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 March 31, 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)**
17901 CHENAL PARKWAY, 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 April 30, 2020
Common Stock, $0.01 par value per share	129,318,521

BANK OZK
FORM 10-Q
March 31, 2020

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BANK OZK
CONSOLIDATED BALANCE SHEETS
Unaudited

	March 31, 2020	December 31, 2019
	(Dollars in thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 1,347,729	$ 1,495,757
Investment securities – available for sale (“AFS”)	2,816,556	2,277,389
Federal Home Loan Bank of Dallas ("FHLB") and other banker's bank stocks	50,614	21,855
Non-purchased loans	17,030,378	16,224,539
Purchased loans	1,197,826	1,307,504
Allowance for loan losses	(238,737)	(108,525)
Net loans	17,989,467	17,423,518
Premises and equipment, net	723,371	711,541
Foreclosed assets	20,616	19,096
Accrued interest receivable	82,827	75,208
Bank owned life insurance (“BOLI”)	743,406	738,860
Goodwill and other intangible assets, net	681,747	684,542
Other, net	109,477	107,962
Total assets	$ 24,565,810	$ 23,555,728
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Deposits:		
Demand non-interest bearing	$ 3,003,305	$ 2,795,251
Savings and interest bearing transaction	7,465,757	8,307,607
Time	8,340,128	7,371,401
Total deposits	18,809,190	18,474,259
Repurchase agreements with customers	3,821	11,249
Other borrowings	1,051,353	351,387
Subordinated notes	223,759	223,663
Subordinated debentures	120,055	119,916
Reserve for losses on unfunded loan commitments	77,672	—
Accrued interest payable and other liabilities	193,701	221,786
Total liabilities	20,479,551	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 March 31, 2020 or December 31, 2019	—	—
Common stock; $0.01 par value; 300,000,000 shares authorized; 129,324,435 and 128,951,024 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively	1,293	1,289
Additional paid-in capital	2,253,991	2,251,824
Retained earnings	1,772,978	1,869,983
Accumulated other comprehensive income	54,888	27,255
Total stockholders’ equity before noncontrolling interest	4,083,150	4,150,351
Noncontrolling interest	3,109	3,117
Total stockholders’ equity	4,086,259	4,153,468
Total liabilities and stockholders’ equity	$ 24,565,810	$ 23,555,728

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF INCOME
Unaudited

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(Dollars in thousands, except per share amounts)	
Interest income:		
Non-purchased loans	$ 231,853	$ 245,864
Purchased loans	21,387	30,195
Investment securities:		
Taxable	10,760	14,897
Tax-exempt	3,597	3,873
Deposits with banks and federal funds sold	4,376	414
Total interest income	271,973	295,243
Interest expense:		
Deposits	57,682	63,087
Repurchase agreements with customers	6	22
Other borrowings	50	1,389
Subordinated notes	3,172	3,146
Subordinated debentures	1,288	1,711
Total interest expense	62,198	69,355
Net interest income	209,775	225,888
Provision for credit losses	117,663	6,681
Net interest income after provision for credit losses	92,112	219,207
Non-interest income:		
Service charges on deposit accounts	10,009	9,722
Trust income	1,939	1,730
BOLI income:		
Increase in cash surrender value	5,067	5,162
Death benefits	608	—
Other income from purchased loans	—	795
Loan service, maintenance and other fees	3,716	4,874
Gains on sales of other assets	161	284
Net gains on investment securities	2,223	—
Other	3,957	1,505
Total non-interest income	27,680	24,072
Non-interest expense:		
Salaries and employee benefits	51,473	44,868
Net occupancy and equipment	15,330	14,750
Other operating expenses	36,622	37,060
Total non-interest expense	103,425	96,678
Income before taxes	16,367	146,601
Provision for income taxes	4,509	35,889
Net income	11,858	110,712
Earnings attributable to noncontrolling interest	8	(6)
Net income available to common stockholders	$ 11,866	$ 110,706
Basic earnings per common share	$ 0.09	$ 0.86
Diluted earnings per common share	$ 0.09	$ 0.86

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited

	Three Months Ended March 31,	
	2020	2019
	(Dollars in thousands)	
Net income	$ 11,858	$ 110,712
Other comprehensive income:		
Unrealized gains and losses on investment securities AFS	38,860	37,420
Tax effect of unrealized gains and losses on investment securities AFS	(9,549)	(8,991)
Reclassification of gains and losses on investment securities AFS included in net income	(2,223)	—
Tax effect of reclassification of gains and losses on investment securities AFS included in net income	545	—
Total other comprehensive income	27,633	28,429
Total comprehensive income	$ 39,491	$ 139,141

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 (Loss)	Non-Controlling Interest	Total
	(Dollars in thousands, except per share amounts)					
Three months ended March 31, 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, as adjusted	1,289	2,251,824	1,794,639	27,255	3,117	4,078,124
Net income	—	—	11,858	—	—	11,858
Earnings attributable to noncontrolling interest	—	—	8	—	(8)	—
Total other comprehensive income	—	—	—	27,633	—	27,633
Common stock dividends paid, $0.26 per share	—	—	(33,527)	—	—	(33,527)
Issuance of 4,300 shares of common stock for exercise of stock options	—	45	—	—	—	45
Issuance of 447,085 shares of unvested restricted common stock	4	(4)	—	—	—	—
Repurchase and cancellation of 61,873 shares of common stock	—	(1,853)	—	—	—	(1,853)
Stock-based compensation expense	—	3,979	—	—	—	3,979
Forfeiture of 16,101 shares of unvested restricted common stock	—	—	—	—	—	—
Balances – March 31, 2020	$ 1,293	$2,253,991	$1,772,978	$ 54,888	$ 3,109	$4,086,259
Three months ended March 31, 2019:						
Balances – December 31, 2018	$ 1,286	$2,237,948	$1,565,201	$ (34,105)	$ 3,035	$3,773,365
Net income	—	—	110,712	—	—	110,712
Earnings attributable to noncontrolling interest	—	—	(6)	—	6	—
Total other comprehensive income	—	—	—	28,429	—	28,429
Common stock dividends paid, $0.22 per share	—	—	(28,281)	—	—	(28,281)
Noncontrolling interest cash contribution	—	—	—	—	80	80
Issuance of 29,300 shares of common stock for exercise of stock options	—	387	—	—	—	387
Issuance of 383,874 shares of unvested restricted common stock	4	(4)	—	—	—	—
Repurchase and cancellation of 62,742 shares of common stock	(1)	(1,646)	—	—	—	(1,647)
Stock-based compensation expense	—	2,719	—	—	—	2,719
Forfeiture of 13,953 shares of unvested restricted common stock	—	—	—	—	—	—
Balances – March 31, 2019	$ 1,289	$2,239,404	$1,647,626	$ (5,676)	$ 3,121	$3,885,764

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Three Months Ended March 31,	
	2020	2019
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 11,858	$ 110,712
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,838	5,405
Amortization	3,029	3,377
Earnings attributable to noncontrolling interest	8	(6)
Provision for credit losses	117,663	6,681
Provision for losses on foreclosed and other assets	879	562
Net amortization of investment securities AFS	4,023	4,636
Net gains on investment securities	(2,223)	—
Amortization of operating lease right-of-use assets	1,925	1,838
Accretion of purchased loans	(6,616)	(6,810)
Gains on sales of other assets	(161)	(284)
Deferred income tax expense (benefit)	4,195	(69,931)
Increase in cash surrender value of BOLI	(5,067)	(5,162)
BOLI death benefits in excess of cash surrender value	(608)	—
Stock-based compensation expense	3,979	2,719
Changes in assets and liabilities:		
Accrued interest receivable	(7,619)	(3,577)
Other assets, net	2,379	31,181
Accrued interest payable and other liabilities	(31,217)	58,172
Cash provided by operating activities	102,265	139,513
Cash flows from investing activities:		
Proceeds from sales of FHLB and other banker's bank stock	—	20,075
Purchases of FHLB and other bankers' bank stock	(28,759)	—
Proceeds from maturities/calls/paydowns of investment securities AFS	123,220	125,529
Proceeds from sale of investment securities AFS	29,068	—
Purchases of investment securities AFS	(656,618)	(6,229)
Net increase of non-purchased loans	(777,616)	(513,120)
Net payments received on purchased loans	84,685	157,497
Purchases of premises and equipment	(16,793)	(27,560)
Proceeds from BOLI death benefits	1,130	235
Proceeds from sales of other assets	2,947	3,702
Cash invested in unconsolidated investments and noncontrolling interest	(3,691)	(1,278)
Net cash used by investing activities	(1,242,427)	(241,149)
Cash flows from financing activities:		
Net increase in deposits	334,931	538,453
Net proceeds from (repayments of) other borrowings	699,966	(95,203)
Net (decrease) increase in repurchase agreements with customers	(7,428)	4,953
Proceeds from exercise of stock options	45	387
Cash dividends paid on common stock	(33,527)	(28,281)
Repurchase and cancellation of shares of common stock	(1,853)	(1,647)
Net cash provided by financing activities	992,134	418,662
Net (decrease) increase in cash and cash equivalents	(148,028)	317,026
Cash and cash equivalents – beginning of period	1,495,757	290,672
Cash and cash equivalents – end of period	$ 1,347,729	$ 607,698

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 March 31, 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").

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 months ended March 31, 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 method 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 method 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 will be 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 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 estimates, a risk rating is assigned. The Bank utilizes this risk rating in assigning and 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 guarantee 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.

From the score card categories above, the Bank obtains a score card estimate of credit loss for all loans, except loans that are removed from the score card ACL process and are assessed individually.

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 includes 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 performs 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 are 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 forecast 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 March 31, 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 weeks, model data limitations, and other factors. In determining the ACL, the Bank utilizes a reasonable and supportable forecast period which, as of March 31, 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 method that requires 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 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 are 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.

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 1,747,158 shares and 1,863,973 shares of the Bank's common stock for the three months ended March 31, 2020 and 2019, respectively, 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 as of March 31, 2020 or 2019.

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(In thousands, except per share amounts)	
Numerator:		
Distributed earnings allocated to common stockholders	$ 33,527	$ 28,281
Undistributed (losses) earnings allocated to common stockholders	(21,661)	82,425
Net income available to common stockholders	$ 11,866	$ 110,706
Denominator:		
Denominator for basic EPS – weighted-average common shares	129,235	128,848
Effect of dilutive securities – stock options and restricted stock units	72	116
Denominator for diluted EPS – weighted-average common shares and assumed conversions	129,307	128,964
Basic EPS	$ 0.09	$ 0.86
Diluted EPS	$ 0.09	$ 0.86

4. Investment Securities AFS

At both March 31, 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, reported as a separate component of stockholders' equity and included in accumulated other comprehensive income.

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
March 31, 2020:				
Obligations of state and political subdivisions	$ 1,125,615	$ 22,216	$ (570)	$ 1,147,261
U.S. Government agency mortgage-backed securities	1,612,974	50,969	(28)	1,663,915
Corporate obligations	5,239	141	—	5,380
Total investment securities AFS	$ 2,743,828	$ 73,326	$ (598)	$ 2,816,556
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)			
March 31, 2020:						
Obligations of state and political subdivisions	$ 37,999	$ 557	$ 4,535	$ 13	$ 42,534	$ 570
U.S. Government agency mortgage-backed securities	1,083	9	2,692	19	3,775	28
Total temporarily impaired investment securities	$ 39,082	$ 566	$ 7,227	$ 32	$ 46,309	$ 598
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 temporarily impaired investment securities	$ 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. At both March 31, 2020 and December 31, 2019, management determined the unrealized losses were the result of fluctuations in interest rates and did not reflect deteriorations of the credit quality of the investments. 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 March 31, 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 March 31, 2020.

Maturity or Estimated Repayment	Amortized Cost	Estimated Fair Value
One year or less	$ 639,757	$ 655,013
After one year to five years	1,171,419	1,205,510
After five years to ten years	256,243	268,495
After ten years	676,409	687,538
Total	$ 2,743,828	$ 2,816,556

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 March 31, 2020, the Bank had approximately $318 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 March 31,	
	2020	2019
	(Dollars in thousands)	
Sales proceeds	$ 29,068	$ —
Gross realized gains	2,223	—
Gross realized losses	—	—
Net gains on investment securities	$ 2,223	$ —

The Bank had net gains of $2.2 million from the sale of approximately $26.9 million of investment securities AFS for the three months ended March 31, 2020, compared to no sales activity within its investment securities AFS for the three months ended March 31, 2019. The Bank sold approximately $20.1 million of FHLB and other banker's bank stocks during the three months ended March 31, 2019 (none in the three months ended March 31, 2020).

