusts	Unamortized Discount at September 30, 2020	Carrying Value of Subordinated Debentures at September 30, 2020	Trust Preferred Securities of the Trusts	Contractual Interest Rate at September 30, 2020	Final Maturity Date
			(Dollars in thousands)			
Ozark II	$ 14,433	$ —	$ 14,433	$ 14,000	3.12%	September 29, 2033
Ozark III	14,434	—	14,434	14,000	3.23	September 25, 2033
Ozark IV	15,464	—	15,464	15,000	2.48	September 28, 2034
Ozark V	20,619	—	20,619	20,000	1.85	December 15, 2036
Intervest II	15,464	(210)	15,254	15,000	3.20	September 17, 2033
Intervest III	15,464	(243)	15,221	15,000	3.04	March 17, 2034
Intervest IV	15,464	(443)	15,021	15,000	2.63	September 20, 2034
Intervest V	10,310	(421)	9,889	10,000	1.90	December 15, 2036
	$ 121,652	$ (1,317)	$ 120,335	$ 118,000		

Our subordinated debentures and securities generally mature 30 years after issuance and may be prepaid at par, subject to regulatory approval, 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.

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

Common Stockholders' Equity and Reconciliation of Non-GAAP Financial Measures. We use non-GAAP financial measures, specifically tangible common stockholders' equity, tangible common stockholders' equity to total tangible assets, tangible book value per common share and return on average tangible common stockholders' equity to assess 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.

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

	September 30,		December 31,
	2020	2019	2019
	(Dollars in thousands)		
Total common stockholders' equity before noncontrolling interest	$ 4,186,285	$ 4,078,324	$ 4,150,351
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(16,462)	(26,608)	(23,753)
Total intangibles	(677,251)	(687,397)	(684,542)
Total tangible common stockholders' equity	$ 3,509,034	$ 3,390,927	$ 3,465,809
Total assets	$ 26,888,308	$ 23,402,679	$ 23,555,728
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(16,462)	(26,608)	(23,753)
Total intangibles	(677,251)	(687,397)	(684,542)
Total tangible assets	$ 26,211,057	$ 22,715,282	$ 22,871,186
Ratio of total common stockholders' equity to total assets	15.57%	17.43%	17.62%
Ratio of total tangible common stockholders' equity to total tangible assets	13.39%	14.93%	15.15%

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

	September 30,		December 31,
	2020	2019	2019
	(In thousands, except per share amounts)		
Total common stockholders' equity before noncontrolling interest	$ 4,186,285	$ 4,078,324	$ 4,150,351
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(16,462)	(26,608)	(23,753)
Total intangibles	(677,251)	(687,397)	(684,542)
Total tangible common stockholders' equity	$ 3,509,034	$ 3,390,927	$ 3,465,809
Shares of common stock outstanding	129,342	128,946	128,951
Book value per common share	$ 32.37	$ 31.63	$ 32.19
Tangible book value per common share	$ 27.13	$ 26.30	$ 26.88

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Net income available to common stockholders	$ 109,253	$ 103,891	$ 171,385	$ 325,100
Average common stockholders' equity before noncontrolling interest	$ 4,148,409	$ 4,032,066	$ 4,125,578	$ 3,925,321
Less average intangible assets:				
Goodwill	(660,789)	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(17,461)	(28,275)	(19,803)	(31,290)
Total average intangibles	(678,250)	(689,064)	(680,592)	(692,079)
Average tangible common stockholders' equity	$ 3,470,159	$ 3,343,002	$ 3,444,986	$ 3,233,242
Return on average common stockholders' equity(1)	10.48%	10.22%	5.55%	11.07%
Return on average tangible common stockholders' equity(1)	12.52%	12.33%	6.65%	13.44%

(1) Ratios annualized based on actual days.

