

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2022

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

For the transition period from _____ to _____.

FDIC Certificate No. 110

BANK OZK

(Exact name of registrant as specified in its charter)

ARKANSAS
(State or other jurisdiction of
incorporation or organization)

71-0130170
(I.R.S. Employer
Identification Number)

18000 CANTRELL ROAD, LITTLE ROCK, ARKANSAS
(Address of principal executive offices)

72223
(Zip Code)

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

N/A

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	OZK	Nasdaq Global Select Market
4.625% Series A Non-Cumulative Perpetual Preferred Stock, \$0.01 par value per share	OZKAP	Nasdaq Global Select Market

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
Non-accelerated filer
Smaller reporting company

Accelerated filer
Emerging growth 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

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

Class
Common Stock, \$0.01 par value per share

Outstanding at November 4, 2022
117,561,629

BANK OZK
FORM 10-Q
September 30, 2022

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BANK OZK
CONSOLIDATED BALANCE SHEETS
 Unaudited

	<u>September 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
(Dollars in thousands, except per share amounts)		
ASSETS		
Cash and cash equivalents	\$ 895,824	\$ 2,053,829
Investment securities – available for sale (“AFS”)	3,528,077	3,916,733
Investment securities – trading	2,481	14,957
Federal Home Loan Bank of Dallas (“FHLB”) and other bankers’ bank stocks	31,841	40,788
Non-purchased loans	19,103,546	17,791,610
Purchased loans	410,166	516,215
Allowance for loan losses	(200,098)	(217,380)
Net loans	19,313,614	18,090,445
Premises and equipment, net	684,930	695,857
Foreclosed assets	6,559	5,744
Accrued interest receivable	97,564	83,025
Bank owned life insurance (“BOLI”)	784,926	774,822
Goodwill and other intangible assets, net	664,732	669,063
Other, net	221,571	185,167
Total assets	<u>\$ 26,232,119</u>	<u>\$ 26,530,430</u>
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Deposits:		
Demand non-interest bearing	\$ 4,824,209	\$ 4,983,788
Savings and interest bearing transaction	9,763,638	9,245,727
Time	5,814,029	5,979,619
Total deposits	20,401,876	20,209,134
Other borrowings	456,466	756,321
Subordinated notes	346,741	346,133
Subordinated debentures	121,450	121,033
Reserve for losses on unfunded loan commitments	135,537	71,609
Accrued interest payable and other liabilities	227,505	186,840
Total liabilities	21,689,575	21,691,070
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock; \$0.01 par value; 100,000,000 shares authorized; 14,000,000 issued and outstanding at September 30, 2022 and December 31, 2021	338,980	338,980
Common stock; \$0.01 par value; 300,000,000 shares authorized; 117,761,605 and 125,443,748 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	1,178	1,254
Additional paid-in capital	1,773,562	2,093,702
Retained earnings	2,653,377	2,378,466
Accumulated other comprehensive (loss) income	(227,673)	23,841
Total stockholders’ equity before noncontrolling interest	4,539,424	4,836,243
Noncontrolling interest	3,120	3,117
Total stockholders’ equity	4,542,544	4,839,360
Total liabilities and stockholders’ equity	<u>\$ 26,232,119</u>	<u>\$ 26,530,430</u>

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF INCOME
Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in thousands, except per share amounts)				
Interest income:				
Non-purchased loans	\$ 295,054	\$ 238,258	\$ 791,313	\$ 716,639
Purchased loans	7,148	11,350	24,300	34,985
Investment securities:				
Taxable	10,269	9,236	31,246	26,786
Tax-exempt	7,126	3,296	14,132	10,860
Deposits with banks and federal funds sold	3,690	523	6,155	1,556
Total interest income	<u>323,287</u>	<u>262,663</u>	<u>867,146</u>	<u>790,826</u>
Interest expense:				
Deposits	21,997	12,326	41,343	54,908
Other borrowings	2,460	1,017	4,500	3,010
Subordinated notes	2,631	429	7,808	6,755
Subordinated debentures	1,582	934	3,741	2,814
Total interest expense	<u>28,670</u>	<u>14,706</u>	<u>57,392</u>	<u>67,487</u>
Net interest income	294,617	247,957	809,754	723,339
Provision for credit losses	39,771	(7,454)	50,986	(69,946)
Net interest income after provision for credit losses	<u>254,846</u>	<u>255,411</u>	<u>758,768</u>	<u>793,285</u>
Non-interest income:				
Service charges on deposit accounts:				
NSF/Overdraft fees	4,808	4,080	13,257	10,647
All other service charges	7,089	7,097	20,963	20,507
Trust income	2,007	2,247	6,012	6,365
BOLI income:				
Increase in cash surrender value	4,940	4,940	14,579	14,739
Death benefits	510	—	807	1,409
Loan service, maintenance and other fees	3,418	3,307	10,039	10,811
Gains on sales of other assets	3,182	463	10,957	8,632
Net gains on investment securities	321	—	762	—
Other	2,888	3,850	9,583	12,733
Total non-interest income	<u>29,163</u>	<u>25,984</u>	<u>86,959</u>	<u>85,843</u>
Non-interest expense:				
Salaries and employee benefits	57,367	53,769	166,427	159,533
Net occupancy and equipment	18,244	17,161	52,474	49,797
Other operating expenses	40,080	39,467	113,807	110,840
Total non-interest expense	<u>115,691</u>	<u>110,397</u>	<u>332,708</u>	<u>320,170</u>
Income before taxes	168,318	170,998	513,019	558,958
Provision for income taxes	35,969	40,713	111,754	129,691
Net income	132,349	130,285	401,265	429,267
Earnings attributable to noncontrolling interest	—	5	(3)	(27)
Preferred stock dividends	4,047	—	12,574	—
Net income available to common stockholders	<u>\$ 128,302</u>	<u>\$ 130,290</u>	<u>\$ 388,688</u>	<u>\$ 429,240</u>
Basic earnings per common share	<u>\$ 1.08</u>	<u>\$ 1.01</u>	<u>\$ 3.21</u>	<u>\$ 3.31</u>
Diluted earnings per common share	<u>\$ 1.08</u>	<u>\$ 1.00</u>	<u>\$ 3.20</u>	<u>\$ 3.30</u>

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Net income	\$ 132,349	\$ 130,285	\$ 401,265	\$ 429,267
Other comprehensive loss:				
Net change in unrealized gains and losses on investment securities AFS	(149,087)	(12,522)	(331,509)	(23,566)
Tax effect of net change in unrealized gains and losses on investment securities AFS	35,582	3,101	79,995	6,020
Total other comprehensive loss	(113,505)	(9,421)	(251,514)	(17,546)
Total comprehensive income	<u>\$ 18,844</u>	<u>\$ 120,864</u>	<u>\$ 149,751</u>	<u>\$ 411,721</u>

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Unaudited

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Non- Controlling Interest	Total
(Dollars in thousands, except per share amounts)							
Three months ended September 30, 2022:							
Balances – June 30, 2022	\$338,980	\$ 1,190	\$1,817,650	\$2,563,130	\$ (114,168)	\$ 3,120	\$4,609,902
Net income	—	—	—	132,349	—	—	132,349
Earnings attributable to noncontrolling interest	—	—	—	—	—	—	—
Total other comprehensive loss	—	—	—	—	(113,505)	—	(113,505)
Preferred stock dividends, \$0.28906 per share	—	—	—	(4,047)	—	—	(4,047)
Common stock dividends, \$0.32 per share	—	—	—	(38,055)	—	—	(38,055)
Issuance of 5,414 shares of common stock for exercise of stock options	—	—	172	—	—	—	172
Repurchase and cancellation of 1,225,688 shares of common stock under share repurchase program	—	(12)	(47,735)	—	—	—	(47,747)
Stock-based compensation expense	—	—	3,475	—	—	—	3,475
Forfeitures of 14,142 shares of unvested restricted common stock	—	—	—	—	—	—	—
Balances – September 30, 2022	<u>\$338,980</u>	<u>\$ 1,178</u>	<u>\$1,773,562</u>	<u>\$2,653,377</u>	<u>\$ (227,673)</u>	<u>\$ 3,120</u>	<u>\$4,542,544</u>
Nine months ended September 30, 2022:							
Balances – December 31, 2021	\$338,980	\$ 1,254	\$2,093,702	\$2,378,466	\$ 23,841	\$ 3,117	\$4,839,360
Net income	—	—	—	401,265	—	—	401,265
Earnings attributable to noncontrolling interest	—	—	—	(3)	—	3	—
Total other comprehensive loss	—	—	—	—	(251,514)	—	(251,514)
Preferred stock dividends, \$0.89812 per share	—	—	—	(12,574)	—	—	(12,574)
Common stock dividends, \$0.93 per share	—	—	—	(113,777)	—	—	(113,777)
Issuance of 74,521 shares of common stock for exercise of stock options	—	1	2,251	—	—	—	2,252
Issuance of 220,822 shares of unvested restricted common stock	—	2	(2)	—	—	—	—
Repurchase and cancellation of 7,798,520 shares of common stock under share repurchase program	—	(77)	(326,667)	—	—	—	(326,744)
Repurchase and cancellation of 112,974 shares of common stock withheld for tax pursuant to restricted stock vesting	—	(1)	(5,398)	—	—	—	(5,399)
Stock-based compensation expense	—	—	9,675	—	—	—	9,675
Forfeitures of 65,992 shares of unvested restricted common stock	—	(1)	1	—	—	—	—
Balances – September 30, 2022	<u>\$338,980</u>	<u>\$ 1,178</u>	<u>\$1,773,562</u>	<u>\$2,653,377</u>	<u>\$ (227,673)</u>	<u>\$ 3,120</u>	<u>\$4,542,544</u>

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 (Loss) Income	Non- Controlling Interest	Total
(Dollars in thousands, except per share amounts)						
Three months ended September 30, 2021:						
Balances – June 30, 2021	\$ 1,297	\$2,277,138	\$2,173,114	\$ 50,127	\$ 3,117	\$4,504,793
Net income	—	—	130,285	—	—	130,285
Earnings attributable to noncontrolling interest	—	—	5	—	(5)	—
Total other comprehensive loss	—	—	—	(9,421)	—	(9,421)
Common stock dividends, \$0.285 per share	—	—	(37,170)	—	—	(37,170)
Issuance of 33,850 shares of common stock for exercise of stock options	1	1,085	—	—	—	1,086
Repurchase and cancellation of 888,567 shares of common stock under share repurchase program	(9)	(36,990)	—	—	—	(36,999)
Stock-based compensation expense	—	3,778	—	—	—	3,778
Forfeitures of 47,604 shares of unvested restricted common stock	(1)	1	—	—	—	—
Balances – September 30, 2021	<u>\$ 1,288</u>	<u>\$2,245,012</u>	<u>\$2,266,234</u>	<u>\$ 40,706</u>	<u>\$ 3,112</u>	<u>\$4,556,352</u>
Nine months ended September 30, 2021:						
Balances – December 31, 2020	\$ 1,294	\$2,265,850	\$1,946,875	\$ 58,252	\$ 3,085	\$4,275,356
Net income	—	—	429,267	—	—	429,267
Earnings attributable to noncontrolling interest	—	—	(27)	—	27	—
Total other comprehensive loss	—	—	—	(17,546)	—	(17,546)
Common stock dividends, \$0.8425 per share	—	—	(109,881)	—	—	(109,881)
Issuance of 176,250 shares of common stock for exercise of stock options	2	6,092	—	—	—	6,094
Issuance of 332,831 shares of unvested restricted common stock	3	(3)	—	—	—	—
Repurchase and cancellation of 888,567 shares of common stock under share repurchase program	(9)	(36,990)	—	—	—	(36,999)
Repurchase and cancellation of 55,893 shares of common stock withheld for taxes pursuant to restricted stock vesting	(1)	(1,976)	—	—	—	(1,977)
Stock-based compensation expense	—	12,038	—	—	—	12,038
Forfeitures of 97,250 shares of unvested restricted common stock	(1)	1	—	—	—	—
Balances – September 30, 2021	<u>\$ 1,288</u>	<u>\$2,245,012</u>	<u>\$2,266,234</u>	<u>\$ 40,706</u>	<u>\$ 3,112</u>	<u>\$4,556,352</u>