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 Loan Commitments	Total Allowance for Credit Losses
		(Dollars in thousands)	
Three months ended March 31, 2020:			
Balances – December 31, 2019	$ 108,525	$ —	$ 108,525
Adoption of CECL	39,588	54,924	94,512
Balances – January 1, 2020	148,113	54,924	203,037
Net charge-offs	(4,291)	—	(4,291)
Provision	94,915	22,748	117,663
Balances – March 31, 2020	$ 238,737	$ 77,672	$ 316,409
Three months ended March 31, 2019:			
Balances – December 31, 2018	$ 102,264	$ —	$ 102,264
Net charge-offs	(2,991)	—	(2,991)
Provision	6,681	—	6,681
Balances – March 31, 2019	$ 105,954	$ —	$ 105,954

The calculations of the Bank's provision expense for the first quarter of 2020 and its total ACL at March 31, 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 March 27, 2020 and certain of their other economic scenarios, including forecasts with both more and less severe outcomes than their baseline forecast. These forecasts were based on 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. The Moody's March 27, 2020 baseline forecast, which was the most heavily weighted of the Moody's forecasts used, assumed a GDP growth rate of negative 18% and an unemployment rate of nearly 9% in the second quarter of 2020, followed by a recovery in the second half of 2020. Management also utilized certain qualitative overlays 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 March 31, 2020:						
Funded loans:						
Real estate:						
Residential 1-4 family	$ 14,008	$ 4,004	$ (92)	$ 196	$ 1,811	$ 19,927
Non-farm/non-residential	17,289	12,587	(752)	18	16,493	45,635
Construction/land development	26,295	21,427	—	37	42,080	89,839
Agricultural	1,719	978	—	1	343	3,041
Multifamily residential	5,477	(2,277)	—	—	5,105	8,305
Commercial and industrial	5,961	6,376	(433)	62	3,564	15,530
Consumer	32,466	(5,870)	(2,946)	231	19,520	43,401
Other	5,310	2,363	(845)	232	5,999	13,059
Total funded loans	108,525	39,588	(5,068)	777	94,915	238,737
Unfunded loan commitments	—	54,924	—	—	22,748	77,672
Total loans	$ 108,525	$ 94,512	$ (5,068)	$ 777	$ 117,663	$ 316,409
Three months ended March 31, 2019:						
Funded loans:						
Real estate:						
Residential 1-4 family	$ 13,754	$ —	$ (93)	$ 82	$ 218	$ 13,961
Non-farm/non-residential	18,456	—	(34)	8	(290)	18,140
Construction/land development	27,103	—	—	2	1,412	28,517
Agricultural	1,343	—	—	—	136	1,479
Multifamily residential	6,208	—	—	—	1,118	7,326
Commercial and industrial	9,256	—	(741)	109	(373)	8,251
Consumer	21,982	—	(2,246)	461	4,617	24,814
Other	4,162	—	(742)	203	(157)	3,466
Total funded loans	102,264	—	(3,856)	865	6,681	105,954
Unfunded loan commitments	—	—	—	—	—	—
Total loans	$ 102,264	$ —	$ (3,856)	$ 865	$ 6,681	$ 105,954

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)		
March 31, 2020:			
Real estate:			
Residential 1-4 family	$ 10,043	$ 10,990	$ 21,033
Non-farm/non-residential	7,290	17,454	24,744
Construction/land development	707	4,293	5,000
Agricultural	2,020	125	2,145
Multifamily residential	—	—	—
Commercial and industrial	2,247	305	2,552
Consumer	1,628	5,506	7,134
Other	357	29	386
Total	$ 24,292	$ 38,702	$ 62,994

(1) Includes $12.2 million of non-purchased and $12.1 million of purchased nonaccrual loans with ALL at March 31, 2020.
(2) Includes $13.5 million of non-purchased and $25.2 million of purchased nonaccrual loans with no ALL at March 31, 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	30,676	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	$ 105,062	$ 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 March 31, 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 months ended March 31, 2020 and impaired loans for the three months ended March 31, 2019 was not material.

Credit Quality Indicators

Non-Purchased and Purchased Loans

The following table provides the credit quality indicators for the Bank's non-purchased and purchased loans by loan segment and period of origination as of the date indicated. At March 31, 2020, the Bank had no loans risk rated as doubtful or loss. Loans in the table above are presented on an amortized cost basis which includes unamortized fees and costs but excludes accrued interest.

	Period of Origination							
	Three Months Ended March 31, 2020	Year Ended December 31, 2019	2018	2017	2016	Prior to January 1, 2016	Revolving Loans Amortized Cost Basis	Total
	(Dollars in thousands)							
March 31, 2020:								
Residential 1-4 family[(1)]:								
Pass	$ 39,394	$ 145,700	$ 113,407	$ 97,073	$ 80,555	$ 334,153	$ 159,688	$ 969,970
Special Mention	179	1,902	2,540	1,731	603	4,647	3,137	14,739
Substandard	8	881	3,166	2,130	1,142	16,695	816	24,838
Total residential 1-4 family	39,581	148,483	119,113	100,934	82,300	355,495	163,641	1,009,547
Non-farm/non-residential:								
Pass	475,317	283,618	512,053	1,191,420	660,171	1,209,342	49,491	4,381,412
Special Mention	—	545	3,695	317	1,474	85,955	419	92,405
Substandard	—	—	367	284	3,903	32,113	—	36,667
Total non-farm/ non-residential	475,317	284,163	516,115	1,192,021	665,548	1,327,410	49,910	4,510,484
Construction/land development:								
Pass	159,008	1,413,962	1,584,720	2,375,338	553,837	135,376	58,488	6,280,729
Special Mention	1,038	3,970	14,394	2,397	379	2,466	1,530	26,174
Substandard	—	—	822	1,086	11,310	3,270	56,950	73,438
Total construction/ land development	160,046	1,417,932	1,599,936	2,378,821	565,526	141,112	116,968	6,380,341
Agricultural:								
Pass	17,861	79,791	35,905	49,545	27,192	18,053	3,840	232,187
Special Mention	—	—	395	—	—	175	—	570
Substandard	—	—	941	167	125	1,660	—	2,893
Total agricultural	17,861	79,791	37,241	49,712	27,317	19,888	3,840	235,650
Multifamily residential:								
Pass	25,890	20,580	97,989	721,065	328,991	138,955	476	1,333,946
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	817	—	817
Total multifamily residential	25,890	20,580	97,989	721,065	328,991	139,772	476	1,334,763
Commercial and industrial:								
Pass	29,073	77,809	218,293	93,683	9,509	34,877	183,292	646,536
Special Mention	5	36	4,974	27,481	137	506	3,813	36,952
Substandard	—	—	2,308	3,002	37	1,561	—	6,908
Total commercial and industrial	29,078	77,845	225,575	124,166	9,683	36,944	187,105	690,396
Consumer[(1)]:								
Pass	178,040	1,034,691	912,703	447,876	180,231	181,488	4,458	2,939,487
Special Mention	2	281	910	795	390	988	49	3,415
Substandard	39	36	404	86	352	6,233	3	7,153
Total consumer	178,081	1,035,008	914,017	448,757	180,973	188,709	4,510	2,950,055
Other[(1)]:								
Pass	21,312	464,204	333,839	272,069	502	12,090	12,354	1,116,370
Special Mention	—	—	—	—	—	—	211	211
Substandard	—	—	3	377	—	7	—	387
Total other	21,312	464,204	333,842	272,446	502	12,097	12,565	1,116,968
Total	$ 947,166	$ 3,528,006	$ 3,843,828	$ 5,287,922	$ 1,860,840	$ 2,221,427	$ 539,015	$ 18,228,204

(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 loans as of the date indicated. At March 31, 2020, the Bank had no loans risk rated as doubtful or loss.

	Pass	Special Mention	Substandard	Total
	(Dollars in thousands)			
March 31, 2020:				
Real estate:				
Residential 1-4 family[(1)]	$ 969,970	$ 14,739	$ 24,838	$ 1,009,547
Non-farm/non-residential	4,381,412	92,405	36,667	4,510,484
Construction/land development	6,280,729	26,174	73,438	6,380,341
Agricultural	232,187	570	2,893	235,650
Multifamily residential	1,333,946	—	817	1,334,763
Commercial and industrial	646,536	36,952	6,908	690,396
Consumer[(1)]	2,939,487	3,415	7,153	2,950,055
Other[(1)]	1,116,370	211	387	1,116,968
Total	$ 17,900,637	$ 174,466	$ 153,101	$ 18,228,204

(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 March 31, 2020, 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.

Beginning January 1, 2020, 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)			
March 31, 2020:						
Real estate:						
Residential 1-4 family	$ 13,040	$ 1,257	$ 6,782	$ 21,079	$ 988,468	$ 1,009,547
Non-farm/non-residential	3,952	1,683	14,569	20,204	4,490,280	4,510,484
Construction/land development	1,311	143	4,323	5,777	6,374,564	6,380,341
Agricultural	874	65	1,288	2,227	233,423	235,650
Multifamily residential	—	—	—	—	1,334,763	1,334,763
Commercial and industrial	525	388	1,808	2,721	687,675	690,396
Consumer	3,018	841	5,781	9,640	2,940,415	2,950,055
Other	70	11	—	81	1,116,887	1,116,968
Total	$ 22,790	$ 4,388	$ 34,551	$ 61,729	$18,166,475	$18,228,204
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 $5.1 million and $3.0 million of loans on nonaccrual status at March 31, 2020 and December 31, 2019, respectively.
(2) Includes $2.0 million and $4.8 million of loans on nonaccrual status at March 31, 2020 and December 31, 2019, respectively.
(3) All loans greater than 90 days past due were on nonaccrual status at March 31, 2020 and December 31, 2019.
(4) Includes $21.4 million and $18.0 million of loans on nonaccrual status at March 31, 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 right-of-use asset, which totaled $64.7 million at March 31, 2020, is included in premises and equipment, net and the Bank's lease liability, which totaled $65.5 million at March 31, 2020, is included in accrued interest payable and other liabilities on the Bank's consolidated balance sheet. At March 31, 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 of 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 month period ended March 31, 2020, the Bank incurred $2.8 million 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 ended March 31, 2020. At March 31, 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 16.2 years and 3.4%, respectively.

7. Goodwill and Intangible Assets

At March 31, 2020 and December 31, 2019, the Bank had goodwill totaling $660.8 million. This resultant 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 impairment analysis 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, 2019. Subsequent to the September 30, 2019 annual impairment test, the Bank performed additional goodwill impairment tests as of December 31, 2019 and as of March 31, 2020. Both the annual impairment test and the subsequent impairment tests 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, 2019 and the subsequent impairment tests as of December 31, 2019 and March 31, 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.

	Three Months Ended March 31,	
	2020	2019
	(Dollars in thousands)	
Cash paid (received) during the period for:		
Interest	$ 65,762	$ 69,984
Taxes	6,141	(4,613)
Supplemental schedule of non-cash investing and financing activities:		
Net change in unrealized gains/losses on investment securities AFS	36,637	37,420
Loans and other assets transferred to foreclosed assets	5,190	1,869

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 March 31, 2020 was $9.6 million. The Bank holds collateral to support guarantees when deemed necessary. Collateralized commitments at March 31, 2020 totaled $8.9 million.

At March 31, 2020, the Bank had outstanding commitments totaling $11.33 billion to extend credit, consisting primarily of loans closed but not yet funded. These commitments may or may not fund in whole or part prior to maturity; however, such funding is subject to a number of factors, including, among others, economic conditions, real estate market conditions and competitive factors.

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

Contractual Maturities at March 31, 2020	
Maturity	Amount
(Dollars in thousands)	
2020	$ 1,221,921
2021	2,573,005
2022	2,965,842
2023	2,873,521
2024	1,440,313
Thereafter	260,135
Total	$ 11,334,737

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 of the Board of Directors ("P&C Committee").

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 March 31, 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 ended March 31, 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)
Three Months Ended March 31, 2020:				
Outstanding – January 1, 2020	1,857,212	$ 45.60		
Granted	—	—		
Exercised	(4,300)	10.59		
Forfeited	(29,083)	46.76		
Outstanding – March 31, 2020	1,823,829	45.66	3.8	$ 31.0 (1)
Fully vested and exercisable – March 31, 2020	1,131,500	$ 46.57	2.9	$ 31.0 (1)

(1) Based on closing price of $16.70 per share on March 31, 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 was not material during the three months ended March 31, 2020 and was approximately $0.5 million during the three months ended March 31, 2019.

Stock-based compensation expense for stock options included in non-interest expense was $0.6 million and $0.8 million for the three months ended March 31, 2020 and 2019, respectively. Total unrecognized compensation cost related to non-vested stock option grants was $2.6 million at March 31, 2020 and is expected to be recognized over a weighted-average period of 1.2 years.