Goodwill. Between 2010 and 2016, we have made fifteen acquisitions, including seven FDIC-assisted transactions and eight traditional merger and acquisition ("M&A") transactions. In conjunction with several of the traditional M&A transactions, our purchase price exceeded the fair value of the net assets acquired, resulting in the recording of goodwill. At September 30, 2020 and December 31, 2019, we had goodwill totaling $660.8 million. This resultant goodwill is the most significant intangible asset we have and is the largest item in adjusting our total common stockholders' equity before noncontrolling interest to our tangible common stockholders' equity. As a result and consistent with requirements under GAAP, we review goodwill annually, or more frequently if events or changes in circumstances indicate the carrying value might be impaired. This impairment analysis compares the estimated fair value of our banking operations (the reporting unit) with the Bank's net book value. We performed our annual impairment test of goodwill as of September 30, 2020. The annual impairment test included various valuation considerations including comparable peer data, precedent transaction comparables, discounted cash flow analysis, overall financial performance, share price of our common stock and other factors. The annual impairment test as of September 30, 2020 indicated no impairment of our goodwill. However, there can be no assurance that future evaluations of our goodwill will not result in impairment of such goodwill.

Common Stock Dividend Policy. During 2020, we paid cash dividends of $0.26 per common share in the first quarter, $0.27 in the second quarter, and $0.2725 in the third quarter compared to $0.22 per common share in the first quarter, $0.23 in the second quarter and $0.24 in the third quarter of 2019. On October 1, 2020, our Board approved a cash dividend of $0.275 per common share that was paid on October 19, 2020. The determination of future dividends on our common stock will depend on conditions existing at that time and approval of our Board. In addition, our ability to pay dividends to our shareholders is subject to the restrictions set forth in Arkansas law, by our federal regulator, and by certain covenants contained in the indentures governing the trust preferred securities, the subordinated debentures and the subordinated notes.

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

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

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

Tier 1 capital includes common equity tier 1 capital and certain additional tier 1 items as provided under the Basel III Rules. At September 30, 2020 and December 31, 2019, we had no additional tier 1 items that were not also included in common equity tier 1 capital.

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

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

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

In connection with the adoption of CECL, the FDIC and other banking regulators allowed depository institutions various alternatives on accounting and reporting for regulatory and Call Report purposes regarding the initial effect of adoption of CECL. Those alternatives included (i) taking the full effects of the adoption of CECL as an adjustment to regulatory capital, (ii) phasing in the effects of the adoption of CECL over a three-year period, or (iii) deferring for two years the effects of the adoption of CECL, followed by a three-year phase-in period. We elected to phase in the effects of CECL over a three-year period (without the two-year deferral) to lessen the impact of the adoption of CECL on our regulatory capital and regulatory capital ratios.

The Basel III Rules limit capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" of 2.5% in addition to the amount necessary to meet minimum risk-based capital requirements for common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets. At September 30, 2020 and December 31, 2019, the Basel III Rules required us to maintain (i) a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 7.0%, (ii) a minimum ratio of tier 1 capital to risk-weighted assets of at least 6.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 8.5%, (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 10.5% and (iv) a minimum leverage ratio of 4.0%. Additionally, in order to be considered well-capitalized under the Basel III Rules, we must maintain (i) a ratio of common equity tier 1 capital to risk-weighted assets of at least 6.5%, (ii) a ratio of tier 1 capital to risk-weighted assets of at least 8.0%, (iii) a ratio of total capital to risk-weighted assets of at least 10.0% and (iv) a leverage ratio of at least 5.0%.

The following table presents actual and required capital ratios at September 30, 2020 and December 31, 2019 under the Basel III Rules. The minimum required capital amounts presented include the minimum required capital levels, plus the capital conservation buffer. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Rules. At September 30, 2020 and December 31, 2019, capital levels exceed all minimum capital requirements under the Basel III Rules on a fully phased-in basis.

Regulatory Capital Ratios

	Actual		Minimum Capital Required – Basel III		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
			(Dollars in thousands)			
September 30, 2020:						
Common equity tier 1 to risk-weighted assets	$3,481,060	12.88%	$1,891,367	7.00%	$1,756,269	6.50%
Tier 1 capital to risk-weighted assets	3,481,060	12.88	2,296,660	8.50	2,161,562	8.00
Total capital to risk-weighted assets	4,144,826	15.34	2,837,050	10.50	2,701,953	10.00
Tier 1 leverage to average assets	3,481,060	13.42	1,037,351	4.00	1,296,689	5.00
December 31, 2019:						
Common equity tier 1 to risk-weighted assets	$3,422,832	13.76%	$1,741,897	7.00%	$1,617,475	6.50%
Tier 1 capital to risk-weighted assets	3,422,832	13.76	2,115,160	8.50	1,990,739	8.00
Total capital to risk-weighted assets	3,874,357	15.57	2,612,845	10.50	2,488,424	10.00
Tier 1 leverage to average assets	3,422,832	15.36	891,109	4.00	1,113,887	5.00

Capital Stress Testing. We conduct annual capital stress tests utilizing multiple economic scenarios, including an adverse idiosyncratic scenario unique to our Bank. The results of the most recent stress test completed earlier in the third quarter of 2020 reflected that we would maintain well-capitalized status for all capital ratios over the stress test time horizon.