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Nine Months Ended September 30,	
	2022	2021
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	\$ 401,265	\$ 429,267
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	22,491	21,170
Amortization	5,358	5,518
Earnings attributable to noncontrolling interest	(3)	(27)
Provision for credit losses	50,986	(69,946)
Provision for losses on foreclosed and other assets	345	2,476
Write-off of unamortized subordinated debt issue costs	—	764
Net amortization of investment securities AFS	25,782	46,700
Net gains on investment securities	(762)	—
Amortization of operating lease right-of-use assets	5,302	5,440
Accretion of purchased loans	(6,990)	(10,101)
Gains on sales of other assets	(10,957)	(8,632)
Deferred income tax expense (benefit)	84,527	(36,557)
Increase in cash surrender value of BOLI	(14,579)	(14,739)
BOLI death benefits in excess of cash surrender value	(807)	(1,409)
Stock-based compensation expense	9,675	12,038
Changes in assets and liabilities:		
Trading account securities	13,230	—
Accrued interest receivable	(14,675)	3,077
Other assets, net	(14,246)	(700)
Accrued interest payable and other liabilities	35,542	(8,392)
Cash provided by operating activities	<u>591,484</u>	<u>375,947</u>
Cash flows from investing activities:		
Proceeds from sales of FHLB and other bankers' bank stock	23,310	—
Purchases of FHLB and other bankers' bank stock	(14,363)	(2,212)
Proceeds from maturities/calls/paydowns of investment securities AFS	939,782	1,982,709
Proceeds from sales of investment securities AFS	24	591,570
Purchases of investment securities AFS	(908,433)	(3,085,690)
Proceeds from sale of loans	64,406	198,664
Net (increase) decrease of non-purchased loans	(1,390,309)	493,149
Net payments received on purchased loans	111,031	205,036
Purchases of premises and equipment	(23,718)	(23,529)
Proceeds from BOLI death benefits	5,156	3,391
Proceeds from sales of other assets	21,505	39,189
Net cash invested in unconsolidated investments	(20,814)	(27,675)
Net cash paid in branch divestiture transaction	(21,346)	(102,063)
Net cash (used) provided by investing activities	<u>(1,213,769)</u>	<u>272,539</u>
Cash flows from financing activities:		
Net increase (decrease) in deposits	219,924	(1,237,486)
Net repayments of other borrowings	(299,855)	(989)
Net proceeds from issuance of subordinated debt	—	345,895
Repayment of subordinated debt	—	(225,000)
Proceeds from exercise of stock options	2,252	6,094
Cash dividends paid on common stock	(113,324)	(109,183)
Cash dividends paid on preferred stock	(12,574)	—
Repurchase and cancellation of shares of common stock - share repurchase program	(326,744)	(36,999)
Repurchase and cancellation of shares of common stock - withheld for taxes	(5,399)	(1,977)
Net cash used by financing activities	<u>(535,720)</u>	<u>(1,259,645)</u>
Net decrease in cash and cash equivalents	(1,158,005)	(611,159)
Cash and cash equivalents – beginning of period	2,053,829	2,393,662
Cash and cash equivalents – end of period	<u>\$ 895,824</u>	<u>\$ 1,782,503</u>

See accompanying notes to the consolidated financial statements.

BANK OZK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

1. Organization and Principles of Consolidation

Bank OZK (“the Bank”) is headquartered in Little Rock, Arkansas and provides a wide range of retail and commercial banking services. At September 30, 2022, the Bank conducted operations with over 240 offices in eight states, including offices in Arkansas, Georgia, Florida, North Carolina, Texas, California, New York and Mississippi. The Bank owns eight 100%-owned finance subsidiary business trusts, 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, a subsidiary that owns a renewable energy facility 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, the renewable energy subsidiary and 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, 2021.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates. In the opinion of management, all adjustments considered necessary, consisting of normal recurring items, have been included for a fair statement of the accompanying consolidated financial statements. Operating results for the three and nine months ended September 30, 2022 are not necessarily indicative of the results that may be expected for the full year or future periods. Certain reclassifications of prior year amounts have been made to conform to the 2022 financial statements presentation. These reclassifications had no impact on prior year net income, as previously reported.

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 during the applicable period. 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, using the treasury stock method, of the Bank’s common stock options and the non-vested performance stock units (“PSUs”) under its long-term incentive agreements. Options to purchase 894,442 shares and 1,067,377 shares, respectively, of the Bank’s common stock for the three months ended September 30, 2022 and 2021 and options to purchase 957,459 shares and 1,108,916 shares, respectively, of the Bank’s common stock for the nine months ended September 30, 2022 and 2021 were excluded from the diluted EPS calculations as inclusion of such options would have been anti-dilutive. There were no anti-dilutive PSUs for the three months or nine months ended September 30, 2022 or 2021.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(In thousands, except per share amounts)				
Numerator:				
Net income available to common stockholders	\$ 128,302	\$ 130,290	\$ 388,688	\$ 429,240
Denominator:				
Denominator for basic EPS – weighted-average common shares	118,480	129,397	121,117	129,536
Effect of dilutive securities – stock options and PSUs	376	532	422	527
Denominator for diluted EPS – weighted-average common shares and assumed conversions	118,856	129,929	121,539	130,063
Basic EPS	\$ 1.08	\$ 1.01	\$ 3.21	\$ 3.31
Diluted EPS	\$ 1.08	\$ 1.00	\$ 3.20	\$ 3.30

4. Investment Securities AFS

The Bank's investment securities AFS are stated at estimated fair value in the consolidated financial statements with unrealized gains and losses, net of related income tax, that do not include a credit component reported as a separate component of stockholders' equity and included in accumulated other comprehensive income. Unrealized losses that include a credit component are considered in determining the Bank's allowance for credit losses ("ACL"). At September 30, 2022 and December 31, 2021, no ACL was recorded for investment securities AFS as management does not believe that the Bank's investment securities in unrealized loss positions were impaired due to reasons of credit quality.

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(Dollars in thousands)				
September 30, 2022:				
U.S. Government agency mortgage-backed securities	\$ 1,819,171	\$ —	\$ (172,838)	\$ 1,646,333
Obligations of state and political subdivisions	1,284,751	1,285	(77,633)	1,208,403
Other U.S. Government agency securities	658,809	—	(45,407)	613,402
Corporate obligations	40,445	—	(4,434)	36,011
U.S. Treasuries	24,945	—	(1,017)	23,928
Total investment securities AFS	\$ 3,828,121	\$ 1,285	\$ (301,329)	\$ 3,528,077
December 31, 2021:				
U.S. Government agency mortgage-backed securities	\$ 2,203,398	\$ 26,473	\$ (12,590)	\$ 2,217,281
Obligations of state and political subdivisions	794,704	20,225	(1,716)	813,213
Other U.S. Government agency securities	556,290	35	(1,064)	555,261
Corporate obligations	305,966	236	(131)	306,071
U.S. Treasuries	24,910	—	(3)	24,907
Total investment securities AFS	\$ 3,885,268	\$ 46,969	\$ (15,504)	\$ 3,916,733

The following table shows the estimated fair value of investment securities AFS having gross unrealized losses and the amount of such unrealized losses, aggregated by investment category and length of time that individual investment securities have been in a continuous unrealized loss position, as of the dates indicated.

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>
(Dollars in thousands)						
September 30, 2022:						
U.S. Government agency mortgage-backed securities	\$ 1,058,521	\$ 94,830	\$ 587,812	\$ 78,008	\$ 1,646,333	\$ 172,838
Obligations of state and political subdivisions	1,118,106	75,885	24,331	1,748	1,142,437	77,633
Other U.S. Government agency securities	553,141	41,856	60,261	3,551	613,402	45,407
Corporate obligations	36,011	4,434	—	—	36,011	4,434
U.S. Treasuries	23,928	1,017	—	—	23,928	1,017
Total investment securities AFS	\$ 2,789,707	\$ 218,022	\$ 672,404	\$ 83,307	\$ 3,462,111	\$ 301,329
December 31, 2021:						
U.S. Government agency mortgage-backed securities	\$ 1,361,532	\$ 12,568	\$ 1,293	\$ 22	\$ 1,362,825	\$ 12,590
Obligations of state and political subdivisions	212,249	1,703	167	13	212,416	1,716
Other U.S. Government agency securities	390,226	1,064	—	—	390,226	1,064
Corporate obligations	274,829	131	—	—	274,829	131
U.S. Treasuries	24,907	3	—	—	24,907	3
Total investment securities AFS	\$ 2,263,743	\$ 15,469	\$ 1,460	\$ 35	\$ 2,265,203	\$ 15,504

In evaluating the Bank's unrealized loss positions for credit losses of its investment securities AFS portfolio, management considers the credit quality, financial condition and near term prospects of the issuer, the nature and cause of the unrealized loss and other factors. While the Bank periodically evaluates its AFS 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 AFS with unrealized losses and, more likely than not, will not be required to sell these investment securities AFS before fair value recovers to amortized cost. In addition, for investment securities AFS in an unrealized loss position, the Bank does not believe the unrealized losses are the result of issues with credit quality; thus, no ACL was established for investment securities AFS as of September 30, 2022 or December 31, 2021.

The following table shows the amortized cost and estimated fair value of investment securities AFS by maturity or estimated date of repayment as of September 30, 2022.

<u>Maturity or Estimated Repayment</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
(Dollars in thousands)		
One year or less	\$ 572,200	\$ 532,540
After one year to five years	1,962,277	1,805,788
After five years to ten years	437,262	394,241
After ten years	856,382	795,508
Total	\$ 3,828,121	\$ 3,528,077

For purposes of this maturity or estimated repayment distribution, all investment securities AFS are shown based on their contractual maturity date or estimated date of repayment, except (i) U.S. Government agency mortgage-backed securities are allocated among various maturities or repayment categories based on an estimated repayment schedule utilizing third-party 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 may differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Sales proceeds ⁽¹⁾	\$ —	\$ —	\$ 24	\$ 591,570
Gross realized gains	—	—	—	—
Gross realized losses	—	—	—	—
Net gains on investment securities AFS	\$ —	\$ —	\$ —	\$ —

(1) Sales proceeds for 2021 consisted entirely of variable rate demand notes that were put back to the issuer by the Bank prior to their maturity date during the first quarter of 2021. These notes were purchased at, carried at and called at their par value.