During the three months ended March 31, 2020, the Bank issued 447,085 shares of restricted common stock 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.

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
Three Months Ended March 31, 2020:			
Outstanding – January 1, 2020	682,200	—	682,200
Granted	—	447,085	447,085
Forfeited	(8,514)	(7,587)	(16,101)
Vested	(159,928)	(5,117)	(165,045)
Outstanding – March 31, 2020	513,758	434,381	948,139
Weighted-average grant date fair value	$ 37.57	$ 28.11	$ 33.24

Restricted stock awards totaling 447,085 shares with a weighted-average grant date fair value of $28.11 were granted pursuant to the Omnibus Plan during the three months ended March 31, 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 $3.0 million and $1.6 million for the three months ended March 31, 2020 and 2019. Unrecognized compensation expense for non-vested restricted stock awards was $20.1 million at March 31, 2020 and is expected to be recognized over a weighted-average period of 2.3 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.

	Three Months Ended March 31, 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.

	Three Months Ended March 31, 2020
Outstanding – January 1, 2020	141,870
Granted	175,065
Forfeited	—
Outstanding – March 31, 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 $0.4 million for the three months ended March 31, 2020. Unrecognized compensation expense for non-vested PSU awards was $7.2 million at March 31, 2020 and is expected to be recognized over a weighted-average period of 2.4 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 March 31, 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)		
March 31, 2020:				
Investment securities AFS :				
U.S. Government agency mortgage-backed securities	$ —	$ 1,663,915	$ —	$ 1,663,915
Obligations of state and political subdivisions	—	1,133,839	13,422	1,147,261
Corporate obligations	—	5,380	—	5,380
Total investment securities AFS	—	2,803,134	13,422	2,816,556
Nonaccrual loans	—	—	62,994	62,994
Foreclosed assets	—	—	20,616	20,616
Total assets at fair value	$ —	$ 2,803,134	$ 97,032	$ 2,900,166
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 March 31, 2020	Technique	Unobservable Inputs
	(Dollars in thousands)		
Nonaccrual loans	$ 62,994	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	$ 20,616	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 March 31, 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 $13.4 million at March 31, 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 March 31, 2020, the third parties' pricing matrices valued the Bank's portfolio of private placement bonds at $13.4 million, which was approximately the same as the aggregate par value of the private placement bonds. Accordingly, at March 31, 2020, the Bank reported the private placement bonds at $13.4 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 March 31, 2020 the Bank had reduced the carrying value of its nonaccrual loans by $7.7 million to the estimated fair value of $63.0 million. The $7.7 million adjustment to reduce the carrying value of such nonaccrual loans to estimated fair value consisted of $1.0 million of partial charge-offs and $6.7 million of specific allowance allocations for loan 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 March 31, 2020, the Bank had $20.6 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	(5)
Paydowns and maturities	(676)
Sales	—
Transfers in and/or out of Level 3	—
Balance – March 31, 2020	$ 13,422
Balance – December 31, 2018	$ 15,236
Total realized gains (losses) included in earnings	—
Total unrealized gains (losses) included in comprehensive income	207
Paydowns and maturities	(713)
Sales	—
Transfers in and/or out of Level 3	—
Balance – March 31, 2019	$ 14,730

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 March 31, 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 the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

The following table presents the carrying amounts and estimated fair values as of the dates indicated and the fair value hierarchy of the Bank's financial instruments.

		March 31, 2020		December 31, 2019	
	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
		(Dollars in thousands)			
Financial assets:					
Cash and cash equivalents	Level 1	$ 1,347,729	$ 1,347,729	$ 1,495,757	$ 1,495,757
Investment securities AFS	Levels 2 and 3	2,816,556	2,816,556	2,277,389	2,277,389
Loans, net of ALL	Level 3	17,989,467	18,012,328	17,423,518	17,487,910
Financial liabilities:					
Demand, savings and interest bearing transaction deposits	Level 1	$ 10,469,062	$ 10,469,062	$11,102,858	$ 11,102,858
Time deposits	Level 2	8,340,128	8,371,263	7,371,401	7,372,832
Repurchase agreements with customers	Level 1	3,821	3,821	11,249	11,249
Other borrowings	Level 2	1,051,353	1,049,438	351,387	351,392
Subordinated notes	Level 2	223,759	227,123	223,663	224,651
Subordinated debentures	Level 2	120,055	104,918	119,916	106,494

13. Repurchase Agreements With Customers

At March 31, 2020 and December 31, 2019, securities sold under agreements to repurchase ("repurchase agreements") totaled $3.8 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 March 31,	
	2020	2019
	(Dollars in thousands)	
Beginning balance of AOCI – unrealized gains and losses on investment securities AFS	$ 27,255	$ (34,105)
Other comprehensive income:		
Unrealized gains and losses on investment securities AFS	38,860	37,420
Tax effect of unrealized gains and losses on investment securities AFS	(9,549)	(8,991)
Amounts reclassified from AOCI	(2,223)	—
Tax effect of amounts reclassified from AOCI	545	—
Total other comprehensive income	27,633	28,429
Ending balance of AOCI – unrealized gains and losses on investment securities AFS	$ 54,888	$ (5,676)

15. Other Operating Expenses

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

	Three Months Ended March 31,	
	2020	2019
	(Dollars in thousands)	
Professional and outside services	$ 7,043	$ 8,564
Software and data processing	4,974	4,709
Deposit insurance and assessments	3,420	3,652
Telecommunication services	2,177	3,344
Travel and meals	2,102	2,669
Postage and supplies	2,053	2,103
Advertising and public relations	1,703	1,683
ATM expense	1,160	987
Loan collection and repossession expense	694	984
Writedowns of foreclosed and other assets	879	562
Amortization of intangibles	2,795	3,145
Other	7,622	4,658
Total other operating expense	$ 36,622	$ 37,060

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 the Bank's annual goodwill impairment test or any of its subsequent interim goodwill impairment tests, 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 is not affected by these amendments. ASU 2018-15 was effective for interim and annual periods beginning after December 15, 2019. The Bank adopted ASU 2018-15 on a prospective basis beginning January 1, 2020 and 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 is currently evaluating the effect that ASU 2019-12 may have, if any, on its 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, other income from purchased loans, loan service, maintenance and other fees, and gains (losses) on investment securities and sales of other assets; non-interest expense; efficiency ratio; 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 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 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 London Interbank Offered Rates (“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; 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”) model 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 ended March 31, 2020 and 2019 and supplemental unaudited quarterly financial data for each of the most recent eight quarters beginning with the second quarter of 2018 through the first 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 calculations of our tangible book value per common share and our annualized returns on average tangible common stockholders' equity and the reconciliations to generally accepted accounting principles ("GAAP") are included in this MD&A under "Capital Management" in this quarterly report on Form 10-Q.

Selected Consolidated Financial Data

	Three Months Ended March 31,	
	2020	2019
	(Dollars in thousands, except per share amounts)	
Income statement data:		
Interest income	$ 271,973	$ 295,243
Interest expense	62,198	69,355
Net interest income	209,775	225,888
Provision for credit losses	117,663	6,681
Non-interest income	27,680	24,072
Non-interest expense	103,425	96,678
Net income available to common stockholders	11,866	110,706
Common share and per common share data:		
Earnings – diluted	$ 0.09	$ 0.86
Book value	31.57	30.11
Tangible book value	26.30	24.73
Cash dividends per share	0.26	0.22
Weighted-average diluted shares outstanding (thousands)	129,307	128,964
End of period shares outstanding (thousands)	129,324	128,948
Balance sheet data at period end:		
Total assets	$ 24,565,810	$ 23,005,652
Total loans	18,228,204	17,475,396
Non-purchased loans	17,030,378	15,610,681
Purchased loans	1,197,826	1,864,715
Allowance for loan losses	238,737	105,954
Foreclosed assets	20,616	14,096
Investment securities – AFS	2,816,556	2,769,602
Goodwill and other intangible assets, net	681,747	693,316
Deposits	18,809,190	18,476,868
Other borrowings	1,051,353	1,489
Subordinated notes	223,759	223,375
Subordinated debentures	120,055	119,496
Unfunded balance of closed loans	11,334,737	11,544,218
Reserve for losses on unfunded loan commitments	77,672	—
Total common stockholders' equity	4,083,150	3,882,643
Loan (including purchased loans) to deposit ratio	96.91 %	94.58 %
Average balance sheet data:		
Total average assets	$ 23,794,433	$ 22,556,365
Total average common stockholders' equity	4,118,614	3,813,979
Average common equity to average assets	17.31 %	16.91 %
Performance ratios:		
Return on average assets[(1)]	0.20 %	1.99 %
Return on average common stockholders' equity[(1)]	1.16	11.77
Return on average tangible common stockholders' equity[(1)]	1.39	14.40
Net interest margin – FTE[(1)]	3.96	4.53
Efficiency ratio	43.35	38.49
Common stock dividend payout ratio	182.59	25.54
Asset Quality ratios:		
Net charge-offs to average non-purchased loans[(1)(2)]	0.08 %	0.05 %
Net charge-offs to average total loans[(1)]	0.10	0.07
Nonperforming loans to total loans[(3)]	0.16	0.22
Nonperforming assets to total assets[(3)]	0.19	0.21
Allowance for loan losses as a percentage of:[(4)]		
Total loans	1.31 %	0.61 %
Nonperforming loans[(3)]	903 %	313 %
Capital ratios at period end:		
Common equity tier 1	13.04 %	12.66 %
Tier 1 risk based capital	13.04	12.66
Total risk based capital	15.36	14.45
Tier 1 leverage	14.62	14.52