Growth and Branching. During the third quarter of 2020, we opened a loan production office in Charlotte, North Carolina. During the remainder of 2020, we expect to (i) open loan production offices in Aventura, Florida and Clearwater, Florida and (ii) replace a leased facility with a Bank-owned facility in Brookhaven, Georgia.

Additionally, we entered into purchase and assumption agreements in July 2020 to sell our two branches in Alabama and our two branches in South Carolina. The sale of our Mobile, Alabama branch occurred in October 2020. All regulatory approvals for the sale of our Geneva, Alabama branch have been received, and the Bank expects the sale of this branch to close in the fourth quarter of 2020. The sale of our two South Carolina branches is pending regulatory approval, and is currently expected to close during the first quarter of 2021.

We may open additional branches and loan production offices as our needs and resources permit. Additionally, as we have done in recent quarters, we may relocate offices, sell offices and/or close certain offices and consolidate the business of such offices into other offices. Opening new offices is subject to local banking market conditions, availability of satisfactory sites, hiring qualified personnel, obtaining regulatory and other approvals and many other conditions and contingencies that we cannot predict with certainty. We may increase or decrease our expected number of new office openings or relocate, sell or close current offices as a result of a variety of factors including our financial results, changes in economic or competitive conditions, strategic opportunities, individual office profitability metrics or other factors.

Capital Expenditures. During the first nine months of 2020, we spent approximately $41 million on capital expenditures for premises and equipment. Our capital expenditures for the remainder of 2020 are expected to be in the range of $5 million to $10 million, including progress payments on construction projects expected to be completed in 2020, furniture and equipment costs and acquisition of sites for future development. Actual expenditures may vary significantly from those expected, depending on the number and cost of additional branch offices acquired or constructed and sites acquired for future development, progress or delays encountered on ongoing and new construction projects, delays in obtaining or inability to obtain required approvals, potential premises and equipment expenditures associated with acquisitions, if any, and other factors.

Operational Risk Management

Overview. Operational risk is the risk to current or anticipated earnings or capital arising from inadequate or failed internal processes or systems, human errors or misconduct, reputational damage or adverse external events. Operational risk is inherent in all of our businesses. To assist in our operational risk management, in addition to monitoring our operational risk appetite using key performance and risk metrics, we utilize risk control and self-assessments across the Bank to identify key operational risks and associated key internal controls. We have in place a number of controls that assist in the management of operational risk including, but not limited to, transactional documentation requirements; systems and procedures to monitor transactions; systems and procedures to detect and mitigate attempts to commit fraud, penetrate our systems, access customer data, and/or deny access to our systems by legitimate customers; regulatory compliance reviews; and periodic reviews by various components of our CRMG and our Internal Audit function. Reconciliation procedures have also been established to ensure that data processing systems accurately capture data and transactions. Further, we have programs and procedures to maintain contingency and business continuity plans for operational support in the event of disruptions to our business, including disruptions during 2020 attributable to the effects of the COVID-19 pandemic. We also mitigate certain operational risks through the purchase of insurance. Our Operational Risk Management group, which reports to our CRO, also has responsibilities for assisting the business units in identifying, managing and monitoring various other risks including risks resulting from the use of technology, cyber security risk, third party vendor management risk, risks associated with the introduction of new products and services, and various other operational risks.

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

Legal Risk. As part of our operational risk management program, we also actively monitor our legal risk exposure. Legal risk arises from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect our operations or condition. These risks are inherent in all of our businesses. Legal risk exposures are actively and primarily managed by our business units in conjunction with our legal department. Our ERC, BRC and our Board oversee our legal risk management.