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

Allowance for Credit Losses

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

	Allowance for Loan Losses	Reserve for Losses on Unfunded Loan Commitments (Dollars in thousands)	Total Allowance for Credit Losses
Three months ended September 30, 2022:			
Balances – June 30, 2022	\$ 190,795	\$ 109,143	\$ 299,938
Net charge-offs	(4,074)	—	(4,074)
Provision for credit losses	13,377	26,394	39,771
Balances – September 30, 2022	<u>\$ 200,098</u>	<u>\$ 135,537</u>	<u>\$ 335,635</u>
Nine months ended September 30, 2022:			
Balances – December 31, 2021	\$ 217,380	\$ 71,609	\$ 288,989
Net charge-offs	(4,340)	—	(4,340)
Provision for credit losses	(12,942)	63,928	50,986
Balances – September 30, 2022	<u>\$ 200,098</u>	<u>\$ 135,537</u>	<u>\$ 335,635</u>
Three months ended September 30, 2021:			
Balances – June 30, 2021	\$ 248,753	\$ 58,811	\$ 307,564
Net charge-offs	(1,312)	—	(1,312)
Provision for credit losses	(9,719)	2,265	(7,454)
Balances – September 30, 2021	<u>\$ 237,722</u>	<u>\$ 61,076</u>	<u>\$ 298,798</u>
Nine months ended September 30, 2021:			
Balances – December 31, 2020	\$ 295,824	\$ 81,481	\$ 377,305
Net charge-offs	(8,561)	—	(8,561)
Provision for credit losses	(49,541)	(20,405)	(69,946)
Balances – September 30, 2021	<u>\$ 237,722</u>	<u>\$ 61,076</u>	<u>\$ 298,798</u>

The calculations of the Bank's provision for credit losses for the third quarter and first nine months of 2022 and its total ACL at September 30, 2022 were based on a number of key estimates, assumptions and economic forecasts. The Bank utilized recent economic forecasts provided by Moody's, including the Moody's updates released in September 2022. In selecting the weightings for the various economic scenarios for purposes of determining the Bank's ACL at September 30, 2022, the Bank assigned the largest weighting to the Moody's S4 (Alternative Downside) scenario and assigned smaller weightings to the Moody's S6 (Stagflation) and Baseline scenarios. The Bank's selection and weightings of these scenarios reflected its assessment of conditions in the U.S. economy, and acknowledged the uncertainty regarding future U.S. economic conditions, including the elevated risk of a recession in the near-term, elevated inflationary pressures, increases in the Fed funds target rate, prospects for shrinking the Federal Reserve balance sheet, the impacts of the ongoing war in Ukraine, supply chain disruptions, global trade and geopolitical matters, the impacts of U.S. fiscal policy actions, uncertainties about the COVID-19 pandemic, and various other factors. These forecasts included a number of economic variables, including gross domestic product, unemployment rates, commercial and residential real estate prices and consumer price index, among others. For purposes of the forecasts used in the Bank's CECL methodology, management utilized a

reasonable and supportable forecast period of two years, followed by a reversion, on a systematic basis, of estimated losses back to the Bank's historical mean. Management also utilized certain qualitative adjustments to increase the Bank's ACL estimates to capture items that were not fully reflected in the Bank's modeled results. Those qualitative adjustments are intended to adjust for imprecision in economic forecasts, model data limitations and other factors. CECL has and is expected to continue to increase the volatility in our provision for credit losses and associated ACL from period to period.

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

	<u>Beginning Balance</u>	<u>Charge-offs</u>	<u>Recoveries</u>	<u>Provision</u>	<u>Ending Balance</u>
	(Dollars in thousands)				
Three months ended September 30, 2022:					
Real estate:					
Residential 1-4 family	\$ 16,008	\$ (85)	\$ 369	\$ 2,170	\$ 18,462
Non-farm/non-residential	56,554	(3,475)	948	(5,008)	49,019
Construction/land development	60,255	—	21	(1,260)	59,016
Agricultural	3,461	—	13	(337)	3,137
Multifamily residential	5,842	—	—	2,106	7,948
Commercial and industrial	6,665	(157)	48	2,782	9,338
Consumer	36,122	(1,058)	263	10,184	45,511
Other	5,888	(1,132)	171	2,740	7,667
Total ALL for funded loans	190,795	(5,907)	1,833	13,377	200,098
Reserve for losses on unfunded loan commitments	109,143	—	—	26,394	135,537
Total ACL	<u>\$ 299,938</u>	<u>\$ (5,907)</u>	<u>\$ 1,833</u>	<u>\$ 39,771</u>	<u>\$ 335,635</u>
Nine months ended September 30, 2022:					
Real estate:					
Residential 1-4 family	\$ 18,675	\$ (397)	\$ 845	\$ (661)	\$ 18,462
Non-farm/non-residential	79,524	(6,195)	5,912	(30,222)	49,019
Construction/land development	54,036	(3)	105	4,878	59,016
Agricultural	3,070	(36)	14	89	3,137
Multifamily residential	6,424	—	89	1,435	7,948
Commercial and industrial	8,017	(446)	376	1,391	9,338
Consumer	37,430	(3,256)	946	10,391	45,511
Other	10,204	(2,833)	539	(243)	7,667
Total ALL for funded loans	217,380	(13,166)	8,826	(12,942)	200,098
Reserve for losses on unfunded loan commitments	71,609	—	—	63,928	135,537
Total ACL	<u>\$ 288,989</u>	<u>\$ (13,166)</u>	<u>\$ 8,826</u>	<u>\$ 50,986</u>	<u>\$ 335,635</u>

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
			(Dollars in thousands)		
Three months ended September 30, 2021:					
Real estate:					
Residential 1-4 family	\$ 19,711	\$ (35)	\$ 239	\$ (1,008)	\$ 18,907
Non-farm/non-residential	85,407	(41)	200	1,033	86,599
Construction/land development	65,577	—	10	(4,957)	60,630
Agricultural	3,261	—	1	(136)	3,126
Multifamily residential	8,370	(377)	—	2,660	10,653
Commercial and industrial	8,407	(45)	67	(304)	8,125
Consumer	41,802	(923)	406	(6,211)	35,074
Other	16,218	(1,060)	246	(796)	14,608
Total ALL for funded loans	248,753	(2,481)	1,169	(9,719)	237,722
Reserve for losses on unfunded loan commitments	58,811	—	—	2,265	61,076
Total ACL	<u>\$ 307,564</u>	<u>\$ (2,481)</u>	<u>\$ 1,169</u>	<u>\$ (7,454)</u>	<u>\$ 298,798</u>

Nine months ended September 30, 2021:

Real estate:					
Residential 1-4 family	\$ 26,655	\$ (181)	\$ 512	\$ (8,079)	\$ 18,907
Non-farm/non-residential	93,173	(3,763)	912	(3,723)	86,599
Construction/land development	72,500	—	454	(12,324)	60,630
Agricultural	3,064	(18)	5	75	3,126
Multifamily residential	12,352	(377)	—	(1,322)	10,653
Commercial and industrial	13,758	(506)	340	(5,467)	8,125
Consumer	45,657	(5,493)	1,176	(6,266)	35,074
Other	28,665	(2,272)	650	(12,435)	14,608
Total ALL for funded loans	295,824	(12,610)	4,049	(49,541)	237,722
Reserve for losses on unfunded loan commitments	81,481	—	—	(20,405)	61,076
Total ACL	<u>\$ 377,305</u>	<u>\$ (12,610)</u>	<u>\$ 4,049</u>	<u>\$ (69,946)</u>	<u>\$ 298,798</u>

The following table presents a summary of the Bank's loans on nonaccrual status with ALL and loans on nonaccrual status with no ALL as of the dates indicated.

	Nonaccrual Loans with ALL	Nonaccrual Loans with no ALL (Dollars in thousands)	Total Nonaccrual Loans
September 30, 2022:			
Real estate:			
Residential 1-4 family	\$ 21,270	\$ 381	\$ 21,651
Non-farm/non-residential	2,353	2,400	4,753
Construction/land development	472	737	1,209
Agricultural	856	—	856
Multifamily residential	—	—	—
Commercial and industrial	1,529	708	2,237
Consumer	2,025	—	2,025
Other	—	—	—
Total	<u>\$ 28,505</u>	<u>\$ 4,226</u>	<u>\$ 32,731</u>
December 31, 2021:			
Real estate:			
Residential 1-4 family	\$ 20,429	\$ 1,418	\$ 21,847
Non-farm/non-residential	14,895	721	15,616
Construction/land development	452	622	1,074
Agricultural	920	—	920
Multifamily residential	260	—	260
Commercial and industrial	2,127	2	2,129
Consumer	2,418	—	2,418
Other	1	—	1
Total	<u>\$ 41,502</u>	<u>\$ 2,763</u>	<u>\$ 44,265</u>

Interest income on nonperforming loans as of September 30, 2022 and December 31, 2021 is recognized on a cash basis when and if actually collected. Total interest income recognized on nonperforming loans for the three months and nine months ended September 30, 2022 and 2021 was not material.

Credit Quality Indicators

The following table provides the credit quality indicators for the Bank's total loans by loan segment and period of origination as of the date indicated. At September 30, 2022, the Bank had no loans risk rated as doubtful or loss. Loans are presented on an amortized cost basis which includes unamortized fees and costs but excludes accrued interest.

	Nine Months Ended Sept. 30, 2022	Period of Origination				Prior to January 1, 2018	Revolving Loans Amortized Cost Basis	Total
		Year Ended December 31,						
		2021	2020	2019	2018			
(Dollars in thousands)								
September 30, 2022:								
Residential 1-4 family ⁽¹⁾ :								
Pass	\$ 211,670	\$ 176,713	\$ 112,313	\$ 72,683	\$ 45,524	\$ 200,168	\$ 120,182	\$ 939,253
Special Mention	—	1,278	1,568	1,898	153	1,600	135	6,632
Substandard	51	462	2,483	6,349	2,515	10,588	36	22,484
Total residential 1-4 family	211,721	178,453	116,364	80,930	48,192	212,356	120,353	968,369
Non-farm/non-residential:								
Pass	545,234	696,288	1,428,446	295,977	359,523	1,157,408	20,515	4,503,391
Special Mention	—	221	7,695	2,569	222	63,369	—	74,076
Substandard	—	—	257	25	1,033	30,286	—	31,601
Total non-farm/ non-residential	545,234	696,509	1,436,398	298,571	360,778	1,251,063	20,515	4,609,068
Construction/land development:								
Pass	1,472,091	2,168,581	1,622,606	1,261,991	219,291	340,121	238,227	7,322,908
Special Mention	—	—	—	5,725	—	130	—	5,855
Substandard	—	—	82	773	—	584	36,926	38,365
Total construction/ land development	1,472,091	2,168,581	1,622,688	1,268,489	219,291	340,835	275,153	7,367,128
Agricultural:								
Pass	46,291	57,014	29,118	42,187	34,072	20,668	1,438	230,788
Special Mention	—	—	30	—	—	57	—	87
Substandard	—	—	—	—	322	533	—	855
Total agricultural	46,291	57,014	29,148	42,187	34,394	21,258	1,438	231,730
Multifamily residential:								
Pass	34,596	58,852	347,728	577,836	184,424	134,648	2,108	1,340,192
Special Mention	—	—	—	863	—	516	—	1,379
Substandard	—	—	—	—	—	68	—	68
Total multifamily residential	34,596	58,852	347,728	578,699	184,424	135,232	2,108	1,341,639
Commercial and industrial:								
Pass	125,390	84,713	33,464	25,947	52,798	35,664	442,757	800,733
Special Mention	—	270	—	272	4	329	101	976
Substandard	—	29	333	686	715	528	—	2,291
Total commercial and industrial	125,390	85,012	33,797	26,905	53,517	36,521	442,858	804,000
Consumer ⁽¹⁾ :								
Pass	644,639	445,681	151,604	443,320	398,782	333,634	5,388	2,423,048
Special Mention	126	418	159	275	552	749	—	2,279
Substandard	18	33	139	368	624	852	—	2,034
Total consumer	644,783	446,132	151,902	443,963	399,958	335,235	5,388	2,427,361
Other ⁽¹⁾ :								
Pass	247,630	290,225	303,202	717,377	392	13,984	191,607	1,764,417
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total other	247,630	290,225	303,202	717,377	392	13,984	191,607	1,764,417
Total	<u>\$ 3,327,736</u>	<u>\$ 3,980,778</u>	<u>\$ 4,041,227</u>	<u>\$ 3,457,121</u>	<u>\$ 1,300,946</u>	<u>\$ 2,346,484</u>	<u>\$ 1,059,420</u>	<u>\$ 19,513,712</u>

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

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

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Total</u>
	(Dollars in thousands)			
September 30, 2022				
Real estate:				
Residential 1-4 family ⁽¹⁾	\$ 939,253	\$ 6,632	\$ 22,484	\$ 968,369
Non-farm/non-residential	4,503,391	74,076	31,601	4,609,068
Construction/land development	7,322,908	5,855	38,365	7,367,128
Agricultural	230,788	87	855	231,730
Multifamily residential	1,340,192	1,379	68	1,341,639
Commercial and industrial	800,733	976	2,291	804,000
Consumer ⁽¹⁾	2,423,048	2,279	2,034	2,427,361
Other ⁽¹⁾	1,764,417	—	—	1,764,417
Total	\$ 19,324,730	\$ 91,284	\$ 97,698	\$ 19,513,712
December 31, 2021:				
Real estate:				
Residential 1-4 family ⁽¹⁾	\$ 857,517	\$ 7,234	\$ 22,273	\$ 887,024
Non-farm/non-residential	3,700,202	56,367	26,323	3,782,892
Construction/land development	8,200,366	2,181	44,127	8,246,674
Agricultural	246,312	165	1,250	247,727
Multifamily residential	925,165	9,327	353	934,845
Commercial and industrial	504,800	3,660	2,324	510,784
Consumer ⁽¹⁾	2,181,174	1,837	2,418	2,185,429
Other ⁽¹⁾	1,512,391	58	1	1,512,450
Total	\$ 18,127,927	\$ 80,829	\$ 99,069	\$ 18,307,825

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

The following categories of credit quality indicators are utilized by the Bank for its internal loan grading purposes.