(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

	6/30/18	9/30/18	12/31/18	3/31/19	6/30/19	9/30/19	12/31/19	3/31/20
				(Dollars in thousands)				
Earnings Summary:								
Net interest income	$ 224,661	$ 220,614	$ 228,382	$ 225,888	$ 224,536	$ 218,780	$ 214,977	$ 209,775
Federal tax (FTE) adjustment	1,151	1,132	1,219	1,207	1,136	1,038	1,028	1,133
Net interest income (FTE)	225,812	221,746	229,601	227,095	225,672	219,818	216,005	210,908
Provision for credit losses	(9,610)	(41,949)	(7,271)	(6,681)	(6,769)	(7,854)	(4,938)	(117,663)
Non-interest income	27,386	24,121	27,560	24,072	26,603	26,446	30,406	27,680
Non-interest expense	(89,107)	(102,942)	(94,893)	(96,678)	(99,131)	(100,914)	(104,406)	(103,425)
Pretax income (FTE)	154,481	100,976	154,997	147,808	146,375	137,496	137,067	17,500
FTE adjustment	(1,151)	(1,132)	(1,219)	(1,207)	(1,136)	(1,038)	(1,028)	(1,133)
Provision for income taxes	(38,589)	(25,665)	(38,750)	(35,889)	(34,726)	(32,574)	(35,240)	(4,509)
Noncontrolling interest	10	1	3	(6)	(10)	7	7	8
Net income available to common stockholders	$ 114,751	$ 74,180	$ 115,031	$ 110,706	$ 110,503	$ 103,891	$ 100,806	$ 11,866
Earnings per common share – diluted	$ 0.89	$ 0.58	$ 0.89	$ 0.86	$ 0.86	$ 0.81	$ 0.78	$ 0.09
Non-interest Income:								
Service charges on deposit accounts	$ 9,704	$ 9,730	$ 10,585	$ 9,722	$ 10,291	$ 10,827	$ 10,933	$ 10,009
Trust income	1,591	1,730	1,821	1,730	1,839	1,975	2,010	1,939
BOLI income:								
Increase in cash surrender value	5,259	5,321	5,269	5,162	5,178	5,208	5,167	5,067
Death benefits	—	—	482	—	—	206	2,989	608
Other income from purchased loans	2,744	1,418	2,370	795	1,455	674	759	—
Loan service, maintenance and other fees	5,641	4,724	5,245	4,874	4,565	4,197	4,282	3,716
Gains (losses) on sales of other assets	844	(518)	465	284	402	189	1,358	161
Net gains on investment securities	—	—	—	—	713	—	—	2,223
Other	1,603	1,716	1,323	1,505	2,160	3,170	2,908	3,957
Total non-interest income	$ 27,386	$ 24,121	$ 27,560	$ 24,072	$ 26,603	$ 26,446	$ 30,406	$ 27,680
Non-interest Expense:								
Salaries and employee benefits	$ 41,665	$ 41,477	$ 41,837	$ 44,868	$ 47,558	$ 48,376	$ 52,050	$ 51,473
Net occupancy expense	13,827	14,358	14,027	14,750	14,587	14,825	14,855	15,330
Other operating expenses	33,615	47,107	39,029	37,060	36,986	37,713	37,501	36,622
Total non-interest expense	$ 89,107	$ 102,942	$ 94,893	$ 96,678	$ 99,131	$ 100,914	$ 104,406	$ 103,425
Balance Sheet Data:								
Total assets	$ 22,220,380	$ 22,086,539	$ 22,388,030	$ 23,005,652	$ 22,960,731	$ 23,402,679	$ 23,555,728	$ 24,565,810
Non-purchased loans	14,183,533	14,440,623	15,073,791	15,610,681	15,786,809	16,307,621	16,224,539	17,030,378
Purchased loans	2,580,341	2,285,168	2,044,032	1,864,715	1,698,396	1,427,230	1,307,504	1,197,826
Investment securities – AFS	2,608,439	2,669,877	2,862,340	2,769,602	2,548,489	2,414,722	2,277,389	2,816,556
Deposits	17,897,085	17,822,915	17,938,415	18,476,868	18,186,215	18,440,078	18,474,259	18,809,190
Unfunded balance of closed loans	11,999,661	11,891,247	11,364,975	11,544,218	11,167,055	11,429,918	11,325,598	11,334,737
Common stockholders' equity	3,613,903	3,653,596	3,770,330	3,882,643	3,993,247	4,078,324	4,150,351	4,083,150
Allowance for Credit Losses:								
Balance at beginning of period	$ 98,097	$ 104,638	$ 98,200	$ 102,264	$ 105,954	$ 106,642	$ 109,001	$ 108,525
Adoption of CECL	—	—	—	—	—	—	—	94,512
Net charge-offs	(3,069)	(48,387)	(3,207)	(2,991)	(6,081)	(5,495)	(5,414)	(4,291)
Provision for credit losses	9,610	41,949	7,271	6,681	6,769	7,854	4,938	117,663
Balance at end of period	$ 104,638	$ 98,200	$ 102,264	$ 105,954	$ 106,642	$ 109,001	$ 108,525	$ 316,409
Allowance for loan losses	$ 104,638	$ 98,200	$ 102,264	$ 105,954	$ 106,642	$ 109,001	$ 108,525	$ 238,737
Reserve for losses on unfunded loan commitments	—	—	—	—	—	—	—	77,672
Total allowances for credit losses	$ 104,638	$ 98,200	$ 102,264	$ 105,954	$ 106,642	$ 109,001	$ 108,525	$ 316,409
Selected Ratios:								
Net interest margin – FTE(1)	4.66%	4.47%	4.55%	4.53%	4.45%	4.26%	4.15%	3.96%
Efficiency ratio	35.19	41.87	36.90	38.49	39.30	40.98	42.37	43.35
Net charge-offs to average non-purchased loans(1) (2)	0.05	1.32	0.06	0.05	0.12	0.07	0.10	0.08
Net charge-offs to average total loans(1)	0.07	1.14	0.07	0.07	0.14	0.12	0.12	0.10
Nonperforming loans to total loans(3)	0.10	0.23	0.23	0.22	0.15	0.17	0.15	0.16
Nonperforming assets to total assets(3)	0.15	0.23	0.23	0.21	0.25	0.26	0.18	0.19
Allowance for loan losses to total loans(4)	0.62	0.59	0.60	0.61	0.61	0.61	0.62	1.31
Loans past due 30 days or more, including past due non-accrual loans, to total loans(3)	0.12	0.17	0.28	0.28	0.13	0.14	0.19	0.18

(1) Ratios for interim periods 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.

GENERAL

The following discussion explains our financial condition and results of operations as of and for the three months ended March 31, 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 expense 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. Our business has been and continues to be impacted by the recent and 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 have 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 has caused a reduction in commercial activity, supply chain interruptions, increased unemployment, and overall economic and financial market instability. Although we, as a financial institution, are considered an essential business and therefore continue to operate in compliance with governmental restrictions and public health authority guidelines, COVID-19 has affected and, in light of the uncertainties and developments discussed herein, may negatively affect, our business, financial condition and results of operations in future periods. 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 current 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, 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 governmental authorities to contain the outbreak or mitigate its impact (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, have declared states of emergency. The resulting closures of non-essential businesses 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 maintain our asset quality and balance sheet strength, including the following actions:

- Providing loans through the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). We have approved approximately 5,753 applications totaling approximately $477 million through May 5, 2020.
- Implementing our Disaster Relief Loan Program, which has provided short-term payment deferrals on approximately 2,689 loans totaling approximately $594 million through May 5, 2020.
- Capitalizing on dislocation in the bond market by purchasing approximately $900 million in high-quality, short-term municipal bonds.
- Maintaining a broad-based risk management strategy, including adjusting loan pricing and 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 900 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, 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 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 $117.7 million of provision expense recognized during the three months ended March 31, 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 continues, our earnings and growth may 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 participate in, to fund operational costs of eligible businesses, organizations and self-employed persons during the pandemic period. 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 will have a two-year term and will earn interest at a rate of 1%. We are actively participating in assisting our customers with applications for resources through the program.

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 method 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 method 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 allowance for loan loss ("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 will be amortized into interest income over the remaining life of the loans.

Our ACL under CECL is established through a provision for 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. 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. While our consumer loans are not risk rated, we 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 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 are 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 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 forecast 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 March 31, 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 weeks, model data limitations, and other factors. In determining our ACL, we utilize a reasonable and supportable forecast period which, as of March 31, 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. 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 $11.9 million for the first quarter of 2020, an 89.3% decrease from $110.7 million for the first quarter of 2019. Diluted earnings per common share were $0.09 for the first quarter of 2020, an 89.5% decrease from $0.86 for the first quarter of 2019.

During the first quarter of 2020, the COVID-19 pandemic significantly impacted the global economy in what was the first quarter of implementation of the CECL method used to calculate our ACL. During the quarter just ended, the sudden and severe economic downturn in tandem with the adoption of CECL resulted in our incurring provision for credit losses of $117.7 million, resulting in an ALL of $238.7 million, a reserve for losses on unfunded loan commitments of $77.7 million and a total ACL of $316.4 million at March 31, 2020. 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 0.20% for the first quarter of 2020 compared to 1.99% for the first quarter of 2019. Our annualized return on average common stockholders' equity was 1.16% for the first quarter of 2020 compared to 11.77% for the first quarter of 2019. Our annualized return on average tangible common stockholders' equity was 1.39% for the first quarter of 2020 compared to 14.40% for the first quarter 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 $24.57 billion at March 31, 2020 compared to $23.6 billion at December 31, 2019. Total loans were $18.23 billion at March 31, 2020 compared to $17.53 billion at December 31, 2019. Non-purchased loans were $17.03 billion at March 31, 2020 compared to $16.22 billion at December 31, 2019. Purchased loans were $1.20 billion at March 31, 2020 compared to $1.31 billion at December 31, 2019. Deposits were $18.81 billion at March 31, 2020 compared to $18.47 billion at December 31, 2019.

Common stockholders' equity was $4.08 billion at March 31, 2020 compared to $4.15 billion at December 31, 2019. Tangible common stockholders' equity was $3.40 billion at March 31, 2020 compared to $3.47 billion at December 31, 2019. Book value per common share was $31.57 at March 31, 2020 compared to $32.19 at December 31, 2019. Tangible book value per common share was $26.30 at March 31, 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 differences 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 $1.1 million and $1.2 million for the three months ended March 31, 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 first quarter of 2020 decreased 7.1% to $210.9 million compared to $227.1 million for the first quarter of 2019. The decrease in net interest income for the first quarter of 2020 compared to the same period in 2019 was primarily due to the decrease in our net interest margin which decreased by 57 basis points ("bps") for the first quarter of 2020 compared to the first quarter of 2019, partially offset by an increase in average earning assets, which increased 5.5% to $21.44 billion for the first quarter of 2020 compared to $20.32 billion for the first quarter of 2019.

Our net interest margin for the first quarter of 2020 was 3.96% compared to 4.53% for the first quarter in 2019. This 57 bps decrease was due, in part, to an 80 bps decrease in the yield on interest earning assets partially offset by a decrease of 26 bps on the rate paid on interest bearing liabilities.

The yield on interest earning assets was 5.12% for the first quarter of 2020 compared to 5.92% for the first quarter of 2019. The yield on our non-purchased loans decreased 79 bps to 5.65% for the first quarter of 2020 compared to 6.44% for the first quarter of 2019. This decrease was primarily due to decreases in (i) LIBOR and (ii) the federal funds target rate that began in the second half of 2019 and continued through the first quarter of 2020. At March 31, 2020, approximately 75% 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 increased 51 bps to 6.80% for the first quarter of 2020 compared to 6.29% for the first quarter 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 March 31, 2020, approximately 41% of our purchased loan portfolio contained loans with variable interest rates. Additionally, as a result of the adoption of ASU 2016-13, income previously reported as "other income from purchased loans" is now included as interest income on purchased loans.

At March 31, 2020, approximately 53% 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 14 bps to 2.70% for the first quarter of 2020 compared to 2.84% for the first quarter of 2019. This decrease in yield on our aggregate investment securities portfolio was primarily the result of a decrease in interest rates.

The overall decrease in rates on average interest bearing liabilities, which decreased 26 bps for the first quarter of 2020 compared to the same period in 2019, was primarily due to a decrease in rates on interest bearing deposits, which decreased 23 bps for the first quarter of 2020 compared to the same period in 2019. The decrease in rates on our interest bearing deposits, the largest component of our interest bearing liabilities, was primarily due to decreases in the federal funds target rate and to a lesser extent, our use of low cost Federal Home Loan Bank of Dallas ("FHLB") advances to replace two of our largest and highest cost public fund deposit relationships. To the extent there are future increases in the federal funds target rate, we could expect to experience increases in the costs of our interest bearing deposits in future periods. Conversely, to the extent that the federal funds target rate remains unchanged, we would expect some further decreases in our rates on interest bearing deposits.

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 repos decreased eight bps during the first quarter of 2020 compared to the first quarter of 2019 primarily due to decreases in our administered rates on these accounts. The decrease in rates on our other borrowings for the first quarter of 2020 compared to the same period in 2019 was primarily due to a decrease in the federal funds target rate and, to a lesser extent, an increase in capitalized interest associated with the ongoing construction of our new corporate headquarters. Our subordinated notes consist of $225 million in aggregate principal amount of 5.50% fixed-to-floating rate subordinated notes. The rate on these subordinated notes includes 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 first quarter of 2020 compared to the same period in 2019 was primarily due to an increase in the average balances of non-purchased loans and interest earning deposits and federal fund sold, partially offset by decreases in the average balances of purchased loans and investment securities. Average non-purchased loans increased $1.04 billion to $16.53 billion for the first quarter of 2020 compared to the same period in 2019, primarily due to continued growth in loan fundings, partially offset by continued elevated levels of paydowns. Average interest earning deposits and federal funds sold increased $1.30 billion to $1.37 billion for the first quarter of 2020 compared to the same period in 2019, primarily due to our maintaining higher levels of on-balance sheet liquidity. Average investment securities decreased $0.54 billion to $2.28 billion for the first quarter of 2020 compared to the same period in 2019, primarily due to the maturities, calls, and paydowns of investment securities in that portfolio. The average balance of our purchased loans decreased $0.68 billion to $1.27 billion for the first quarter of 2020 compared to the same period in 2019, primarily due to continued paydown and payoff activity in that portfolio.

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

Average Consolidated Balance Sheets and Net Interest Analysis – FTE

	Three Months Ended March 31,					
	2020			2019		
	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	$ 1,367,297	$ 4,376	1.29%	$ 67,015	$ 414	2.50%
Investment securities:						
Taxable	1,796,061	10,760	2.41	2,310,770	14,897	2.61
Tax-exempt – FTE	486,062	4,553	3.77	515,613	4,903	3.86
Non-purchased loans – FTE	16,526,270	232,030	5.65	15,482,768	246,041	6.44
Purchased loans	1,265,413	21,387	6.80	1,947,783	30,195	6.29
Total earning assets – FTE	21,441,103	273,106	5.12	20,323,949	296,450	5.92
Non-interest earning assets	2,353,330			2,232,416		
Total assets	$23,794,433			$22,556,365		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Deposits:						
Savings and interest bearing transaction	$ 8,131,400	$ 19,747	0.98%	$ 9,531,133	$ 36,103	1.54%
Time deposits of $100 or more	4,388,337	22,190	2.03	3,170,510	15,555	1.99
Other time deposits	3,333,529	15,745	1.90	2,435,425	11,429	1.90
Total interest bearing deposits	15,853,266	57,682	1.46	15,137,068	63,087	1.69
Repurchase agreements with customers	7,883	6	0.32	22,192	22	0.40
Other borrowings [(1)]	296,969	50	0.07	269,588	1,389	2.09
Subordinated notes	223,711	3,172	5.70	223,321	3,146	5.71
Subordinated debentures [(1)]	119,984	1,288	4.31	119,412	1,711	5.81
Total interest bearing liabilities	16,501,813	62,198	1.52	15,771,581	69,355	1.78
Non-interest bearing liabilities:						
Non-interest bearing deposits	2,927,296			2,757,110		
Other non-interest bearing liabilities	243,598			210,588		
Total liabilities	19,672,707			18,739,279		
Common stockholders' equity	4,118,614			3,813,979		
Noncontrolling interest	3,112			3,107		
Total liabilities and stockholders' equity	$23,794,433			$22,556,365		
Net interest income – FTE		$ 210,908			$ 227,095	
Net interest margin – FTE			3.96%			4.53%

(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 $0.4 million for the first quarter of 2020 and $0.3 million for the first quarter of 2019. In the absence of this interest capitalization, these rates on other borrowings would have been 0.55% in the first quarter of 2020 and 2.62% in the first quarter of 2019. Capitalized interest included in subordinated debentures totaled $0.1 million for the first quarter of 2020 (none in the first quarter of 2019). In the absence of this interest capitalization, the rate on subordinated debentures would have been 4.80% for the first quarter of 2020.