Reputational Risk Management

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

Strategic Risk Management

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

Compliance Risk Management

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

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

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 16 to the Consolidated Financial Statements for a discussion of certain recently issued and recently adopted accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Information required by this Item is included in "Market and Interest Rate Risk Management" in the MD&A beginning on page 57 and is hereby incorporated by reference.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of the Bank's Chairman and Chief Executive Officer (principal executive officer) and its Chief Financial Officer (principal financial officer), of the effectiveness of the design and operation of our disclosure controls and procedures as defined in SEC Rule 13a-15(e) under the Exchange Act. Disclosure controls and procedures are controls and other procedures designed to ensure that the information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate, to allow for timely decisions regarding required disclosure. Based on that evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Bank's disclosure controls and procedures were effective.

(b) Changes in Internal Control over Financial Reporting.

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On October 26, 2018, a purported class action complaint alleging violations of federal securities laws was filed against Bank OZK in the United States District Court for the Eastern District of Arkansas, captioned Jordan Colbert et al. v. Bank OZK et al., case number now 4:18-cv-793-DPM. Under applicable federal law, the federal district court in the Colbert Case named Strathclyde Pension Fund as the lead class plaintiff. The Colbert complaint, as amended on June 21, 2019, alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, by the Bank, its CEO, George Gleason, and its CFO, Greg McKinney, for making allegedly false and misleading statements and allegedly failing to disclose material facts relating to the risk of loss regarding two commercial real estate loans. The amended complaint alleges essentially that the Bank lacked adequate internal controls to assess credit risk; as a result, such loans, which were classified as substandard, posed an increased risk of loss and were reasonably likely to lead to charge-offs, which actually occurred in the third quarter of 2018; and consequently, defendants' public statements during the class period about the Bank's business, operations, and prospects were materially misleading and/or lacked a reasonable basis. The amended complaint identified the proposed class period as encompassing persons who purchased the Bank's common stock between February 19, 2016 and October 18, 2018, and seeks damages against the Bank and the individual defendants. On April 3, 2020, the Court ruled on the Bank's and the individual defendants' motion to dismiss the action, granting the motion in part, dismissing all claims against Mr. McKinney, and denying the motion in part, allowing certain of the claims against the Bank and Mr. Gleason to move forward. On October 8, 2020, lead plaintiff sought leave to file a second amended complaint to reassert certain of the claims that had been dismissed, but not to reassert claims against Mr. McKinney. The Bank and Mr. Gleason intend to vigorously defend against the alleged claims.

On December 4, 2018, a shareholder derivative complaint was filed in the Circuit Court of Pulaski County, Arkansas, case number 60CV-18-8280, by Barbara Peak as plaintiff, against the Bank, as a nominal defendant, and the Bank's directors and CFO, Greg McKinney. As amended on July 15, 2019, the complaint alleges, among other things, that the individual named defendants, including particularly the members of the Board's audit committee and risk committee, respectively, breached their fiduciary duties in the context of the same factual circumstances recited in the purported class action complaint noted in the preceding paragraph, by allegedly failing to properly maintain oversight over the Bank's internal controls and practices and procedures, and allegedly allowing the Bank to disseminate materially misleading information through its public disclosures. The amended complaint seeks damages against the individual defendants and disgorgement of any profits, benefits and other compensation received by them. The Bank intends to vigorously oppose the ability of the plaintiff to proceed in a derivative capacity. All defendants have moved to dismiss the action, and the individual defendants intend to vigorously defend against the claims against them.

On August 14, 2019, a shareholder derivative complaint was filed in the United States District Court for the Eastern District of Arkansas, case number 4:19-cv-567-KGB, by Barbara Bonessi as plaintiff, against the Bank, as nominal defendant, the current members of the board of directors, and certain current and former officers and directors of the Bank. As amended on January 20, 2020, the complaint alleged claims against the current members of the board of directors of breach of fiduciary duty, waste of corporate assets, unjust enrichment, failing to prevent other officers and directors from alleged insider trading in the Bank's stock, and violation of Section 14(a) of the Securities Exchange Act of 1934, as amended, and Rule 14a-9 promulgated thereunder, all in the context of the same factual circumstances recited in the actions noted in the two preceding paragraphs. Based on the same factual circumstances, the amended complaint also alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, and unlawful sales of Bank stock against certain current and former directors and officers of the Bank while in possession of non-public material adverse information. Under the amended complaint, the plaintiff sought damages against the individual defendants and disgorgement of any profits, benefits and other compensation received by them. The Bank opposed the ability of the plaintiff to proceed in a derivative capacity, and on September 4, 2020 the United States District Court granted the defendants' motion to dismiss the amended complaint and dismissed the amended complaint in its entirety without prejudice. On October 2, 2020, the plaintiff moved to alter or amend the judgment and for leave to further amend the amended complaint. All defendants intend to vigorously oppose that motion.