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 salvage value but rather it is not practical or desirable to delay charging off.

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

	30-59 Days Past Due ⁽¹⁾	60-89 Days Past Due ⁽²⁾	90 Days or More ⁽³⁾	Total Past Due	Current ⁽⁴⁾	Total
	(Dollars in thousands)					
September 30, 2022:						
Real estate:						
Residential 1-4 family	\$ 5,181	\$ 3,930	\$ 4,320	\$ 13,431	\$ 954,938	\$ 968,369
Non-farm/non-residential	93	377	1,545	2,015	4,607,053	4,609,068
Construction/land development	16	41	810	867	7,366,261	7,367,128
Agricultural	25	32	423	480	231,250	231,730
Multifamily residential	—	—	—	—	1,341,639	1,341,639
Commercial and industrial	2,543	4	1,768	4,315	799,685	804,000
Consumer	2,041	459	11	2,511	2,424,850	2,427,361
Other	—	—	—	—	1,764,417	1,764,417
Total	<u>\$ 9,899</u>	<u>\$ 4,843</u>	<u>\$ 8,877</u>	<u>\$ 23,619</u>	<u>\$19,490,093</u>	<u>\$19,513,712</u>

December 31, 2021:

Real estate:						
Residential 1-4 family	\$ 6,395	\$ 3,497	\$ 5,703	\$ 15,595	\$ 871,429	\$ 887,024
Non-farm/non-residential	2,816	5,123	2,130	10,069	3,772,823	3,782,892
Construction/land development	986	—	—	986	8,245,688	8,246,674
Agricultural	23	—	475	498	247,229	247,727
Multifamily residential	—	—	260	260	934,585	934,845
Commercial and industrial	4	21	1,793	1,818	508,966	510,784
Consumer	1,485	675	14	2,174	2,183,255	2,185,429
Other	58	—	—	58	1,512,392	1,512,450
Total	<u>\$ 11,767</u>	<u>\$ 9,316</u>	<u>\$ 10,375</u>	<u>\$ 31,458</u>	<u>\$18,276,367</u>	<u>\$18,307,825</u>

- (1) Includes \$1.6 million and \$3.4 million of loans on nonaccrual status at September 30, 2022 and December 31, 2021, respectively.
(2) Includes \$2.8 million and \$2.2 million of loans on nonaccrual status at September 30, 2022 and December 31, 2021, respectively.
(3) All loans greater than 90 days past due were on nonaccrual status at September 30, 2022 and December 31, 2021.
(4) Includes \$19.4 million and \$28.3 million of loans on nonaccrual status at September 30, 2022 and December 31, 2021, respectively.

6. Supplemental Cash Flow Information

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

	Nine Months Ended September 30,	
	2022	2021
	(Dollars in thousands)	
Cash paid during the period for:		
Interest	\$ 52,303	\$ 76,089
Income taxes	67,902	184,868
Supplemental schedule of non-cash investing and financing activities:		
Net change in unrealized gains/losses on investment securities AFS	331,509	(23,566)
Loans and other assets transferred to foreclosed assets	9,364	13,197

7. Commitments and Contingencies

Outstanding standby letters of credit are contingent commitments issued by the Bank generally to guarantee the performance of a customer in third party arrangements. The maximum amount of future payments the Bank could be required to make under these guarantees at September 30, 2022 is \$16.2 million. The Bank holds collateral to support guarantees when deemed necessary. Collateralized commitments at September 30, 2022 totaled \$14.9 million.

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

<u>Maturity</u>	<u>Contractual Maturities at</u> <u>September 30, 2022</u>	
		<u>Amount</u>
	(Dollars in thousands)	
2022	\$	234,709
2023		1,965,754
2024		4,275,002
2025		6,497,291
2026		6,738,903
Thereafter		379,442
Total	\$	<u>20,091,101</u>

On October 26, 2018, a purported class action complaint alleging violations of federal securities laws was filed against Bank OZK in the United States District Court for the Eastern District of Arkansas, captioned Jordan Colbert et al. v. Bank OZK et al., case number now 4:18-cv-793-DPM. Under applicable federal law, the federal district court in the Colbert Case named Strathclyde Pension Fund as the lead class plaintiff. The complaint, alleged violations of Section 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. The 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 sought damages against the Bank and individual defendants. In May 2022, the parties entered into an agreement to settle the claims for \$45.0 million and the court granted final approval of the settlement in September 2022. The settlement, which was funded by the Bank's insurance carriers, does not include or constitute an admission, concession, or finding of any fault, liability, or wrongdoing by the Bank or any other defendant.

The Bank is (or may be) a party as both plaintiff and defendant in various legal or regulatory proceedings or claims, including claims related to employment, wage-hour and labor law claims, consumer and privacy claims, as well as claims of lender liability, breach of contract, and other similar lending-related claims encountered on a routine basis, some of which may be styled as "class action" or representative cases. While the ultimate resolution of these 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.

8. 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 replaced 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 Human Capital and Compensation Committee ("Compensation Committee") of the Board of Directors.

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

All employee options previously granted under the Option Plan and outstanding at September 30, 2022 were issued with a vesting date three years after issuance and an expiration date seven years after issuance. No stock options were granted under the Omnibus Plan during the three months or nine months ended September 30, 2022 or 2021.

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

	Options	Weighted-Average Exercise Price/Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Nine Months Ended September 30, 2022:				
Outstanding – January 1, 2022	1,253,604	\$ 48.14		
Granted	—	—		
Exercised	(74,521)	30.21		
Forfeited	(153,505)	51.08		
Outstanding – September 30, 2022	<u>1,025,578</u>	<u>49.00</u>	<u>1.7</u>	<u>\$ 1,240.0</u> ⁽¹⁾
Fully vested and exercisable – September 30, 2022	<u>1,025,578</u>	<u>\$ 49.00</u>	<u>1.7</u>	<u>\$ 1,240.0</u> ⁽¹⁾

(1) Based on closing price of \$39.56 per share on September 30, 2022.

Intrinsic value for stock options is defined as the amount by which the current market price of the underlying stock exceeds the exercise price. For those stock options where the exercise price exceeds the current market price of the underlying stock, the intrinsic value is zero. The total intrinsic value of options exercised during the three months ended September 30, 2022 and 2021 was not material. The total intrinsic value of options exercised during the nine months ended September 30, 2022 and 2021 was \$1.1 million and \$1.3 million, respectively.

Stock-based compensation expense for stock options included in non-interest expense was not material for the three and nine months ended September 30, 2022 and 2021. There was no unrecognized compensation cost related to non-vested stock option grants at September 30, 2022.

During the nine months ended September 30, 2022, the Bank issued 200,406 shares of restricted common stock to employees under the Omnibus Plan. These grants of restricted stock cliff vest 100% three years after issuance, assuming continuous employment by the participant during this period.

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

	2009 Plan and Director Plan	Omnibus Plan	Total of All Plans
Nine Months Ended September 30, 2022:			
Outstanding – January 1, 2022	290,954	647,495	938,449
Granted	—	220,822	220,822
Forfeited	(789)	(65,203)	(65,992)
Vested	(290,165)	(20,328)	(310,493)
Outstanding – September 30, 2022	<u>—</u>	<u>782,786</u>	<u>782,786</u>
Weighted-average grant date fair value	<u>\$ —</u>	<u>\$ 36.81</u>	<u>\$ 36.81</u>

Restricted stock awards totaling 220,822 shares with a grant date fair value of \$46.36 were granted pursuant to the Omnibus Plan during the nine months ended September 30, 2022. The fair value of the restricted stock awards is amortized to non-interest expense over the vesting period and is based on the market price of the Bank's common stock at the date of grant multiplied by the number of shares granted. Stock-based compensation expense for restricted stock included in non-interest expense was \$2.3 million and \$2.2 million for the three months ended September 30, 2022 and 2021, respectively and \$6.5 million and \$7.1 million for the nine months ended September 30, 2022 and 2021, respectively. Unrecognized compensation expense for non-vested restricted stock awards was \$13.1 million at September 30, 2022 and is expected to be recognized over a weighted-average period of 1.8 years.

On January 26, 2022, pursuant to the Omnibus Plan, the Bank’s Compensation Committee awarded its executive officers an aggregate of 135,625 performance-based restricted 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 of the respective award year (for the TSR component) and compared to the Bank’s executive compensation peer group in the fiscal year prior to the award (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 holding period subsequent to vesting, an estimated discount for illiquidity was applied to the market price of the Bank’s stock. The fair value of each PSU grant is estimated on the date of grant using various valuation and liquidity models. The following table is a summary of the key assumptions used in those models for the period indicated.

	Nine Months Ended September 30,	
	2022	2021
Risk-free interest rate	0.70%	0.09%
Expected dividend yield	2.52%	2.86%
Expected stock volatility	29.85%	67.45%
Post-vest hold period	1 year	1 year

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

	Nine Months Ended September 30, 2022
Outstanding – January 1, 2022	434,509
Granted	135,625
Forfeited	(70,419)
Vested	(131,052)
Outstanding – September 30, 2022	<u>368,663</u>

The following table is a summary of the valuation date stock price index and the weighted average grant date fair values for TSR, ROAE and ROAA for the PSUs granted in the years indicated.

	Nine Months Ended September 30,	
	2022	2021
TSR	\$ 41.78	\$ 38.41
ROAE	42.14	33.20
ROAA	42.14	33.20
Valuation stock price index – TSR	99%	116%
Valuation stock price index – ROAE & ROAA	100%	100%
Estimated discount for illiquidity ⁽¹⁾	11.5%	14.5%

- (1) Because of the expected stock price volatility on shares of OZK and the one-year post-vest holding period associated with the PSUs, the Bank has estimated an illiquidity discount using widely accepted option pricing models.

Compensation expense for PSU awards, net of forfeitures, included in non-interest expense was \$1.2 million and \$1.5 million for the three months ended September 30, 2022 and 2021, respectively, and \$3.2 million and \$4.6 million for the nine months ended September 30, 2022 and 2021, respectively. Unrecognized compensation expense for non-vested PSU awards was \$6.8 million at September 30, 2022 and is expected to be recognized over a weighted-average period of 1.8 years.

9. Fair Value Measurements

The Bank measures certain of its assets and liabilities on a fair value basis using various valuation techniques and assumptions, depending on the nature of the asset or liability. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, fair value is used either on a periodic basis, typically at least quarterly, or on a non-recurring basis to evaluate certain assets and liabilities for impairment or for disclosure purposes. At September 30, 2022 and December 31, 2021, the Bank had no material liabilities that were accounted for at fair value.

The Bank applies the following fair value hierarchy.

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

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

Level 3 – Instruments whose inputs are unobservable.