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 any non-credit discount. 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 March 31, 2020 Over Three Months Ended March 31, 2019		
	Volume	**Yield/ Rate**	**Net Change**
		(Dollars in thousands)	
Increase (decrease) in:			
Interest income – FTE:			
Interest earning deposits and federal funds sold	$ 4,161	$ (199)	$ 3,962
Investment securities:			
Taxable	(3,083)	(1,054)	(4,137)
Tax-exempt – FTE	(277)	(73)	(350)
Non-purchased loans – FTE	14,650	(28,661)	(14,011)
Purchased loans	(11,532)	2,724	(8,808)
Total interest income – FTE	3,919	(27,263)	(23,344)
Interest expense:			
Savings and interest bearing transaction	(3,400)	(12,956)	(16,356)
Time deposits of $100 or more	6,158	477	6,635
Other time deposits	4,243	73	4,316
Repurchase agreements with customers	(11)	(5)	(16)
Other borrowings	4	(1,343)	(1,339)
Subordinated notes	5	21	26
Subordinated debentures	7	(430)	(423)
Total interest expense	7,006	(14,163)	(7,157)
Decrease in net interest income – FTE	$ (3,087)	$ (13,100)	$ (16,187)

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 first quarter of 2020 increased 15.0% to $27.7 million compared to $24.1 million for the first quarter of 2019, but decreased 9.0% compared to $30.4 million for the fourth quarter of 2019.

Service charges on deposit accounts, our largest component of non-interest income, increased 3.0% to $10.0 million for the first quarter of 2020 compared to $9.7 million for the first quarter of 2019. This increase was due primarily to net growth in retail deposit accounts and customers during recent quarters.

Trust income increased 12.1% to $1.9 million for the first quarter of 2020 compared to $1.7 million for the first quarter of 2019 due to increases in both corporate and personal trust income.

BOLI income from the increase in cash surrender value decreased 1.8% to $5.1 million for the first quarter of 2020 compared to $5.2 million for the first quarter of 2019. BOLI income from death benefits for the first quarter of 2020 was $0.6 million compared to no BOLI death benefits in the first quarter of 2019.

Other income from purchased loans was $0.8 million in the first quarter 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 23.8% to $3.7 million for the first quarter of 2020 compared to $4.9 million for the first quarter 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 first quarter of 2020 compared to none for the first quarter of 2019. Gains on sales of other assets were $0.2 million for the first quarter of 2020 compared to $0.3 million for the first quarter of 2019.

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

Non-Interest Income

	Three Months Ended March 31,	
	2020	**2019**
	(Dollars in thousands)	
Service charges on deposit accounts	$ 10,009	$ 9,722
Trust income	1,939	1,730
BOLI income:		
Increase in cash surrender value	5,067	5,162
Death benefits	608	—
Other income from purchased loans	—	795
Loan service, maintenance and other fees	3,716	4,874
Net gains on investment securities	2,223	—
Gains on sales of other assets	161	284
Other	3,957	1,505
Total non-interest income	$ 27,680	$ 24,072

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 7.0% to $103.4 million for the first quarter of 2020 compared to $96.7 million for the first quarter of 2019, but decreased 0.9% compared to the fourth quarter of 2019. The increase in our non-interest expense in the first quarter of 2020 compared to the first quarter of 2019 was primarily attributable to our continued expansion and enhancement of our infrastructure for information technology, cybersecurity, business resilience, enterprise risk management, internal audit, compliance, Bank Secrecy Act and anti-money laundering monitoring and a number of other important areas, including expanding our infrastructure to serve low-to-moderate income and majority-minority markets and customer segments (collectively, “our infrastructure initiatives”). The small decrease in our non-interest expense for the first quarter of 2020 compared to the fourth quarter of 2019 was attributable, in part, to recent economic conditions that allowed us to reduce growth of certain non-interest expenses. However, it is currently uncertain if this reduced level of non-interest expense will continue for the remainder of 2020.

Salaries and employee benefits, our largest component of non-interest expense, increased 14.7% to $51.5 million in the first quarter of 2020 compared to $44.9 million in the first quarter of 2019. This increase in salaries and employee benefits for the first quarter of 2020 was due primarily to employees added as we continue to grow, including our focus on our infrastructure initiatives as discussed above.

Net occupancy and equipment expense increased 3.9% to $15.3 million for the first quarter of 2020 compared to 14.8 million for the first quarter of 2019. During the second quarter of 2020, we expect to open our new corporate headquarters facility. Accordingly, we expect additional increases in net occupancy and equipment expense beginning in the second quarter of 2020.

Our aggregate other operating expenses decreased 1.2% to $36.6 million for the first quarter of 2020 compared to $37.1 million for the first quarter of 2019. The decrease in other operating expense during the first quarter of 2020 was due, in part, to recent economic conditions that resulted in decreases in certain non-interest expense items. Additionally, we have been able to reduce our use of consultants in recent quarters that were needed for our infrastructure initiatives, allowing us to reduce our professional and outside service expenses.

Our efficiency ratio (non-interest expense divided by the sum of net interest income – FTE and non-interest income) was 43.4% for the first quarter of 2020 compared to 38.5% for the first quarter of 2019.

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

Non-Interest Expense

	Three Months Ended March 31,	
	2020	**2019**
	(Dollars in thousands)	
Salaries and employee benefits	$ 51,473	$ 44,868
Net occupancy and equipment	15,330	14,750
Other operating expenses:		
Professional and outside services	7,043	8,564
Software and data processing	4,974	4,709
Deposit insurance and assessments	3,420	3,652
Telecommunication services	2,177	3,344
Travel and meals	2,102	2,669
Postage and supplies	2,053	2,103
Advertising and public relations	1,703	1,683
ATM expense	1,160	987
Loan collection and repossession expense	694	984
Writedowns of foreclosed and other assets	879	562
Amortization of intangibles	2,795	3,145
Other	7,622	4,658
Total non-interest expense	$ 103,425	$ 96,678

Income Taxes

The provision for income taxes was $4.5 million for the first quarter of 2020 compared to $35.9 million for the first quarter of 2019. The effective income tax rate was 27.5% for the first quarter of 2020 compared to 24.5% for the first quarter of 2019. The increase in the effective tax rate for the first quarter of 2020 compared to the first quarter of 2019 is primarily due to an increase, in the first quarter of 2020 compared to the first quarter of 2019, of tax expense associated with the vesting of equity grants, an increase in the valuation allowance for acquired net operating losses, and changes in various other factors related to non-taxable income and non-deductible expenses. 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 risk, liquidity risk, operational risk, legal and compliance risk and reputational risk. We use an enterprise-wide risk management framework to identify, measure, monitor, manage and report risks that affect or could affect the achievement of our strategic, financial and other goals and objectives. Accordingly, risk management is an essential element in managing our operations and is a key determinant of our overall performance. Our Board of Directors (the "Board") is responsible for approving our overall risk management framework, including setting our risk appetite for the Basel risk categories, and establishing risk tolerances for each of our key risks. The Board Risk Committee ("BRC"), which is a board-level committee, has been assigned oversight responsibility for our risk management processes. The BRC meets at least quarterly to monitor and review our various enterprise risk management policies and activities, review and approve our overall risk posture, and such other actions as detailed in its charter document. The BRC has appointed the Executive Risk Council ("ERC"), which is comprised of senior executives of the Bank and is chaired by the Chief Risk Officer ("CRO"), to assist BRC in the oversight of our enterprise risk management processes and activities. The ERC, pursuant to its charter, has responsibility for review and approval of detailed risk management processes and procedures, monitoring each of our key performance indicators and key risk indicators against our Board-approved risk thresholds, assessing current and emerging risks, monitoring our risk culture, overseeing compliance with regulatory expectations and requirements, and various other risk management functions and activities.

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

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

- First line of defense activities provide for the identification, acceptance and ownership of risks. These defense activities are typically executed by various lines of business personnel and owners.
- Second line of defense activities provide for objective oversight of our risk-taking activities and assessment of our aggregate risk levels. These defense activities are executed under the leadership and guidance of our Corporate Risk Management Group ("CRMG") and our CRO, who reports directly to our BRC.
- Third line of defense activities provide for independent reviews and assessments of risk management practices across the Bank. These defense activities are executed by our Internal Audit department which 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 reviews 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 the Chief Executive Officer ("CEO"), the CCO and the Chief Lending Officer ("CLO"). We maintain a tiered loan limit authorization system. Loan authority is granted to the CEO, CCO and CLO by the Board. The loan authorities of other lending officers are granted by the DLC on the recommendation of appropriate senior officers in amounts commensurate with the officer's skill level and knowledge.

We have detailed, comprehensive standards for evaluating credit risk, both at the point of origination and thereafter. 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. While our consumer loans are not risk rated, we do utilize output from the score cards on consumer loans for purposes of determining the necessary 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. 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, and credit and asset administration, 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 March 31, 2020, our total loan portfolio was $18.23 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 $13.47 billion at March 31, 2020 compared to $12.77 billion 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

	March 31, 2020		December 31, 2019	
	(Dollars in thousands)			
Real estate:				
Residential 1-4 family	$ 1,009,547	5.5%	$ 998,632	5.7%
Non-farm/non-residential	4,510,484	24.7	3,956,579	22.6
Construction/land development	6,380,341	35.0	6,391,429	36.4
Agricultural	235,650	1.3	230,076	1.3
Multifamily residential	1,334,763	7.3	1,194,192	6.8
Total real estate	13,470,785	73.9	12,770,908	72.8
Commercial and industrial	690,396	3.8	661,952	3.8
Consumer	2,950,055	16.2	2,934,534	16.8
Other	1,116,968	6.1	1,164,649	6.6
Total loans	18,228,204	100.0%	17,532,043	100.0%
Allowance for loan losses	(238,737)		(108,525)	
Net loans	$ 17,989,467		$ 17,423,518	

Included in our consumer loans at March 31, 2020 and December 31, 2019 are loans totaling approximately $2.87 billion and $2.84 billion, respectively, which were originated to finance the acquisition of RV and marine collateral.