On March 31, 2020, the Bank was named as a defendant in a purported consumer class action lawsuit filed in the Circuit Court of Miller County, Arkansas, Eighth South Circuit Division Two, styled Shayla White v. Bank OZK, case number 46CV-20-152. On June 9, 2020, the plaintiff amended the complaint to add the co-owner of the checking account as an additional plaintiff. According to the amended complaint, plaintiffs allege that the Bank wrongfully imposed multiple non-sufficient funds charges on single items that were presented for payment and that the Bank thereby breached its customer account agreements with plaintiffs, breached the implied covenant of good faith and fair dealing, was unjustly enriched by making such multiple charges, unlawfully converted plaintiffs' and other class members' funds, and, as to plaintiffs only, violated the Arkansas Deceptive Trade Practices Act. Plaintiffs purport to represent a class consisting of all persons in Arkansas who incurred similar charges by the Bank within the applicable statutes of limitation. Under the complaint, plaintiffs seek unspecified compensatory damages for themselves and the purported class and punitive damages for themselves, and they seek an injunction against the Bank's continuing engagement in the practices described in the complaint. The Bank has moved to dismiss the action and intends to vigorously defend against the plaintiffs' claims.

On May 11, 2020, the Bank, along with several other banks, was named as a defendant in a purported class action lawsuit filed in the United States District Court, Northern District of Georgia by Alliant CPA Group, LLC, as amended on August 27, 2020. On July 14, 2020, the Bank, along with several other banks, was named as a defendant in a purported class action lawsuit filed in the United States District Court for the Eastern District of Arkansas by JEK Services Inc. and James Kusturin. The complaints in both lawsuits allege, among other things, that the defendant banks, including the Bank, violated the "Paycheck Protection Program" by failing to pay the agent of the borrower a fee based on a percentage of the loan amounts as allowed by various provisions of the CARES Act and SBA Regulations. Both lawsuits seek, among other things, an award for compensatory, exemplary, punitive and statutory damages and litigation costs and attorneys' fees. The Bank has moved to dismiss both actions and intends to vigorously defend against the plaintiffs' claims in each case.

On May 28, 2020, the Bank was named as a defendant in a purported collective and class action lawsuit (Causey, et al. v. Bank OZK) filed in the U.S. District Court for the Eastern District of Arkansas by two former Bank employees. The lawsuit was brought under the Fair Labor Standards Act ("FLSA") and the Arkansas Minimum Wage Act ("AMWA") and alleges that the defendant misclassified certain employees and managers as "exempt" employees and failed to pay all overtime compensation owed, among other claims. The lawsuit seeks declaratory judgment, monetary and liquidated damages. The Bank intends to vigorously defend against the plaintiffs' claims in this lawsuit.

In the ordinary course of business, we are or may be involved in various legal or regulatory proceedings, claims, including claims related to, employment, wage-hour and labor law claims, consumer and privacy claims, lender liability claims, breach of contract, and other similar lending-related claims encountered on a routine basis, some which may be styled as "class action" or representative cases. While the ultimate resolution of these ordinary course claims and proceedings cannot be determined at this time, management believes that such claims and proceedings, individually or in the aggregate, will not have a material adverse effect on the Bank's financial condition or results of operations.

Item 1A. Risk Factors

Refer to the risk factors disclosed under Item 1A. of our annual report on Form 10-K for the year ended December 31, 2019, as filed with the FDIC on February 28, 2020, for a discussion of certain material risks and uncertainties that management believed affect our business. The following risk factors are provided to supplement that discussion. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations. Further, to the extent that any of the information contained in this quarterly report on Form 10-Q constitutes forward-looking statements, the risk factor set forth below also is a cautionary statement identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of us.