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

	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
September 30, 2022:				
Investment securities: ⁽¹⁾				
U.S. Government agency mortgage-backed securities	\$ —	\$ 1,646,333	\$ —	\$ 1,646,333
Obligations of state and political subdivisions ⁽²⁾	—	1,202,584	8,300	1,210,884
Other U.S. Government agency securities	—	613,402	—	613,402
Corporate obligations	—	36,011	—	36,011
U.S. Treasuries	—	23,928	—	23,928
Total investment securities	—	3,522,258	8,300	3,530,558
Nonaccrual loans	—	—	23,910	23,910
Total assets at fair value	\$ —	\$ 3,522,258	\$ 32,210	\$ 3,554,468
December 31, 2021:				
Investment securities: ⁽¹⁾				
U.S. Government agency mortgage-backed securities	\$ —	\$ 2,217,281	\$ —	\$ 2,217,281
Obligations of state and political subdivisions ⁽²⁾	—	819,293	8,877	828,170
Other U.S. Government agency securities	—	555,261	—	555,261
Corporate obligations	—	306,071	—	306,071
U.S. Treasuries	—	24,907	—	24,907
Total investment securities	—	3,922,813	8,877	3,931,690
Nonaccrual loans	—	—	34,260	34,260
Total assets at fair value	\$ —	\$ 3,922,813	\$ 43,137	\$ 3,965,950

(1) Includes both AFS and trading securities.

(2) Obligations of state and political subdivisions include both AFS and approximately \$2.5 million and \$15.0 million of trading securities as of September 30, 2022 and December 31, 2021, respectively.

The following table presents information on Level 3 non-recurring fair value measurements related to the Level 3 non-accrual loans above.

Description	Fair Value at September 30, 2022	Technique (Dollars in thousands)	Unobservable Inputs
Nonaccrual loans	\$ 23,910	Third party appraisal ⁽¹⁾ or discounted cash flows	1. Management discount based on underlying collateral characteristics and market conditions 2. Life of loan

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

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

Investment securities – The Bank utilizes independent third parties as its principal pricing sources for determining fair value of investment securities which are measured on a recurring basis. As a result, the Bank considers estimates of fair value from at least two independent pricing sources for the majority of its individual securities within its investment portfolio. For investment securities traded in an active market, fair values are based on quoted market prices if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities, broker quotes, comprehensive interest rate tables and pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs. All fair value estimates of the Bank's investment securities are reviewed on a quarterly basis.

The Bank has determined that certain of its investment securities had a limited to non-existent trading market at September 30, 2022. 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 \$8.3 million at September 30, 2022 were calculated using Level 3 hierarchy inputs and assumptions as the trading market for such securities was determined to be "not active." This determination was based on the limited number of trades or, in certain cases, the existence of no reported trades for the private placement bonds. The private placement bonds are generally prepayable at par value at the option of the issuer. As a result, management believes the private placement bonds should be individually valued at the lower of (i) the matrix pricing provided by the Bank's third party pricing sources for comparable unrated municipal securities or (ii) par value. At September 30, 2022, the third parties' pricing matrices valued the Bank's portfolio of private placement bonds at approximately \$8.3 million, which was approximately the same as the aggregate par value of the private placement bonds. Accordingly, at September 30, 2022, the Bank reported the private placement bonds at \$8.3 million.

Nonaccrual loans – Fair values are measured on a non-recurring basis and are based on the underlying collateral value of the nonaccrual loan, reduced for holding and selling costs, or the estimated discounted cash flows for such loan. At September 30, 2022, the Bank had reduced the carrying value of its nonaccrual loans to the estimated fair value of \$23.9 million. The adjustment to reduce the carrying value of such nonaccrual loans to the estimated fair value included \$8.8 million of ACL allocations.

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

	Investment Securities AFS
	(Dollars in thousands)
Balance – December 31, 2021	\$ 8,877
Total realized gains included in earnings	—
Total unrealized gains/(losses) included in other comprehensive income	(22)
Paydowns and maturities	(555)
Sales	—
Transfers in and/or out of Level 3	—
Balance – September 30, 2022	<u>\$ 8,300</u>
Balance – December 31, 2020	\$ 11,597
Total realized gains included in earnings	—
Total unrealized gains/(losses) included in other comprehensive income	—
Paydowns and maturities	(1,015)
Sales	—
Transfers in and/or out of Level 3	—
Balance – September 30, 2021	<u>\$ 10,582</u>

10. 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 – The Bank utilizes independent third parties as its principal pricing sources for determining fair value of investment securities which are measured on a recurring basis. As a result, the Bank 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 traded in an active market, fair values are based on quoted market prices if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities, broker quotes, comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs. All fair value estimates of the 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.

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

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

Off-balance sheet instruments – The fair values of outstanding commitments and letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements. The fair values of outstanding commitments and letters of credit were not material at September 30, 2022 or December 31, 2021.

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

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

	Fair Value Hierarchy	September 30, 2022		December 31, 2021	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(Dollars in thousands)					
Financial assets:					
Cash and cash equivalents	Level 1	\$ 895,824	\$ 895,824	\$ 2,053,829	\$ 2,053,829
Investment securities ⁽¹⁾	Levels 2 and 3	3,530,558	3,530,558	3,931,690	3,931,690
Loans, net of ALL ⁽²⁾	Level 3	19,313,614	19,010,895	18,090,445	18,152,024
Financial liabilities:					
Demand, savings and interest bearing transaction deposits	Level 1	\$ 14,587,847	\$ 14,587,847	\$ 14,229,515	\$ 14,229,515
Time deposits	Level 2	5,814,029	5,691,177	5,979,619	5,972,506
Other borrowings	Level 2	456,466	456,426	756,321	767,761
Subordinated notes	Level 2	346,741	341,646	346,133	326,885
Subordinated debentures	Level 2	121,450	118,278	121,033	115,294

(1) Includes both AFS and trading securities.

(2) Excludes reserve for losses on unfunded loan commitments.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Beginning balance of AOCI – unrealized gains and losses on investment securities AFS	\$ (114,168)	\$ 50,127	\$ 23,841	\$ 58,252
Other comprehensive loss:				
Unrealized gains and losses on investment securities AFS	(149,087)	(12,522)	(331,509)	(23,566)
Tax effect of unrealized gains and losses on investment securities AFS	35,582	3,101	79,995	6,020
Total other comprehensive loss	(113,505)	(9,421)	(251,514)	(17,546)
Ending balance of AOCI – unrealized gains and losses on investment securities AFS	\$ (227,673)	\$ 40,706	\$ (227,673)	\$ 40,706

12. Other Operating Expenses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Professional and outside services	\$ 8,059	\$ 7,084	\$ 23,602	\$ 21,134
Software and data processing	6,044	5,897	18,188	17,695
Advertising and public relations	3,448	719	5,810	1,621
Deposit insurance and assessments	2,650	2,655	6,900	9,060
Postage and supplies	2,035	1,530	5,240	4,718
Travel and meals	1,962	1,617	5,906	3,811
Telecommunication services	1,921	1,966	5,852	6,363
ATM expense	1,500	1,846	4,497	4,615
Loan collection and repossession expense	402	407	1,081	1,456
Writedowns of foreclosed and other assets	87	990	345	2,476
Amortization of intangibles	1,298	1,545	4,331	4,878
Amortization of CRA and tax credit investments	5,155	4,972	14,885	12,324
Other	5,519	8,239	17,170	20,689
Total other operating expense	\$ 40,080	\$ 39,467	\$ 113,807	\$ 110,840

13. Recent Accounting Pronouncements

In May 2020, FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. Reference rate reform relates to the effects undertaken to eliminate certain reference rates such as the London Interbank Offered Rate (“LIBOR”) and introduce new reference rates that may be based on larger or more liquid observations and transactions. ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other contracts. Generally, ASU 2020-04 would allow entities to consider contract modifications due to reference rate reform to be a continuation of an existing contract; thus, the Bank would not have to determine if the modification is considered insignificant. As a result of ASU 2020-04, the Bank created an internal working group that is managing its transition from LIBOR. This working group is a cross-functional team composed of representatives from credit, lending, deposits, retail, investment securities, loan administration, operations, compliance, legal and other support functions to address issues related to the LIBOR transition and phase-out. All of the Bank’s loans that are tied to LIBOR benchmark interest rates include fallback language for when LIBOR ceases to exist. As of January 1, 2022, the Bank is no longer originating loans that are tied to LIBOR benchmark interest rates. The Bank will continue to evaluate the financial impact regarding pricing, valuation and operations of the transition. While the Bank has yet to adopt the provisions of ASU 2020-04, the standard was effective upon issuance and terminates December 31, 2022 such that changes made to instruments or contracts beginning on or after January 1, 2023 would not apply. On April 20, 2022, FASB issued a proposed ASU that would defer the sunset date of ASU 2020-04 from December 31, 2022 to December 31, 2024. The Bank is currently evaluating the impact of ASU 2020-04 and has not determined if reference rate reform or ASU 2020-04 will have a material effect on the Bank’s financial position or results of operations.

On March 31, 2022, FASB issued ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings but provides additional disclosures for restructurings for borrowers that are experiencing financial difficulty. In addition, ASU 2022-02 requires disclosure of current period gross write-offs by year of origination for loans and net investments in leases. ASU 2022-02 is effective for years beginning after December 15, 2022, with early adoption permitted. The Bank is currently evaluating the impact of ASU 2022-02, including the additional disclosure requirements, and has not determined if ASU 2022-02 will have a significant impact on the Bank's financial position, statement of operations and financial statement disclosures.

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” regarding the Bank’s plans, expectations, thoughts, beliefs, estimates, goals and outlook for the future 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. These risks, uncertainties and other factors include, but are not limited to: potential delays or other problems in implementing the Bank’s growth, expansion and acquisition strategies, including hiring or retaining qualified personnel, obtaining regulatory or other approvals, delays in identifying satisfactory sites, obtaining permits and designing, constructing and opening new offices or relocating, selling or closing existing offices; the ability to enter into and/or close additional acquisitions; the availability of and access to capital; possible downgrades in the Bank’s credit ratings or outlook which could increase the costs of or decrease the 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 transition from the London Interbank Offered Rate (“LIBOR”) as a reference rate; competitive factors and pricing pressures, including their effect on the Bank’s 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; recently enacted and potential laws and regulatory requirements, including those actions in response to the coronavirus (“COVID-19”) pandemic, or changes to existing laws and regulatory requirements, including changes affecting oversight of the financial services industry or changes in the interpretation and enforcement of such laws and requirements, and the costs and expenses to comply with new and/or existing legislation and regulatory requirements; changes in U.S. government monetary and fiscal policy; 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 the Bank or its customers; natural disasters or acts of war or terrorism; the adverse effects of the ongoing global COVID-19 pandemic, including the duration of the pandemic and actions taken to contain or treat COVID-19, on the Bank, the Bank’s customers, the Bank’s staff, the global economy and the financial markets; the potential impact of continuing inflationary pressures; the potential impact of supply chain disruptions; national, international or political instability or military conflict, including the ongoing war in Ukraine; the competition and costs of recruiting and retaining human talent; impairment of our goodwill or other intangible assets; adoption of new accounting standards, 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 identified in this communication or as detailed from time to time in our public filings, including those factors described in the disclosures under the headings “Forward-Looking Information” and “Item 1A. Risk Factors” in our most recent Annual Report on Form 10-K for the year ended December 31, 2021 and our quarterly reports on Form 10-Q. 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. The Bank disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information or otherwise.

FINANCIAL HIGHLIGHTS

The selected financial highlights on the following page are derived from our unaudited consolidated financial data as of and for the three months and nine months ended September 30, 2022 and 2021. These highlights are qualified in their entirety by our consolidated financial statements and related notes presented in Part I, Item 1 – Financial Statements in this quarterly report on Form 10-Q. The calculation of our pre-tax pre-provision net revenue (“PPNR”) and the reconciliation to generally accepted accounting principles (“GAAP”) are included in this MD&A under “Analysis of Results of Operations” in this quarterly report on Form 10-Q. The calculations of our total common stockholders’ equity, tangible book value per common share and our annualized returns on average common stockholders’ equity, and average tangible common stockholders’ equity and the reconciliations to GAAP are included in this MD&A under “Capital Management” in this quarterly report on Form 10-Q.