Included in "other" loans at March 31, 2020 and December 31, 2019 are loans totaling approximately $1.01 billion and $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)	
March 31, 2020:			
New York–Newark–Jersey City, NY–NJ–PA MSA	$ 3,559,790	$ 2,166,720	$ 5,726,510
Miami–Fort Lauderdale–West Palm Beach, FL MSA	1,037,299	1,016,783	2,054,082
Los Angeles–Long Beach–Anaheim, CA MSA	1,217,841	755,873	1,973,714
Tampa–St. Petersburg–Clearwater, FL MSA	420,820	640,368	1,061,188
Dallas–Fort Worth–Arlington, TX MSA	644,001	386,669	1,030,670
Chicago–Naperville–Elgin, IL–IN–WI MSA	384,141	537,069	921,210
Atlanta–Sandy Springs–Roswell, GA MSA	609,814	189,568	799,382
San Francisco–Oakland–Hayward, CA MSA	319,830	462,234	782,064
Phoenix–Mesa–Scottsdale, AZ MSA	256,815	351,388	608,203
Denver–Auora–Lakewood, CO MSA	371,656	147,300	518,956
All other geographies	4,648,778	3,174,736	7,823,514
Total real estate loans	$ 13,470,785	$ 9,828,708	$ 23,299,493
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 March 31, 2020, we had 70 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

	March 31, 2020		December 31, 2019	
	(Dollars in thousands)			
Office, including medical offices	$ 1,108,516	24.6%	$ 949,119	24.0%
Hotels and motels	909,637	20.2	857,276	21.7
Mixed use properties	644,335	14.3	295,423	7.5
Retail, including shopping centers and strip centers	434,448	9.6	431,970	10.9
Churches and schools	300,562	6.7	311,027	7.9
Manufacturing and industrial facilities	267,599	5.9	264,048	6.7
Restaurants and bars	186,047	4.1	178,307	4.5
Nursing homes and assisted living centers	124,600	2.8	125,353	3.2
Gasoline stations and convenience stores	87,214	1.9	88,158	2.2
Office warehouse, warehouse and mini-storage	71,298	1.6	69,512	1.8
Golf courses, entertainment and recreational facilities	30,978	0.7	29,165	0.7
Hospitals, surgery centers and other medical	27,883	0.6	29,533	0.7
Other non-farm/non-residential [1]	317,367	7.0	327,688	8.2
Total	$ 4,510,484	100.0%	$ 3,956,579	100.0%

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

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

Total Construction/Land Development Loans

	March 31, 2020		December 31, 2019	
	(Dollars in thousands)			
Unimproved land	$ 243,432	3.8%	$ 237,614	3.7%
Land development and lots:				
1-4 family residential and multifamily	354,012	5.6	352,100	5.5
Non-residential	536,496	8.4	532,139	8.3
Construction:				
1-4 family residential:				
Owner occupied	5,566	0.1	5,844	0.1
Non-owner occupied:				
Pre-sold	1,990,946	31.2	2,031,251	31.8
Speculative	138,090	2.2	135,377	2.1
Multifamily	921,275	14.4	827,122	12.9
Industrial, commercial and other	2,190,524	34.3	2,269,982	35.6
Total	$ 6,380,341	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 months ended March 31, 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 March 31, 2020 and December 31, 2019, we had no construction and development loans with interest reserves that were nonperforming.

During the three months ended March 31, 2020 and 2019, we recognized approximately $67 million and $75 million, respectively, of interest income on construction and development loans from the advance of interest reserves. We advanced construction period interest on construction and development loans totaling approximately $66 million and $73 million in the first quarter of 2020 and 2019, respectively.

The maximum committed balance of all construction and development loans which provide for the use of interest reserves at March 31, 2020 was approximately $14.7 billion, of which $6.0 billion was outstanding at March 31, 2020 and $8.7 billion remained to be advanced. The weighted average LTC on such loans, assuming such loans are ultimately fully advanced, was approximately 51%, which means that the weighted average cash equity contributed on such loans, assuming such loans are ultimately fully advanced, was approximately 49%. The weighted average LTV ratio on such loans, based on the most recent appraisals and assuming such loans are ultimately fully advanced, was approximately 43%.

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 6.6% of our total loan portfolio at March 31, 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 purchased loans that do not contain evidence of credit deterioration. 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

	March 31, 2020	December 31, 2019
	(Dollars in thousands)	
Loans not deemed PCD:		
Unpaid principal balance	$ 1,134,912	$ 1,243,327
Valuation discount	(15,263)	(17,022)
Carrying value	1,119,649	1,226,305
PCD loans:		
Unpaid principal balance	90,329	101,741
Valuation discount	(12,152)	(20,542)
Carrying value	78,177	81,199
Total carrying value	$ 1,197,826	$ 1,307,504

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.

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

Nonperforming Assets

	March 31, 2020	December 31, 2019
	(Dollars in thousands)	
Nonaccrual loans[1]	$ 22,061	$ 19,337
Accruing loans 90 days or more past due	—	—
TDRs – nonaccruing	3,620	3,884
TDRs – accruing	757	656
Total nonperforming loans, excluding purchased loans	26,438	23,877
Nonperforming purchased loans	37,313	22,863
Total nonperforming loans	63,751	46,740
Foreclosed assets[2]	20,616	19,096
Total nonperforming assets	$ 84,367	$ 65,836
Nonperforming loans to total loans, excluding purchased loans	0.16%	0.15%
Nonperforming loans to total loans	0.35	0.27
Nonperforming assets to total assets, excluding purchased loans	0.19	0.18
Nonperforming assets to total assets	0.34	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 March 31, 2020 and December 31, 2019 substandard loans, excluding purchased loans, not designated as nonperforming, nonaccrual or 90 days past due, totaled $74.9 million and $71.2 million, respectively. No loans were designated as doubtful or loss at March 31, 2020 or December 31, 2019. Included in substandard loans not deemed as nonperforming, nonaccrual or 90 days past due at March 31, 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 $57.0 million at both March 31, 2020 and December 31, 2019. This credit was not past due at March 31, 2020 or December 31, 2019.

For loans that are individually evaluated and for which we utilize the collateral practical expedient 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 March 31, 2020, we had reduced the carrying value of our nonperforming loans (all of which were included in nonaccrual loans) to the estimated fair value of such loans of $63.0 million. The adjustment to reduce the carrying value of such nonperforming loans to estimated fair value consisted of $1.0 million of partial or full charge-offs and $6.7 million of specific loan loss allocations. Nonperforming non-purchased loans at March 31, 2020 and December 31, 2019, respectively, included $0.8 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

	March 31, 2020	December 31, 2019
	(Dollars in thousands)	
Real estate:		
Residential 1-4 family	$ 2,109	$ 2,201
Non-farm/non-residential	6,138	3,989
Construction/land development	11,817	12,153
Total real estate	20,064	18,343
Commercial and industrial	9	4
Consumer	543	749
Total foreclosed assets	$ 20,616	$ 19,096

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

Activity Within Foreclosed Assets

	Three Months Ended March 31,	
	2020	2019
	(Dollars in thousands)	
Balance – beginning of period	$ 19,096	$ 16,171
Loans and other assets transferred into foreclosed assets	5,190	1,869
Sales of foreclosed assets	(2,791)	(3,382)
Writedowns of foreclosed assets	(879)	(562)
Balance – end of period	$ 20,616	$ 14,096

The following table presents information concerning the geographic location of nonperforming assets, excluding purchased loans, at March 31, 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

	Nonperforming Loans	Foreclosed Assets and Repossessions	Total Nonperforming Assets
		(Dollars in thousands)	
Arkansas	$ 9,876	$ 6,094	$ 15,970
North Carolina	1,364	10,155	11,519
Florida	3,459	2,703	6,162
Georgia	4,225	150	4,375
Texas	2,906	671	3,577
South Carolina	1,796	—	1,796
Alabama	582	500	1,082
All other	2,230	343	2,573
Total	$ 26,438	$ 20,616	$ 47,054

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 method 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 method 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 principles 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 ACL for our closed but unfunded loans is reported as a liability on our consolidated balance sheet.

Our total provision expense for the quarter just ended of $117.7 million included $94.9 million related to our ALL for outstanding loans and $22.7 million related to our reserve for losses on unfunded loan commitments. This increased our ALL for outstanding loans to $238.7 million, or 1.31% of total loans, and increased our reserve for losses on unfunded loan commitments to $77.7 million, or 0.69% of unfunded loan commitments, bringing our total ACL to $316.4 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 our provision expense for the first quarter of 2020 and our total ACL at March 31, 2020 were based on a number of key estimates, assumptions and economic forecasts. We utilized several economic forecasts provided by Moody's, including their baseline forecast that was updated on March 27, 2020 and certain of their other economic scenarios, including forecasts with both more and less severe outcomes than their baseline forecast. These forecasts were based on 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 our CECL models, we assume a reasonable and supportable forecast period of two years, followed by a reversion of estimated losses back to our historical mean. The Moody's March 27, 2020 baseline forecast, which was the most heavily weighted of the Moody's forecasts we used, assumed a GDP growth rate of negative 18% and an unemployment rate of nearly 9% in the second quarter of 2020, followed by a recovery in the second half of 2020. We also utilized certain qualitative overlays to increase our ACL estimates in order to capture items that we believed were not fully reflected in the various economic forecasts we utilized and our 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 March 31, 2020:			
Balances – December 31, 2019	$ 108,525	$ —	$ 108,525
Adoption of CECL	39,588	54,924	94,512
Balances – January 1, 2020	148,113	54,924	203,037
Net charge-offs	(4,291)	—	(4,291)
Provision	94,915	22,748	117,663
Balances – March 31, 2020	$ 238,737	$ 77,672	$ 316,409
Three months ended March 31, 2019:			
Balances – December 31, 2018	$ 102,264	$ —	$ 102,264
Net charge-offs	(2,991)	—	(2,991)
Provision	6,681	—	6,681
Balances – March 31, 2019	$ 105,954	$ —	$ 105,954

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 March 31,		As of and for the Year Ended December 31,
	2020	2019	2019
	(Dollars in thousands)		
Net charge-offs of non-purchased loans to average non-purchased loans[1][2]	0.08%	0.05%	0.09%
Net charge-offs of total loans to average total loans[1]	0.10	0.07	0.11
ALL to total loans[3]	1.31	0.61	0.62
Reserve for losses on unfunded loan commitments to total unfunded loan commitments	0.69	—	—
ACL to total loans	1.74	0.61	0.62
ACL to total loans and unfunded loan commitments	1.07	0.37	0.38
ALL to nonperforming loans[3][4]	903%	313%	455%

(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.
(4) Excludes purchased loans.

The following table sets forth the sum of the amounts of the ACL to total loans as of the date 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)	
March 31, 2020:			
Real estate:			
Residential 1-4 family	$ 19,927	$ 1,430	$ 21,357
Non-farm/non-residential	45,635	9,983	55,618
Construction/land development	89,839	57,619	147,458
Agricultural	3,041	80	3,121
Multi-family residential	8,305	548	8,853
Commercial and industrial	15,530	1,795	17,325
Consumer	43,401	222	43,623
All other	13,059	5,995	19,054
Total	$ 238,737	$ 77,672	$ 316,409
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, 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. Our deposits increased $335 million during the first quarter of 2020. Additionally, during the first quarter of 2020, we eliminated two of our largest and highest cost public funds deposit relationships, and we continued to focus on growing our retail deposit customers and balances. 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

	March 31, 2020		December 31, 2019	
	(Dollars in thousands)			
Non-interest bearing	$ 3,003,305	16.0%	$ 2,795,251	15.1%
Interest bearing:				
Transaction (NOW)	2,784,268	14.8	2,706,426	14.7
Savings and money market	4,681,489	24.9	5,601,181	30.3
Time deposits less than $100	3,574,062	19.0	3,321,446	18.0
Time deposits of $100 or more	4,766,066	25.3	4,049,955	21.9
Total deposits	$ 18,809,190	100.0%	$ 18,474,259	100.0%

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

	March 31, 2020		December 31, 2019	
	(Dollars in thousands)			
Consumer	$ 8,535,172	45.4%	$ 7,526,014	40.7%
Commercial	4,657,851	24.8	4,334,366	23.5
Public Funds	2,667,234	14.2	3,782,415	20.5
Brokered	2,233,240	11.9	2,115,193	11.4
Reciprocal	715,693	3.7	716,271	3.9
Total deposits	$ 18,809,190	100.0%	$ 18,474,259	100.0%

At March 31, 2020 brokered deposits totaled $2.23 billion, or 11.9% 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, which reports to the Board, monitor our use of brokered deposits on a regular basis, including interest rates and the total volume of such deposits in relation to our total deposits.

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 March 31,			
	2020		2019	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(Dollars in thousands)			
Non-interest bearing	$ 2,927,296	—	$ 2,757,110	—
Interest bearing:				
Transaction (NOW)	2,770,860	0.85%	2,390,713	0.98%
Savings and money market	5,360,540	1.04	7,140,420	1.72
Time deposits less than $100	3,333,529	1.90	2,435,425	1.90
Time deposits of $100 or more	4,388,337	2.03	3,170,510	1.99
Total deposits	$ 18,780,562	1.46	$ 17,894,178	1.69

The calculation of the average rate paid on total deposits of 1.46% for the three months ended March 31, 2020 and 1.69% for the three months ended March 31, 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 1.24% for the three months ended March 31, 2020 and 1.43% for the three months ended March 31, 2019.