The COVID-19 pandemic has impacted our business, and the ultimate impact on our business, financial position, results of operations and/or cash flows will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the scope and duration of the pandemic and the actions taken by governmental authorities, our customers and our business partners in response to the pandemic.

The global pandemic resulting from the outbreak of COVID-19 has negatively impacted the global economy, disrupted global supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, and increased unemployment levels. The COVID-19 pandemic has created economic and financial disruptions that have adversely affected, and are likely to continue to adversely affect, our business, financial condition and results of operations. The extent to which the COVID-19 pandemic will negatively affect our business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the direct and indirect impact of the pandemic on our employees, customers, counterparties and service providers, as well as other market participants, and actions taken by governmental authorities and other third parties in response to the pandemic.

The COVID-19 pandemic has contributed to (i) sudden and significant declines, and significant increases in volatility, in financial markets; (ii) ratings downgrades, credit deterioration and defaults in many industries; and (iii) heightened cybersecurity, information security and operational risks as a result of arrangements to work remotely. In addition, many of our customers, counterparties and third-party service providers have been, and may further be, affected by "shelter-in-place" orders, market volatility and other factors that increase their risks of business disruption or that may otherwise affect their ability to repay loans, perform under the terms of any agreements with us or provide other essential services. As a result, our credit, operational and other risks are generally expected to increase until the pandemic subsides.

In addition, following the COVID-19 outbreak, market interest rates have declined significantly to historic lows. The reductions in interest rates, and continued fluctuations in the interest rate environment as a result of changes in monetary policies of the FRB, including in connection with efforts to address the economic fallout from the COVID-19 outbreak, could have significant adverse effects on the yields we receive on our earning assets and otherwise decrease our net interest margin, which is an important component of our earnings. Continued volatility in interest rates could have a significant adverse effect on our financial condition and results of operations.

As noted in the section captioned "Recent Developments Related to COVID-19" in Part I. Financial Information, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations elsewhere in this report, the FRB has taken various actions and the U.S. government has enacted several fiscal stimulus measures to counteract the economic disruption caused by the COVID-19 pandemic and provide economic assistance to individual households and businesses, stabilize the markets and support economic growth. The success of these measures is unknown and they may not be sufficient to fully mitigate the negative impact of the COVID-19 pandemic. We face an increased risk of litigation and governmental, regulatory and third-party scrutiny as a result of the effects of COVID-19 on market and economic conditions and actions governmental authorities take in response to those conditions. Furthermore, various governmental programs, including the PPP in which we are participating, are complex and may impact our ability to resolve credit delinquencies and our participation may lead to additional litigation and governmental, regulatory and third-party scrutiny, negative publicity and damage to our reputation.

Our customers are subject to many of the factors described above. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, and result in loss of revenue. It is possible that the spread of COVID-19 may also cause delays in the willingness or ability of customers to perform, including, but not limited to, making timely payments to us, and other unpredictable events. Continued unfavorable market conditions and uncertainty due to the COVID-19 pandemic may result in a deterioration in the credit quality of borrowers, an increase in the number of loan delinquencies, defaults and charge-offs, additional provisions for credit losses, adverse asset values of the collateral securing loans and an overall material adverse effect on the quality and profitability of our loan portfolio.

The pandemic has increased our allowance for credit losses. During the first nine months of 2020, a substantial portion of our provision for credit losses was a result of changing our forecast and model assumptions due to COVID-19. We have also entered into a significant number of forbearance agreements with customers. The pandemic could continue to have a material adverse effect on our loan portfolio. Similarly, because of changing economic and market conditions affecting issuers, we may be required to recognize losses in future periods on the investment securities we hold.

In addition to the potential impact on industries that we serve, we are also potentially impacted by increased cybersecurity attacks. In times of economic stress, there are typically increased attempts at cybersecurity attacks to exploit potential weaknesses. In particular, we believe there currently are increased attempts at phishing attacks, in which attackers pose as known persons or authorities to entice employees to reveal their network credentials. Although we have significant resources dedicated to cybersecurity, there is no guarantee that we will not fall victim to phishing attacks or other cybersecurity attacks, which could lead to unauthorized access to confidential customer information or disruption of our technology and systems.