Selected Financial Highlights

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in thousands, except per share amounts)				
Income statement data:				
Net interest income	\$ 294,617	\$ 247,957	\$ 809,754	\$ 723,339
Provision for credit losses	39,771	(7,454)	50,986	(69,946)
Non-interest income	29,163	25,984	86,959	85,843
Non-interest expense	115,691	110,397	332,708	320,170
Net income	132,349	130,285	401,265	429,267
Preferred stock dividends	4,047	—	12,574	—
Net income available to common stockholders	128,302	130,290	388,688	429,240
Pre-tax pre-provision net revenue	208,089	163,544	564,005	489,012
Common share and per common share data:				
Diluted earnings per common share	\$ 1.08	\$ 1.00	\$ 3.20	\$ 3.30
Book value per common share	35.67	35.35	35.67	35.35
Tangible book value per common share	30.02	30.14	30.02	30.14
Common stock dividends per share	0.32	0.285	0.93	0.8425
Weighted-average diluted shares outstanding (thousands)	118,856	129,929	121,539	130,063
End of period shares outstanding (thousands)	117,762	128,818	117,762	128,818
Balance sheet data at period end:				
Total assets	\$ 26,232,119	\$ 26,143,367	\$ 26,232,119	\$ 26,143,367
Total loans	19,513,712	18,305,303	19,513,712	18,305,303
Non-purchased loans	19,103,546	17,707,452	19,103,546	17,707,452
Purchased loans	410,166	597,851	410,166	597,851
Allowance for loan losses	200,098	237,722	200,098	237,722
Foreclosed assets	6,559	9,444	6,559	9,444
Investment securities – AFS	3,528,077	3,846,496	3,528,077	3,846,496
Goodwill and other intangible assets, net	664,732	670,580	664,732	670,580
Deposits	20,401,876	20,102,440	20,401,876	20,102,440
Other borrowings	456,466	750,217	456,466	750,217
Subordinated notes	346,741	345,927	346,741	345,927
Subordinated debentures	121,450	120,892	121,450	120,892
Unfunded balance of closed loans	20,091,101	12,385,369	20,091,101	12,385,369
Reserve for losses on unfunded loan commitments	135,537	61,076	135,537	61,076
Preferred stock	338,980	—	338,980	—
Total common stockholders' equity	4,200,444	4,553,240	4,200,444	4,553,240
Loan (including purchased loans) to deposit ratio	95.65%	91.06%	95.65%	91.06%
Average balance sheet data:				
Total average assets	\$ 25,865,778	\$ 26,073,994	\$ 26,148,715	\$ 26,684,946
Total average common stockholders' equity	4,296,907	4,530,995	4,341,533	4,421,240
Average common equity to average assets	16.61%	17.38%	16.60%	16.57%
Performance ratios:				
Return on average assets ⁽¹⁾	1.97%	1.98%	1.99%	2.15%
Return on average common stockholders' equity ⁽¹⁾	11.85	11.41	11.97	12.98
Return on average tangible common stockholders' equity ⁽¹⁾	14.02	13.39	14.14	15.31
Net interest margin – FTE ⁽¹⁾	5.03	4.16	4.60	3.99
Efficiency ratio	35.50	40.14	36.92	39.39
Common stock dividend payout ratio	29.66	28.53	29.27	25.60
Asset Quality ratios:				
Net charge-offs to average non-purchased loans ⁽¹⁾⁽²⁾	0.09%	0.04%	0.07%	0.07%
Net charge-offs to average total loans ⁽¹⁾	0.09	0.03	0.03	0.06
Nonperforming loans to total loans ⁽³⁾	0.14	0.20	0.14	0.20
Nonperforming assets to total assets ⁽³⁾	0.13	0.17	0.13	0.17
Allowance for loan losses as a percentage of: ⁽⁴⁾				
Total loans	1.03%	1.30%	1.03%	1.30%
Total nonperforming loans	582	466%	582	466%
Capital ratios at period end:				
Common equity tier 1	11.88%	14.60%	11.88%	14.60%
Tier 1 risk based capital	12.95	14.60	12.95	14.60
Total risk based capital	15.42	17.35	15.42	17.35
Tier 1 leverage	16.21	15.24	16.21	15.24

(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.

GENERAL

The following discussion explains our financial condition and results of operations as of and for the three months and nine months ended September 30, 2022. 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, 2021. Annualized results for these interim periods may not be indicative of results for the full year or future periods.

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

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements. Our determination of (i) the provision to and the adequacy of our allowance for credit losses (“ACL”), (ii) the 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 each of these to be critical accounting estimates. A detailed discussion of our critical accounting estimates is included in our annual report on Form 10-K for the year ended December 31, 2021. There has been no change in our critical accounting estimates and no material change in the application of critical accounting estimates as presented in our annual report on Form 10-K for the year ended December 31, 2021.

ANALYSIS OF RESULTS OF OPERATIONS

General

Net income available to our common stockholders was \$128.3 million for the third quarter of 2022, compared to \$130.3 million for the third quarter of 2021. Net income available to our common stockholders was \$388.7 million for the first nine months of 2022, compared to \$429.2 million for the first nine months of 2021. Diluted earnings per common share were \$1.08 for the third quarter of 2022, compared to \$1.00 for the third quarter of 2021. Diluted earnings per common share were \$3.20 for the first nine months of 2022, compared to \$3.30 for the first nine months of 2021.

During the three months and nine months ended September 30, 2022, we recorded provision for credit losses of \$39.8 million and \$51.0 million, respectively, compared to negative provision for credit losses of \$7.5 million and \$69.9 million during the three months and nine months ended September 30, 2021, respectively. Our growth in both funded and unfunded loan balances during the third quarter and first nine months of 2022 compared to the same periods in 2021 contributed to the higher provision for credit losses. 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. Generally, if our reasonable and supportable forecast in future periods suggests economic conditions are expected to deteriorate, we may experience increases in our ACL and provision for credit losses and, generally, if our reasonable and supportable forecast suggests economic conditions are expected to improve, we may experience decreases in our ACL and provision for credit losses. There may be periods when our reasonable and supportable forecast captures more or less risk related to the uncertainty of future U.S. economic conditions based upon how well we believe such uncertainty is reflected in the various Moody’s macroeconomic scenarios. Thus, our weightings and selection of Moody’s macroeconomic scenarios may vary significantly from period to period.

Our annualized return on average assets was 1.97% for the third quarter and 1.99% for the first nine months of 2022 compared to 1.98% for the third quarter and 2.15% for the first nine months of 2021. Our annualized return on average common stockholders’ equity was 11.85% for the third quarter and 11.97% for the first nine months of 2022 compared to 11.41% for the third quarter and 12.98% for the first nine months of 2021. Our annualized return on average tangible common stockholders’ equity was 14.02% for the third quarter and 14.14% for the first nine months of 2022 compared to 13.39% for the third quarter and 15.31% for the first nine months of 2021. The calculations of our average tangible common stockholders’ equity and our annualized return on average tangible common stockholders’ equity and the reconciliations to GAAP are included under the heading “Capital Management” in this MD&A.

Total assets were \$26.23 billion at September 30, 2022 compared to \$26.53 billion at December 31, 2021. Total loans were \$19.51 billion at September 30, 2022 compared to \$18.31 billion at December 31, 2021. Deposits were \$20.40 billion at September 30, 2022 compared to \$20.21 billion at December 31, 2021.

Common stockholders' equity was \$4.20 billion at September 30, 2022 compared to \$4.50 billion at December 31, 2021. Tangible common stockholders' equity was \$3.54 billion at September 30, 2022 compared to \$3.83 billion at December 31, 2021. Book value per common share was \$35.67 at September 30, 2022 compared to \$35.85 at December 31, 2021. Tangible book value per common share was \$30.02 at September 30, 2022 compared to \$30.52 at December 31, 2021. 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 from interest earning assets exceeds the interest expense incurred on interest bearing liabilities. Net interest income is affected by many factors, including our volume and mix of average earning assets; our volume and mix of deposits and other interest bearing liabilities; our net interest margin; our core spread, which is how we describe the difference between the yield on our non-purchased loans and our cost of interest bearing deposits; and other factors.

Net interest income and net interest margin are analyzed in this discussion on a fully taxable equivalent ("FTE") basis. The adjustment to convert net interest income to an 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 \$2.2 million and \$1.1 million for the three months ended September 30, 2022 and 2021, respectively, and \$4.5 million and \$3.7 million for the nine months ended September 30, 2022 and 2021, respectively. No adjustments have been made in this analysis for income exempt from state income taxes or for interest expense deductions disallowed under the provisions of the Internal Revenue Code ("IRC") as a result of investments in certain tax-exempt securities.

Net interest income for the third quarter of 2022 increased 19.2% to \$296.8 million compared to \$249.1 million for the third quarter of 2021. Net interest income for the first nine months of 2022 increased 12.0% to \$814.2 million compared to \$727.1 million for the first nine months of 2021. The increase in net interest income for the third quarter and first nine months of 2022 compared to the same periods in 2021 was primarily due to an increase in our net interest margin which increased 87 basis points ("bps") for the third quarter of 2022 and 61 bps for the first nine months of 2022 compared to the same period in 2021.

Our net interest margin was 5.03% for the third quarter and 4.60% for the first nine months of 2022 compared to 4.16% for the third quarter and 3.99% for the first nine months of 2021. The 87 basis point increase in net interest margin for the third quarter of 2022 compared to the same period in 2021 was due primarily to a 111 basis point increase in the yield on our interest earning assets partially offset by a 37 basis point increase in the rate on our interest bearing liabilities. The 61 basis point increase in net interest margin for the first nine months of 2022 compared to the same period of 2021 was due primarily to a 56 basis point increase in the yield on our interest earnings assets and a four basis point decrease in the rate of our interest bearing liabilities.

The yield on total earning assets was 5.52% for the third quarter and 4.92% for the first nine months of 2022 compared to 4.41% for the third quarter and 4.36% for the first nine months of 2021. The increase in the yield on earning assets for the third quarter and first nine months of 2022 was primarily attributable to the increases in yield on our interest earning deposits and federal funds sold, investment securities and total loan portfolios compared to the same periods in 2021.

The yield on our interest earning deposits and federal funds sold increased 193 bps to 2.09% for the third quarter of 2022 compared to 0.16% for the third quarter of 2021 and 68 bps to 0.80% for the first nine months of 2022 compared to 0.12% for the first nine months of 2021.

The yield on our aggregate investment securities portfolio increased 81 bps to 2.06% for the third quarter of 2022 compared to 1.25% for the third quarter of 2021. The yield on our aggregate investment securities portfolio increased 41 bps to 1.73% for the first nine months of 2022 compared to 1.32% for the first nine months of 2021. During the second and third quarters of 2022, we purchased bonds with moderately longer duration, which contributed to the increase in yield for the quarter and year-to-date.

The yield on our non-purchased loans increased 93 bps to 6.32% for the third quarter of 2022 compared to 5.39% for the third quarter of 2021 and increased 35 bps to 5.75% for the first nine months of 2022 compared to 5.40% for the first nine months of 2021. At September 30, 2022, approximately 78% of the funded balance of our non-purchased loans were variable rate and generally reprice with movements in various LIBOR tenors, Wall Street Journal Prime Rate ("WSJ Prime"), or the 1-month term Secured Overnight Financing Rate ("SOFR").

The yield on our purchased loan portfolio decreased 57 bps to 6.61% for the third quarter of 2022 compared to 7.18% for the third quarter of 2021 but increased 31 bps to 7.00% for the first nine months of 2022 compared to 6.69% for the first nine months of 2021. 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 may also vary significantly

from period to period. At September 30, 2022, approximately 39% of our purchased loans had variable interest rates and generally reprice with movements in LIBOR, WSJ Prime and various other rates.

At September 30, 2022, approximately 77% of the funded balance of our total loans had variable rates. Given the high percentage of variable rate loans within our portfolio and considering that the vast majority of those loans are already above their floor rates, we expect our yield on non-purchased loans should continue to increase as long as the Federal Reserve continues to increase the Fed funds target rate. We also expect our cost of interest bearing deposits to increase throughout the Federal Reserve's tightening cycle. In the second and third quarters of 2022, our non-purchased loan yields increased more than our cost of interest bearing deposits since deposit rates naturally tend to lag early in the Federal Reserve's tightening cycle. Given the magnitude and pace of the increases in the Fed funds rate, we expect deposit rates may increase at a more meaningful pace in future quarters. Later in the Federal Reserve's tightening cycle, when we also expect to be growing deposits to fund increasing loan growth, our cost of interest bearing deposits may increase more than our non-purchased loan yields.