We expect our average rate paid on total interest bearing deposits to decrease throughout 2020. At March 31, 2020, we had approximately $7.8 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)	
March 31, 2020:			
3 months or less	$ 1,217,622	$ 1,692,956	$ 2,910,578
Over 3 to 6 months	996,057	1,445,490	2,441,547
Over 6 to 12 months	1,021,223	1,426,727	2,447,950
Over 12 months	339,160	200,893	540,053
Total	$ 3,574,062	$ 4,766,066	$ 8,340,128
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	March 31, 2020		December 31, 2019	
	(Dollars in thousands)			
Arkansas	$ 7,638,227	40.6%	$ 7,054,860	38.2%
Georgia	4,409,551	23.4	3,967,304	21.5
Florida	2,674,691	14.2	2,391,056	12.9
Texas	2,222,107	11.8	2,411,661	13.1
North Carolina	1,330,961	7.1	1,123,269	6.1
New York	339,160	1.8	1,350,774	7.3
South Carolina	105,067	0.6	84,530	0.4
Alabama	89,426	0.5	90,805	0.5
Total	$ 18,809,190	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 March 31, 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	$ 5,439,071	$ 6,090,329	$ 1,941,385	$ 13,470,785
Commercial and industrial	151,671	455,907	82,818	690,396
Consumer	19,284	59,420	2,871,351	2,950,055
Other	576,471	529,204	11,293	1,116,968
Total	$ 6,186,497	$ 7,134,860	$ 4,906,847	$ 18,228,204
Fixed rate	$ 378,205	$ 1,313,507	$ 3,319,569	$ 5,011,281
Floating rate (not at a floor or ceiling rate) (1)	3,735,374	1,807,755	612,946	6,156,075
Floating rate (at floor rate) (1)	2,070,966	4,009,727	968,074	7,048,767
Floating rate (at ceiling rate)	1,952	3,871	6,258	12,081
Total	$ 6,186,497	$ 7,134,860	$ 4,906,847	$ 18,228,204

(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 is expected to continue to result, in providing a number of short-term deferrals (generally three months) on various loans in our portfolio. As of May 5, 2020, we had approved short-term deferrals on approximately 2,689 loans totaling approximately $594 million. Such deferrals may have some limited effect on the availability and amount of loan repayments as a source of funds.

As of May 5, 2020 we had approved approximately 5,753 applications totaling approximately $477 million for loans originated under the SBA's PPP. Such loans are structured to be fully guaranteed by the SBA and are expected, pursuant to the PPP, to be repurchased by the SBA in the next several quarters beginning in the second or third quarter of 2020.

At March 31, 2020, we had $11.33 billion in unfunded balances on loans already closed, the vast majority of which is attributable to construction and development loans for which construction has commenced. In most cases the borrower's equity and all other required subordinated elements of the capital structure must be fully funded before we advance funds. Typically we are the last to advance funds and the first to be repaid. In many cases we do not advance funds on loans for many months after closing because the borrower's equity and other funding sources must fund first. This conservative practice for handling construction loans has led to the large unfunded balance of closed loans. As a result, we maintain a detailed 36-month forward funding forecast projecting all loan fundings and loan pay downs and pay offs. Our ability to project monthly net portfolio growth with a substantial degree of accuracy is an important part of our liquidity management process.

Given the ongoing disruptions of economic and financial markets, including shelter-in-place orders for many areas of the U.S., construction has been temporarily suspended on a number of our customer's construction projects. Such suspensions will delay these projects, including delays in our funding on such projects and delays of ultimate repayment of our loan. We currently believe that the effects from these delays will not be material unless such delays continue for a substantial period of time.

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 March 31, 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	$ 180,938	$ 188,709	$ 103,608	$ 674,006	$ 1,147,261
U.S. Government agency mortgage-backed securities	474,075	1,011,421	164,887	13,532	1,663,915
Corporate obligations	—	5,380	—	—	5,380
Total	$ 655,013	$ 1,205,510	$ 268,495	$ 687,538	$ 2,816,556
Percentage of total	23.2%	42.8%	9.6%	24.4%	100.0%
Cumulative percentage of total	23.2%	66.0%	75.6%	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 March 31, 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 March 31, 2020, we had approximately $318 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 March 31,			
	2020		2019	
	Average Balance	Rate Paid	Average Balance	Rate Paid
	(Dollars in thousands)			
Repurchase agreements with customers	$ 7,883	0.32%	$ 22,192	0.40%
Other borrowings[(1)]	296,969	0.07	269,588	2.09
Subordinated notes	223,711	5.70	223,321	5.71
Subordinated debentures[(1)]	119,984	4.31	119,412	5.81
Total other interest bearing liabilities	$ 648,547	2.80%	$ 634,513	4.01%

(1) The interest expense and rates for "other borrowings" and "subordinated debentures" were impacted by interest capitalized. Capitalized interest included in other borrowings totaled $0.4 million for the first quarter of 2020 and $0.3 million for the first quarter of 2019. In the absence of this interest capitalization, the rates on other borrowings would have been 0.55% for the first quarter of 2020 and 2.62% for the first quarter of 2019. Capitalized interest included in subordinated debentures totaled $0.1 million for the first quarter of 2020 (none in the first quarter of 2019). In the absence of this interest capitalization, the rate on subordinated debentures would have been 4.80% for the first quarter of 2020.

During the first quarter 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 March 31, 2020, are shown in the following table.

FHLB Advances

Borrowing Type	Balance	Rate at March 31, 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
FHLB bullet advance	150,000	0.30%	June 26, 2020	N/A
FHLB bullet advance	150,000	0.25%	July 27, 2020	N/A
Other FHLB advances[(2)]	1,354	Various	Various	N/A
Total	$ 1,051,354	0.46%		

(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 2.95%. Maturity dates on these advances range from June 2020 to March 2023.

At March 31, 2020, we had substantial unused borrowing availability. This availability was primarily comprised of the following four options: (1) $2.8 billion of available blanket borrowing capacity with the FHLB, (2) $2.0 billion of investment securities available to pledge for federal funds or other borrowings, (3) $845 million of available unsecured federal funds borrowing lines and (4) up to $401 million of available borrowing capacity from borrowing programs of the FRB.

We anticipate we will continue to rely primarily on deposits, repayments of loans and cash flows from our investment securities to provide liquidity, as well as other funding sources as appropriate. Additionally, where necessary, the secondary funding sources described above, 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 $102 million for the first three months of 2020 and $140 million for the first three 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 $1.24 billion in the first quarter of 2020 and $241 million in the first quarter of 2019. The increase in net cash used by investing activities was primarily the result of growth in our investment securities portfolio, which used $504 million in the first quarter of 2020 and provided $119 million in the first quarter of 2019, and growth in our total loan portfolio, which used $693 million in the first quarter of 2020 and used $356 million in the first quarter of 2019.

Financing activities provided $992 million in the first quarter of 2020 and $419 million in the first quarter of 2019. The increase in net cash provided by financing activities was primarily the result of proceeds from out other borrowings, which provided

$700 million in the first quarter of 2020 and used $95 million in the first quarter of 2019, partially offset by lower growth of our deposits, which provided $335 million in the first quarter of 2020 and provided $538 million in the first quarter 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. Security price risk is the risk that arises from security price volatility – the risk of a decline in the value of a security or a portfolio. Equity price risk can be either systematic or unsystematic risk. Unsystematic risk can be mitigated through diversification, whereas systematic cannot be. In a global economic crisis, equity price risk is systematic because it affects multiple asset classes. Interest rate risk is the risk of increased volatility due to a change of interest rates. There are different types of risk exposures that can arise when there is a change of interest rates, such as basis risk, options risk, term structure risk and repricing risk. We are exposed to both interest rate risk and market risk.

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

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 April 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	7.6%
+200	3.6
+100	0.7
-100	(1.9)

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 March 31, 2020.

EVE Model Results

Change in Interest Rates (in bps)	% Change in Projected Baseline EVE
+200	1.5%
+100	0.7
-100	(2.4)

Variable Rate Loans and Loan Repricing. At March 31, 2020, approximately 73% of our total loans had variable rates, including 75% of our non-purchased loans and 41% of our purchased loans. Additionally, 96% of our total variable rate loans had floor rates, including 99% of our variable rate non-purchased loans and 50% of our variable rate purchased loans. The following table reflects a summary, at March 31, 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	3%
Up 150 bps	7%
Up 100 bps	21%
Up 75 bps	31%
Up 50 bps	38%
Up 25 bps	44%
Currently at floor	53%
Down 25 bps	59%
Down 50 bps	72%
Down 75 bps	84%
Down 100 bps	94%

The following table reflects total loans as of March 31, 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	$ 643,900	$534,047	$488,568	$ 769,131	$2,575,635	$ 5,011,281
Floating rate (not at a floor or ceiling rate)[1]	5,751,156	110,476	89,632	155,252	49,559	6,156,075
Floating rate (at floor rate)[1]	6,335,511	129,207	129,969	316,642	137,438	7,048,767
Floating rate (at ceiling rate)	12,001	37	2	41	—	12,081
Total	$12,742,568	$773,767	$708,171	$1,241,066	$2,762,632	$18,228,204
Percentage of total	69.9%	4.2%	3.9%	6.8%	15.2%	100.0%
Cumulative percentage of total	69.9%	74.1%	78.0%	84.8%	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 March 31, 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 March 31, 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	$ 5,080,694	$ 5,068,525	$ —	$ 10,149,219
3-month LIBOR	31,050	340,380	—	371,430
WSJ Prime	1,724,016	673,757	12,081	2,409,854
Other contractual interest rate indices	213,007	73,413	—	286,420
Total	$ 7,048,767	$ 6,156,075	$ 12,081	$ 13,216,923

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

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

Market Risk Management Actions. We are exposed to market risk primarily through changes in fair value of our fixed income investment securities portfolio. Investment portfolio strategies are set by senior management and are subject to the oversight and direction of ALCO. At March 31, 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 March 31, 2020, we had $72.7 million of net unrealized gain in our investment securities portfolio that was reported, net of applicable income taxes, in AOCI.

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

Investment Securities – AFS

	March 31, 2020		December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Obligations of state and political subdivisions	$ 1,125,615	$ 1,147,261	$ 503,399	$ 521,630
U.S. Government agency mortgage-backed securities	1,612,974	1,663,915	1,732,671	1,750,361
Corporate obligations	5,239	5,380	5,229	5,398
Total	$ 2,743,828	$ 2,816,556	$ 2,241,299	$ 2,277,389

Our investment securities portfolio is reported at estimated fair value, which included gross unrealized gains of $73.3 million and gross unrealized losses of $0.6 million at March 31, 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 March 31, 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. Accordingly, we consider these unrealized losses to be temporary in nature. While we periodically evaluate our investment strategy relative to current economic and business conditions, we currently do not have the intent to sell these investment securities with unrealized losses and, more likely than not, will not be required to sell these investment securities before fair value recovers to amortized cost.

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

Unaccreted Discount and Unamortized Premium

	Amortized Cost	Unaccreted Discount	Unamortized Premium	Par Value
	(Dollars in thousands)			
March 31, 2020:				
Obligations of states and political subdivisions	$ 1,125,615	$ 1,200	$ (23,641)	$ 1,103,174
U.S. Government agency mortgage-backed securities	1,612,974	230	(29,992)	1,583,212
Corporate obligations	5,239	83	—	5,322
Total	$ 2,743,828	$ 1,513	$ (53,633)	$ 2,691,708
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 $4.0 million during the three months ended March 31, 2020 and $4.6 during the three months ended March 31, 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 $26.9 million of investment securities AFS in the first quarter of 2020, compared to no net gains from the sale of investment securities AFS in the first quarter of 2019. Investment securities AFS totaling $123 million in the first quarter of 2020 and $126 million in the first quarter of 2019 matured, were called or were otherwise paid down by the issuer. We purchased $657 million of investment securities AFS in the first quarter of 2020 compared to $6.2 million in the first quarter 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 quarter of 2020, our investment securities AFS portfolio increased $539 million as municipal bond market bond conditions allowed us to purchase approximately $663 million of high quality, short-term municipal bonds with favorable yields.

At March 31, 2020, approximately 94% of our investment securities had an investment grade credit rating (i.e., the equivalent of a rating of BBB- or better) and approximately 6% 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 $4.08 billion at March 31, 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 March 31, 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 March 31, 2020, we had the following issues of trust preferred securities and subordinated debentures owed to the Trusts.

	Subordinated Debentures Owed to Trusts	Unamortized Discount at March 31, 2020	Carrying Value of Subordinated Debentures at March 31, 2020	Trust Preferred Securities of the Trusts	Contractual Interest Rate at March 31, 2020	Final Maturity Date
			(Dollars in thousands)			
Ozark II	$ 14,433	$ —	$ 14,433	$ 14,000	4.34%	September 29, 2033
Ozark III	14,434	—	14,434	14,000	4.78	September 25, 2033
Ozark IV	15,464	—	15,464	15,000	3.90	September 28, 2034
Ozark V	20,619	—	20,619	20,000	2.34	December 15, 2036
Intervest II	15,464	(255)	15,209	15,000	3.79	September 17, 2033
Intervest III	15,464	(295)	15,169	15,000	3.63	March 17, 2034
Intervest IV	15,464	(537)	14,927	15,000	3.52	September 20, 2034
Intervest V	10,310	(510)	9,800	10,000	2.39	December 15, 2036
	$ 121,652	$ (1,597)	$ 120,055	$ 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 as important measures of the strength of our capital and our ability to generate earnings on tangible common equity invested by our shareholders. We believe presentation of these non-GAAP financial measures provides useful supplemental information that contributes to a proper understanding of our financial results and capital levels. These non-GAAP disclosures should not be viewed as a substitute for financial results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures are included in the following tables.