Although we have a business continuity plan that is designed to provide for our continuing operation in case of potentially disruptive events, such as a global pandemic, there can be no guarantee that our plan will effectively address some or all of the effects of the COVID-19 pandemic. Our business operations may be disrupted if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, failures in systems or technology or other restrictions in connection with the pandemic, or if we are unable to maintain service in our branches. Any disruption to our ability to deliver financial products or services to, or interact with, our customers could result in losses or increased operational costs, regulatory fines, penalties and other sanctions, or harm our reputation.

Given the nature of the crisis, our financial and economic models may be unable to accurately predict and respond to the impact of the economic contraction or lasting changes to consumer behaviors, which in turn may limit our ability to manage credit risk and avoid higher charge-off rates. Additionally, due to the nature and novelty of the crisis, our credit and economic models may not be able to adequately predict or forecast credit losses or other financial metrics during and after the crisis, which could result in our reserves being too large or insufficient. For more information see the risk factor entitled "*Our accounting estimates and risk management processes rely on analytical and forecasting models and tools*" in our annual report on Form 10-K for the year ended December 31, 2019.

We do not yet know the full extent of the impacts on our business, our operations or the global economy as a whole. However, the effects have had and are expected to continue to have a material impact on our results of operations and heighten many of our known risks described in the risk factors disclosed in our annual report on Form 10-K for the year ended December 31, 2019 and any subsequent quarterly report on Form 10-Q. The risks described in our 2019 Form 10-K are not the only risks that we encounter. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, results of operations, financial condition and/or liquidity.

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

None.

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.

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.

Bank OZK

DATE: November 9, 2020

/s/ Greg McKinney
Greg McKinney
Chief Financial Officer
(Principal Financial Officer and Authorized Officer)

Bank OZK

Exhibit Index

Exhibit Number	
2.1	Agreement and Plan of Merger, dated April 10, 2017, by and between Bank of the Ozarks, Inc. and Bank of the Ozarks (previously filed as Exhibit 2.1 to the Bank's Current Report on Form 8-K filed with the FDIC on June 26, 2017, and incorporated herein by reference).
3.1	Amended and Restated Articles of Incorporation of Bank of the Ozarks (previously filed as Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on June 26, 2017, and incorporated herein by reference).
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation of Bank of the Ozarks (previously filed as Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on July 16, 2018, and incorporated herein by reference).
3.3	Second Amended and Restated Bylaws of Bank OZK (previously filed as Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on August 10, 2018, and incorporated herein by reference).
4.1	Instruments defining the rights of security holders, including indentures. The Bank hereby agrees to furnish to the FDIC upon request copies of instruments defining the rights of holders of long-term debt of the Bank and its consolidated subsidiaries; no issuance of debt exceeds ten percent of the assets of the Bank and its subsidiaries on a consolidated basis.
4.2	Form of Common Stock Certificate (previously filed as Exhibit 4.2 to the Bank's Current Report on Form 8-K filed with the FDIC on July 16, 2018, and incorporated herein by reference).
4.3	Description of Bank OZK's common stock registered under Section 12 of the Securities Exchange Act of 1934 (previously filed as Exhibit 4.3 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 28, 2020, and incorporated herein by reference).
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 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 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.

*Management contract or a compensatory plan or arrangement.

Exhibit 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 OZK;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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: November 9, 2020

/s/ George Gleason
George Gleason
Chairman and Chief Executive Officer

Exhibit 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 OZK;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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: November 9, 2020

/s/ Greg McKinney
Greg McKinney
Chief Financial Officer

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 OZK (the Bank) on Form 10-Q for the period ended September 30, 2020, as filed with the Federal Deposit Insurance Corporation on the date hereof (the Report), I, George Gleason, Chairman and Chief Executive Officer of the Bank, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

November 9, 2020

/s/ George Gleason
George Gleason
Chairman and Chief Executive Officer

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 OZK (the Bank) on Form 10-Q for the period ended September 30, 2020, as filed with the Federal Deposit Insurance Corporation on the date hereof (the Report), I, Greg McKinney, Chief Financial Officer of the Bank, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

November 9, 2020

/s/ Greg McKinney
Greg McKinney
Chief Financial Officer