The rate paid on our average interest bearing liabilities increased 37 bps for the third quarter and decreased four bps for the first nine months of 2022 compared to the same periods in 2021. The increase in rates on interest bearing liabilities for the third quarter of 2022 compared to the same period in 2021 was primarily due to an increase in rates paid on our interest bearing deposits, other borrowings and subordinated debentures. The rate on our interest bearing deposits increased 28 bps to 0.59% for the third quarter of 2022 compared to 0.31% for the same period in 2021. The increase in rates paid on our interest bearing deposits was primarily due to an increase in rates paid on our savings and interest bearing transaction accounts, and to a lesser extent, our time deposits, during the third quarter of 2022 compared to the same period in 2021. Also, the rates paid on our interest bearing deposits were influenced by a shift in the composition of our deposit base to include a larger percentage of lower cost consumer and commercial deposits and a smaller percentage of time deposits.

The decrease in the rates paid on our average interest bearing liabilities for the first nine months of 2022 compared to the same period in 2021 was primarily due to decreases in the rates paid on our interest bearing deposits and subordinated debentures. Our interest bearing deposits decreased seven bps during the first nine months of 2022 compared to the same periods in 2021. The decrease in rates on our interest bearing deposits was primarily due to decreases in the rates paid on time deposits and a shift in the composition of our deposit base to include a larger percentage of lower cost consumer and commercial deposits and a smaller percentage of time deposits. Because of recent and expected increases in the federal funds rate, we would expect to experience increases in the rates on our interest-bearing deposits in future periods. Additionally, changes in expected deposit levels necessary to fund future potential growth, earning assets, the level of on-balance sheet liquidity, or competitive conditions, among other factors, could significantly affect deposit costs in future periods.

Our other borrowing sources include (i) other borrowings, comprised primarily of FHLB advances and, to a lesser extent, federal funds purchased, (ii) subordinated notes and (iii) subordinated debentures. The increase in rates paid on our other borrowings is due to increases in the federal funds rate during the third quarter and first nine months of 2022 compared to the same periods in 2021. In July 2021, we redeemed our \$225 million of 5.50% fixed-to-floating rate subordinated notes and, subsequently, in September 2021, we issued \$350 million in aggregate principal amount of 2.75% fixed-to-floating subordinated notes. As a result of these transactions, the rate on our subordinated notes decreased for the first nine months of 2022 compared to the same period in 2021. The rate on these subordinated notes includes amortization of debt issuance costs. The rates paid on our subordinated debentures, which are tied to spreads over the 90-day LIBOR and reset periodically, increased primarily due to increases in LIBOR during the third quarter and first nine months of 2022 compared to the same periods in 2021.

The decrease in average earning assets for the third quarter and first nine months of 2022 compared to the same periods in 2021 was primarily due to decreases in interest earning deposits and federal funds sold and, to a lesser extent, our investment securities, partially offset by an increase in the average balance of total loans. The decrease in the average balance of interest bearing liabilities for the third quarter and first nine months of 2022 compared to the same periods in 2021 was primarily due to a decrease in the average balance of interest bearing deposits needed to fund our average earning assets.

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

Average Consolidated Balance Sheets and Net Interest Analysis – FTE

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2022			2021			2022			2021		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
(Dollars in thousands)												
ASSETS												
Interest earning assets:												
Interest earning deposits and federal funds sold	\$ 699,489	\$ 3,690	2.09%	\$ 1,287,890	\$ 523	0.16%	\$ 1,023,707	\$ 6,155	0.80%	\$ 1,792,191	\$ 1,556	0.12%
Investment securities:												
Taxable	2,809,479	10,269	1.45	3,509,465	9,236	1.04	3,080,645	31,246	1.36	3,150,732	26,786	1.14
Tax-exempt – FTE	907,955	9,020	3.94	740,809	4,172	2.23	706,628	17,889	3.38	955,822	13,747	1.92
Non-purchased loans – FTE	18,544,681	295,311	6.32	17,559,654	238,488	5.39	18,413,106	792,025	5.75	17,761,807	717,488	5.40
Purchased loans	429,312	7,148	6.61	627,436	11,350	7.18	464,205	24,300	7.00	699,678	34,985	6.69
Total earning assets – FTE	23,390,916	325,438	5.52	23,725,254	263,769	4.41	23,688,291	871,615	4.92	24,360,230	794,562	4.36
Non-interest earning assets	2,474,862			2,348,740			2,460,424			2,324,716		
Total assets	<u>\$25,865,778</u>			<u>\$26,073,994</u>			<u>\$26,148,715</u>			<u>\$26,684,946</u>		
LIABILITIES AND STOCKHOLDERS' EQUITY												
Interest bearing liabilities:												
Deposits:												
Savings and interest bearing transaction	\$ 9,614,806	\$ 13,639	0.56%	\$ 8,891,042	\$ 2,885	0.13%	\$ 9,611,716	\$ 21,801	0.30%	\$ 8,656,762	\$ 9,840	0.15%
Time deposits	5,232,727	8,358	0.63	6,920,513	9,441	0.54	5,464,267	19,542	0.48	7,964,704	45,068	0.76
Total interest bearing deposits	14,847,533	21,997	0.59	15,811,555	12,326	0.31	15,075,983	41,343	0.37	16,621,466	54,908	0.44
Other borrowings	517,161	2,460	1.89	757,786	1,017	0.53	647,083	4,500	0.93	757,141	3,010	0.53
Subordinated notes	346,642	2,631	3.01	56,468	429	3.01	346,433	7,808	3.01	167,636	6,755	5.39
Subordinated debentures	121,382	1,582	5.17	120,822	934	3.07	121,239	3,741	4.13	120,681	2,814	3.12
Total interest bearing liabilities	15,832,718	28,670	0.72	16,746,631	14,706	0.35	16,190,738	57,392	0.47	17,666,924	67,487	0.51
Non-interest bearing liabilities:												
Non-interest bearing deposits	4,998,392			4,523,521			4,915,023			4,289,589		
Other non-interest bearing liabilities	395,671			269,733			359,327			304,086		
Total liabilities	21,226,781			21,539,885			21,465,088			22,260,599		
Total stockholders' equity before noncontrolling interest												
noncontrolling interest	4,635,887			4,530,995			4,680,513			4,421,240		
Noncontrolling interest	3,110			3,114			3,114			3,107		
Total liabilities and stockholders' equity	<u>\$25,865,778</u>			<u>\$26,073,994</u>			<u>\$26,148,715</u>			<u>\$26,684,946</u>		
Net interest income – FTE	<u>\$296,768</u>			<u>\$249,063</u>			<u>\$814,223</u>			<u>\$727,075</u>		
Net interest margin – FTE	<u>5.03%</u>			<u>4.16%</u>			<u>4.60%</u>			<u>3.99%</u>		
Core spread ⁽¹⁾	<u>5.73%</u>			<u>5.08%</u>			<u>5.38%</u>			<u>4.96%</u>		

(1) Core spread is the difference between the yield on the Bank's non-purchased loans-FTE and the rate on its interest bearing deposits.

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. 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 or accretion of certain deferred fees, origination costs, dealer fees (for non-purchased indirect marine and recreational vehicles (“RV”) loans) and, for purchased loans, accretion or amortization of any purchase accounting yield adjustment and accretion of non-credit discounts on PCD loans. Interest expense and rates on our other borrowing sources, our subordinated debentures and our subordinated notes are presented net of interest capitalized on construction projects, if any, and include the amortization of debt issuance costs, if any. 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 yield/rate and volume have all been allocated to the changes due to volume.

Analysis of Changes in Net Interest Income – FTE

	Three Months Ended September 30, 2022 Over Three Months Ended September 30, 2021			Nine Months Ended September 30, 2022 Over Nine Months Ended September 30, 2021		
	Volume	Yield/ Rate	Net Change	Volume	Yield/ Rate	Net Change
(Dollars in thousands)						
Increase (decrease) in:						
Interest income – FTE:						
Interest earning deposits and federal funds sold	\$ (3,103)	\$ 6,270	\$ 3,167	\$ (4,620)	\$ 9,219	\$ 4,599
Investment securities:						
Taxable	(2,558)	3,591	1,033	(711)	5,171	4,460
Tax-exempt – FTE	1,660	3,188	4,848	(6,308)	10,450	4,142
Non-purchased loans – FTE	15,686	41,137	56,823	28,015	46,522	74,537
Purchased loans	(3,299)	(903)	(4,202)	(12,326)	1,641	(10,685)
Total interest income – FTE	<u>8,386</u>	<u>53,283</u>	<u>61,669</u>	<u>4,050</u>	<u>73,003</u>	<u>77,053</u>
Interest expense:						
Savings and interest bearing transaction	1,027	9,727	10,754	2,166	9,795	11,961
Time deposits	(2,696)	1,613	(1,083)	(8,942)	(16,584)	(25,526)
Other borrowings	(1,149)	2,592	1,443	(764)	2,254	1,490
Subordinated notes	2,202	—	2,202	4,029	(2,976)	1,053
Subordinated debentures	7	641	648	17	910	927
Total interest expense	<u>(609)</u>	<u>14,573</u>	<u>13,964</u>	<u>(3,494)</u>	<u>(6,601)</u>	<u>(10,095)</u>
Increase (decrease) in net interest income – FTE	<u>\$ 8,995</u>	<u>\$ 38,710</u>	<u>\$ 47,705</u>	<u>\$ 7,544</u>	<u>\$ 79,604</u>	<u>\$ 87,148</u>

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 net gains and losses on investment securities and on sales of other assets. Non-interest income for the third quarter of 2022 was \$29.2 million compared to \$26.0 million for the third quarter of 2021. Non-interest income for the first nine months of 2022 was \$87.0 million compared to \$85.8 million for the first nine months of 2021.

Service charges on deposit accounts, our largest component of non-interest income, increased 6.4% to \$11.9 million for the third quarter of 2022 compared to \$11.2 million for the third quarter of 2021. Service charges on deposit accounts increased 9.8% to \$34.2 million for the first nine months of 2022 compared to \$31.2 million for the first nine months of 2021. This increase was primarily due to an increase in overdraft fees as a result of an increase in customer activity that resulted in growth of service charges.

Trust income decreased 10.7% to \$2.0 million for the third quarter of 2022 compared to \$2.2 million for the third quarter of 2021. Trust income decreased 5.5% to 6.0 million for the first nine months of 2022 compared to \$6.4 million for the first nine months of 2021. The decrease in trust income for the third quarter and first nine months of 2022 was primarily due to a decrease in corporate trust income.

BOLI income from the change in cash surrender value was \$4.9 million for both the third quarter of 2022 and 2021. BOLI income from the change in cash surrender value decreased 1.1% to \$14.6 million for the first nine months of 2022 compared to \$14.7 million the first nine months of 2021. There was \$0.5 million of BOLI income from death benefits for the third quarter of 2022 compared to no BOLI income from death benefits for the third quarter of 2021. BOLI income from death benefits was \$0.8 million for the first nine months of 2022 compared to \$1.4 million for the first nine months of 2021.

Loan service, maintenance, and other fees, which includes fees that are not considered yield adjustments, increased 3.4% to \$3.4 million for the third quarter of 2022 compared to \$3.3 million for the third quarter of 2021 and decreased 7.1% to \$10.0 million during the first nine months of 2022 compared to \$10.8 million during the first nine months of 2021. Income from these items may vary significantly from period to period.