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

	March 31, 2020	March 31, 2019	December 31, 2019
	(Dollars in thousands)		
Total common stockholders' equity before noncontrolling interest	$ 4,083,150	$ 3,882,643	$ 4,150,351
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(20,958)	(32,527)	(23,753)
Total intangibles	(681,747)	(693,316)	(684,542)
Total tangible common stockholders' equity	$ 3,401,403	$ 3,189,327	$ 3,465,809
Total assets	$ 24,565,810	$ 23,005,652	$ 23,555,728
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(20,958)	(32,527)	(23,753)
Total intangibles	(681,747)	(693,316)	(684,542)
Total tangible assets	$ 23,884,063	$ 22,312,336	$ 22,871,186
Ratio of total common stockholders' equity to total assets	16.62%	16.88%	17.62%
Ratio of total tangible common stockholders' equity to total tangible assets	14.24%	14.29%	15.15%

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

	March 31, 2020	March 31, 2019	December 31, 2019
	(In thousands, except per share amounts)		
Total common stockholders' equity before noncontrolling interest	$ 4,083,150	$ 3,882,643	$ 4,150,351
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(20,958)	(32,527)	(23,753)
Total intangibles	(681,747)	(693,316)	(684,542)
Total tangible common stockholders' equity	$ 3,401,403	$ 3,189,327	$ 3,465,809
Shares of common stock outstanding	129,324	128,948	128,951
Book value per common share	$ 31.57	$ 30.11	$ 32.19
Tangible book value per common share	$ 26.30	$ 24.73	$ 26.88

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

	Three Months Ended March 31,	
	2020	2019
	(Dollars in thousands)	
Net income available to common stockholders	$ 11,866	$ 110,706
Average common stockholders' equity before noncontrolling interest	$ 4,118,614	$ 3,813,979
Less average intangible assets:		
Goodwill	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(22,412)	(34,437)
Total average intangibles	(683,201)	(695,226)
Average tangible common stockholders' equity	$ 3,435,413	$ 3,118,753
Return on average common stockholders' equity(1)	1.16%	11.77%
Return on average tangible common stockholders' equity(1)	1.39%	14.40%

(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 March 31, 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, 2019. Subsequent to our September 30, 2019 annual impairment test, we performed additional goodwill impairment tests as of December 31, 2019 and as of March 31, 2020. Both the annual impairment test and the subsequent impairment tests 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, 2019 and the subsequent impairment tests as of March 31, 2020 and December 31, 2019 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 the first quarter 2020, we paid a dividend of $0.26 per common share compared to $0.22 per common share in the first quarter of 2019. On April 1, 2020, our Board approved a cash dividend of $0.27 per common share that was paid on April 20, 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 March 31, 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. The Bank 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 its 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 March 31, 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 March 31, 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 March 31, 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)			
March 31, 2020:						
Common equity tier 1 to risk-weighted assets	$3,376,322	13.04%	$1,812,986	7.00%	$1,683,487	6.50%
Tier 1 capital to risk-weighted assets	3,376,322	13.04	2,201,482	8.50	2,071,984	8.00
Total capital to risk-weighted assets	3,979,229	15.36	2,719,478	10.50	2,589,979	10.00
Tier 1 leverage to average assets	3,376,322	14.62	923,581	4.00	1,154,477	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 in late 2019 reflected that we would maintain well-capitalized status for all capital ratios over the stress test time horizon.

Growth. During the first quarter of 2020, we (i) closed our Bellefonte, Arkansas office and consolidated those customers and accounts into our Harrison, Arkansas offices, (ii) consolidated our leased space in our Riverwood office in Atlanta, Georgia and (iii) relocated our RESG team in Los Angeles, California to new leased space. During the remainder of 2020, we expect to (i) open loan production offices in Aventura, Florida; Jonesboro, Arkansas; and Charlotte, North Carolina, (ii) open our new corporate headquarters facility in Little Rock, Arkansas, (iii) replace a leased facility with a Bank-owned facility in Brookhaven, Georgia, (iv) relocate our leased facility in Ft. Lauderdale, Florida, and (v) vacate excess leased space in Ellijay, Georgia.

We may open additional branches and loan production offices as our needs and resources permit. Additionally, as we have done in recent quarters, we may relocate offices and we may close certain offices and consolidate the business of such offices into other 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 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 quarter of 2020, we spent $16.8 million on capital expenditures for premises and equipment. Our capital expenditures for 2020 are expected to be in the range of $40 million to $50 million, including progress payments on construction projects expected to be completed in 2020, furniture and equipment costs and acquisition of sites for future development. Actual expenditures may vary significantly from those expected, depending on the number and cost of additional branch offices acquired or constructed and sites acquired for future development, progress or delays encountered on ongoing and new construction projects, delays in obtaining or inability to obtain required approvals, potential premises and equipment expenditures associated with acquisitions, if any, and other factors.

Operational Risk Management

Overview. Operational risk is the risk to current or anticipated earnings or capital arising from inadequate or failed internal processes or systems, human errors or misconduct, reputational damage or adverse external events. Operational risk is inherent in all of our businesses. To assist in our operational risk management, in addition to monitoring our operational risk appetite using key performance and risk metrics, we utilize risk control and self-assessments across the Bank to identify key operational risks and associated key internal controls. We have in place a number of controls that assist in the management of operational risk including, but not limited to, transactional documentation requirements; systems and procedures to monitor transactions; systems and procedures to detect and mitigate attempts to commit fraud, penetrate our systems, access customer data, and/or deny access to our systems by legitimate customers; regulatory compliance reviews; and periodic reviews by various components of our CRMG and our Internal Audit function. Reconciliation procedures have also been established to ensure that data processing systems accurately capture data and transactions. Further, we have programs and procedures to maintain contingency and business continuity plans for operational support in the event of disruptions to our business, including disruptions during the first quarter of 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 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. Specifically, our legal department is responsible for providing advice, interpreting and identifying developments regarding laws, regulations, regulatory guidance and litigation, and setting standards for communicating relevant changes to our Corporate Compliance group, each of our lines of business managers and our Internal Audit group. Our legal department also identifies and communicates legal risk associated with new products and business practices.

Reputational Risk Management

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

Strategic Risk Management

Strategic risk is the risk to current or anticipated earnings or capital, or franchise or enterprise value arising from adverse business decisions, poor implementation of business decisions, deteriorations in national or regional macro-economic conditions, or lack of responsiveness to changes in the financial services industry and operating environment. This risk is a function of the compatibility of our strategic goals, business strategies, resources, and quality of implementation. The assessment of strategic risk includes more than an analysis of our written strategic plan. It focuses on opportunity costs and how plans, systems, and implementation affect our franchise or enterprise value. It also incorporates how management analyzes external factors, such as economic, technological, competitive, regulatory, and other environmental changes that affect our strategic direction. Our strategic risk exposure is measured against our Board-approved strategic risk appetite 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 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 54 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.

Effective January 1, 2020, the Bank adopted the CECL accounting standard. The Bank designed new controls and modified existing controls as part of its adoption. These additional controls over financial reporting included controls over score card model creation and design, model governance, assumptions, and expanded controls over loan level data. There were no other changes in the Bank's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarterly period covered by this report that have materially affected, or are reasonably likely to materially affect, the Bank's 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 4:18-cv-793-JM. Under applicable federal law, the federal district court in the Colbert Case named Strathclyde Pension Fund as the lead class plaintiff. The Colbert complaint, as amended on June 21, 2019, alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, by the Bank, its CEO, George Gleason, and its CFO, Greg McKinney, for making allegedly false and misleading statements and allegedly failing to disclose material facts relating to the risk of loss regarding two commercial real estate loans. The amended complaint alleges essentially that the Bank lacked adequate internal controls to assess credit risk; as a result, such loans, which were classified as substandard, posed an increased risk of loss and were reasonably likely to lead to charge-offs, which actually occurred in the third quarter of 2018; and consequently, defendants' public statements during the class period about the Bank's business, operations, and prospects were materially misleading and/or lacked a reasonable basis. The amended complaint identified the 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. 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 two purported class action complaints noted in the preceding paragraph, by allegedly failing to properly maintain oversight over the Bank's internal controls and practices and procedures, and allegedly allowing the Bank to disseminate materially misleading information through its public disclosures. The amended complaint seeks damages against the individual defendants and disgorgement of any profits, benefits and other compensation received by them. The Bank intends to vigorously oppose the ability of the plaintiff to proceed in a derivative capacity. All defendants have moved to dismiss the action, and the individual defendants intend to vigorously defend against the claims against them.

On August 14, 2019, a shareholder derivative complaint was filed in the United States District Court for the Eastern District of Arkansas, case number 4:19-cv-567-KGB, by Barbara Bonessi as plaintiff, against the Bank, as nominal defendant, the current members of the board of directors, and certain current and former officers and directors of the Bank. As amended on January 20, 2020, the complaint alleges claims against the current members of the board of directors of breach of fiduciary duty, waste of corporate assets, unjust enrichment, failing to prevent other officers and directors from alleged insider trading in the Bank's stock, and violation of Section 14(a) of the Securities Exchange Act of 1934, as amended, and Rule 14a-9 promulgated thereunder, all in the context of the same factual circumstances recited in the actions noted in the two preceding paragraphs. The amended complaint also alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, and alleges unlawful sales of Bank stock against certain current and former directors and officers of the Bank while in possession of non-public material adverse information, based on the same factual circumstances recited in the actions noted in the two preceding paragraphs. Under the amended complaint, the plaintiff seeks damages against the individual defendants and disgorgement of any profits, benefits and other compensation received by them. The Bank 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 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. According to the complaint, plaintiff, a customer of the Bank, alleges that the Bank wrongfully imposed multiple non-sufficient funds charges on single items of the plaintiff that were presented for payment, and she alleges that the Bank thereby breached its customer account agreements with plaintiff, breached the implied covenant of good faith and fair dealing, was unjustly enriched by making such multiple charges, unlawfully converted plaintiff's and other class members' funds, and, as to plaintiff only, violated the Arkansas Deceptive Trade Practices Act. Plaintiff purports 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, plaintiff seeks unspecified compensatory damages for herself and the purported class and punitive damages for herself, and seeks an injunction against the Bank's continuing engagement in the practices described in the complaint. The Bank intends to vigorously defend against the plaintiff's claims.

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

Item 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 loan 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 already influenced the recognition of credit losses in our loan portfolios and increased our allowance for credit losses. During the quarter ended March 31, 2020, over 90% of our provision for credit losses was a result of changing our forecast and model assumptions due to COVID-19. Post March 31, 2020, 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,

particularly as businesses remain closed. 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 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

During the first quarter of 2020, the Bank issued an aggregate of 4,300 shares of common stock in connection with the exercise of stock options issued to certain participants under the Bank's Stock Option Plans. The shares were issued in reliance on the exemption provided by Section 3(a)(2) of the Securities Act of 1933, because the sales involved securities issued by a bank.

During the first quarter of 2020, we issued an aggregate of 447,085 shares of restricted common stock to certain officers and employees pursuant to the Bank's 2019 Omnibus Equity Incentive Plan. We did not receive any cash consideration in connection with these restricted stock grants. These grants were exempt from registration pursuant to Section (3)(a)(2) of the Securities Act of 1933 because the grants involved securities issued by a bank.

During the first quarter of 2020, the Bank repurchased shares of its common stock in connection with its equity incentive plan awards, as indicated in the following table.

Period	Total Number of Shares Purchased [1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program
January 1 - 31, 2020	61,873	$ 29.965	—	—
February 1 - 29, 2020	—	—	—	—
March 1 - 31, 2020	—	—	—	—
Total	61,873	$ 29.965	—	—

(1) 156,460 shares of our common stock issued to certain of our officers under the Amended and Restated Restricted Stock and Incentive Plan vested in January 2020 and were no longer subject to the vesting restriction or substantial risk of forfeiture. We withheld 61,873 of such shares to satisfy federal and state tax withholding requirements related to the vesting of these shares.

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: May 11, 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).
10.1*	Form of 2020 Performance Based Restricted Stock Unit Award Agreement for Executive Officers (previously filed as Exhibit 10.25 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 28, 2020, and incorporated herein by reference).
10.2*	Bank OZK 2020 Executive Management Cash-Based Performance Plan (previously filed as Exhibit 10.26 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: May 11, 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: May 11, 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 March 31, 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.

May 11, 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 March 31, 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.

May 11, 2020

/s/ Greg McKinney
Greg McKinney
Chief Financial Officer