Gains on sales of other assets were \$3.2 million and \$11.0 million for the third quarter and the first nine months of 2022 compared to \$0.5 million and \$8.6 million for the third quarter and first nine months of 2021. Gains on sales of other assets for the third quarter of 2022, included \$2.7 million in gains from the sale of a branch in Tampa, Florida compared to no gains on the sale of branches in the third quarter of 2021. Gains on sales of other assets for the first nine months of 2022 included gains of \$1.8 million from the sale of our Magnolia, Arkansas branch, \$2.7 million from the sale of a branch building in Tampa, Florida and \$0.5 million from the sales of loans compared to a gain of \$4.4 million from the sale of our South Carolina branches and \$2.1 million from the sales of loans during the first nine months of 2021. Gains on sales of other assets may vary significantly from period to period.

We had \$0.3 million and \$0.8 million in net gains on investment securities sales during the third quarter and first nine months of 2022 compared to no net gains or losses on investment securities sales during the third quarter and first nine months of 2021.

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

Non-Interest Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Service charges on deposit accounts:				
NSF fees	\$ 1,152	\$ 1,045	\$ 3,311	\$ 2,754
Overdraft fees	3,656	3,035	9,946	7,893
All other service charges	7,089	7,097	20,963	20,507
Trust income	2,007	2,247	6,012	6,365
BOLI income:				
Increase in cash surrender value	4,940	4,940	14,579	14,739
Death benefits	510	—	807	1,409
Loan service, maintenance and other fees	3,418	3,307	10,039	10,811
Gains on sales of other assets	3,182	463	10,957	8,632
Net gains on investment securities	321	—	762	—
Other	2,888	3,850	9,583	12,733
Total non-interest income	<u>\$ 29,163</u>	<u>\$ 25,984</u>	<u>\$ 86,959</u>	<u>\$ 85,843</u>

Non-Interest Expense

Our non-interest expense consists of salaries and employee benefits, net occupancy and equipment and other operating expenses. Non-interest expense was \$115.7 million for the third quarter of 2022 compared to \$110.4 million for the third quarter of 2021. Non-interest expense was \$332.7 million for the first nine months of 2022 compared to \$320.2 million for the first nine months of 2021.

Salaries and employee benefits, our largest component of non-interest expense, increased 6.7% to \$57.4 million in the third quarter of 2022 compared to \$53.8 million in the third quarter of 2021. Salaries and employee benefits increased 4.3% to \$166.4 million in the first nine months of 2022 compared to \$159.5 million in the first nine months of 2021. During the third quarter and first nine months of 2022, competition in the labor market has resulted in increases in our salaries and employee benefits expense compared to the same periods in 2021. During the third quarter of 2022, the Bank made good progress in our filling of open job

positions. We expect increases in salaries and employee benefit costs in future quarters as we deal with competitive labor market conditions, fill remaining unfilled positions, and add team members to support future growth.

Net occupancy and equipment expenses increased 6.3% to \$18.2 million for the third quarter of 2022 compared to \$17.2 million for the third quarter of 2021. Net occupancy and equipment expense increased 5.4% to \$52.5 million for the first nine months of 2022 compared to \$49.8 million for the first nine months of 2021.

Our aggregate other operating expenses increased 1.6% to \$40.1 million for the third quarter of 2022 compared to \$39.5 million for the third quarter of 2021. Our aggregate other operating expenses increased 2.7% to \$113.8 million for the first nine months of 2022 compared to \$110.8 million for the first nine months of 2021. The increase in our aggregate other operating expenses for the third quarter and first nine months of 2022 was primarily due to increases in our advertising and public relations, amortization of CRA and tax credit investments and, to a lesser extent, increases in travel and meals expense, partially offset by decreases in our deposit insurance and assessments expense, writedowns of foreclosed and other assets and other expenses, compared to the same periods in 2021.

Our efficiency ratio (non-interest expense divided by the sum of net interest income – FTE and non-interest income) was 35.50% for the third quarter and 36.92% for the first nine months of 2022 compared to 40.14% for the third quarter and 39.39% for the first nine months of 2021.

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

Non-Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Salaries and employee benefits	\$ 57,367	\$ 53,769	\$ 166,427	\$ 159,533
Net occupancy and equipment	18,244	17,161	52,474	49,797
Other operating expenses:				
Professional and outside services	8,059	7,084	23,602	21,134
Software and data processing	6,044	5,897	18,188	17,695
Advertising and public relations	3,448	719	5,810	1,621
Deposit insurance and assessments	2,650	2,655	6,900	9,060
Postage and supplies	2,035	1,530	5,240	4,718
Travel and meals	1,962	1,617	5,906	3,811
Telecommunication services	1,921	1,966	5,852	6,363
ATM expense	1,500	1,846	4,497	4,615
Loan collection and repossession expense	402	407	1,081	1,456
Writedowns of foreclosed and other assets	87	990	345	2,476
Amortization of intangibles	1,298	1,545	4,331	4,878
Amortization of CRA and tax credit investments	5,155	4,972	14,885	12,324
Other	5,519	8,239	17,170	20,689
Total non-interest expense	<u>\$ 115,691</u>	<u>\$ 110,397</u>	<u>\$ 332,708</u>	<u>\$ 320,170</u>

Pre-Tax Pre-Provision Net Revenue (“PPNR”)

PPNR is a measure of earnings before provision for credit losses and income tax expense. We use PPNR, which is a non-GAAP financial measure, to measure our core earnings and trends thereof. PPNR was \$208.1 million for the third quarter and \$564.0 million for the first nine months of 2022 compared to \$163.5 million for the third quarter and \$489.0 million for the first nine months of 2021. The increase in PPNR was primarily the result of increased net interest income, which is analyzed in the MD&A under the caption “Net Interest Income.” This non-GAAP financial measure should not be viewed as a substitute for financial measures determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP financial measures that may be presented by other companies.

The reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure is included in the following table for the periods indicated.

Calculation of Pre-Tax Pre-Provision Net Revenue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Income before taxes	\$ 168,318	\$ 170,998	\$ 513,019	\$ 558,958
Provision for credit losses	39,771	(7,454)	50,986	(69,946)
PPNR	<u>\$ 208,089</u>	<u>\$ 163,544</u>	<u>\$ 564,005</u>	<u>\$ 489,012</u>

Income Taxes

The provision for income taxes was \$36.0 million for the third quarter and \$111.8 million for the first nine months of 2022 compared to \$40.7 million for the third quarter and \$129.7 million for the first nine months of 2021. The effective income tax rate was 21.4% for the third quarter and 21.8% for the first nine months of 2022 compared to 23.8% for the third quarter and 23.2% for the first nine months of 2021. The decrease in the effective tax rate for the third quarter and first nine months of 2022 compared to the same periods in 2021 was primarily due to a reduction of tax expense associated with the vesting of equity grants, an increase in federal tax credits, and changes in non-taxable income and non-deductible expenses. Accounting for our income taxes is deemed a critical accounting estimate and is discussed in the Critical Accounting Estimates section of our annual report on Form 10-K for the year ended December 31, 2021.

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 (including interest rate risk), liquidity risk, operational risk, reputational risk and compliance and regulatory 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 our risk appetite for the aforementioned risk categories and 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 our Chief Risk Officer ("CRO"), to assist BRC in the oversight of our enterprise risk management activities. The ERC, pursuant to its charter, has responsibility for review and approval of detailed risk management processes and procedures, monitoring each of our key performance 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, and continues to be, credit risk from the extension of credit to our customers. In addition to credit risk, we are also exposed to risk from various other areas including liquidity risk, market and interest rate risk, strategic risk, compliance risk (including regulatory risk), reputational risk and operational risk (including, among others, information technology risk, business resilience risk, model risk, third party vendor risk, fraud risk, legal risk and cyber security risk). Our BRC and/or our ERC review the 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 use various other committees and management councils to monitor risk for each of these specific risk categories.

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

- First line of defense activities provide for the identification, acceptance and ownership of risks. These defense activities are typically executed by various lines of business personnel and owners.
- Second line of defense activities provide for objective oversight of our risk-taking activities and assessment of our aggregate risk levels. These defense activities are executed under the leadership and guidance of our Corporate Risk Management Group ("CRMG") and our CRO, who reports directly to our BRC.

- Third line of defense activities provide for independent reviews and assessments of first and second line of defense processes across the Bank, including those activities of our CRMG. These defense activities are executed by our Internal Audit department, which is led by our Chief Audit Executive, who reports directly to our Audit Committee.

While these various risk management activities help us to identify, measure, monitor, manage and report risks, such activities are not intended to, nor can they, eliminate all risk. Additionally, there is no assurance that such activities will identify or have identified all risks to which we are or might be exposed.

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 and the Bank's overall credit risk appetite, along with overseeing and monitoring credit risk. Our lending policies also contain various measures to limit concentration exposures, including customer and commercial real estate ("CRE") exposures for both funded and unfunded balances in the aggregate, as well as by property type and geography. Our Loan Committee ("LC") has primary responsibility for monitoring our credit approval process. At least quarterly, our Board, BRC and/or LC review various reports regarding our credit management activities including, but not limited to, summary reports of past due loans, internally classified and criticized list loans, lending concentration reports, and various other loan and credit management reports.

Credit Management Actions. The daily administration of our lending function is the responsibility of our Chief Executive Officer ("CEO") and our Chief Lending Officer ("CLO"). We maintain a tiered loan limit authorization system. Loan authority is granted to the CEO and CLO by the Board. The loan authorities of other lending officers are granted by the LC 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 system that incorporates score cards, which assess quantitative models and qualitative factors, 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 as determined from the score cards. The FRR is influenced by a loan's loss given default 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 estimate, a regulatory risk rating is assigned. Additionally, we may apply risk rating "overrides" whereby management may further adjust a loan's risk rating to the extent we believe there is additional information about a loan or a borrower that is not fully reflected in the ORR and/or the FRR. Our consumer loans and certain small business loans are not risk rated in the same manner as our other commercial loans. Instead, such consumer and small business loans are risk rated based on past due status with all such loans that are less than 30 days past due typically assigned a "pass rating" and all loans that are 30 days or more past due assigned a more adverse rating commensurate with each loan's perceived risk. While our consumer loans and certain small business loans are not risk rated using a dual risk rating scale that incorporates both an ORR and an FRR, we do utilize output from the score cards on such consumer and small business loans for purposes of determining the necessary ACL for those consumer and small business loans.

Oversight of credit risk is provided through loan policy and various other credit-related policies, clearly defined processes and detailed procedures and our credit risk appetite. 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, process 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 Board approved credit risk appetite is monitored at least on a quarterly basis through our credit risk profile which is further categorized into default risk (risk of loss arising from a debtor being unlikely to pay its loan obligations in full) and concentration risk (risk associated with any single exposure or group of exposures with the potential to produce large enough losses to threaten the Bank's core operations).

Our CRM function is separate from our lending function and provides second line oversight. CRM is responsible for providing an independent evaluation of credit risk in new lending products, 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 which inform our credit risk profile, assessing any trends or material transitions or migrations 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) and timeline(s) for curing any identified deficiencies, among other findings and recommendations. Internal oversight of the CRM function is provided by the Credit Risk Management Council

(“CRMC”), which is comprised of senior officers of the Bank and chaired by the Managing Director of CRM. The reports produced by CRM are provided to and reviewed by CRMC. Additionally, key trends or significant issues identified in such reports that might impact credit risk are reported to ERC, BRC and/or the Board.

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

Loan Portfolio. At September 30, 2022, our total loan portfolio was \$19.51 billion, an increase of 6.6% from \$18.31 billion at December 31, 2021. Real estate loans, our largest category of loans, include all loans made to finance the development of real property construction projects, provided such loans are secured by real estate and all other loans secured by real estate as evidenced by mortgages or other liens. Total real estate loans were \$14.52 billion, or 74.5% of total loans, at September 30, 2022 compared to \$14.10 billion, or 77.0% of total loans, at December 31, 2021.

The amount and type of total 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

	<u>September 30, 2022</u>		<u>December 31, 2021</u>	
	(Dollars in thousands)			
Real estate:				
Residential 1-4 family	\$ 968,369	5.0%	\$ 887,024	4.8%
Non-farm/non-residential	4,609,068	23.6	3,782,892	20.7
Construction/land development	7,367,128	37.8	8,246,674	45.0
Agricultural	231,730	1.2	247,727	1.4
Multifamily residential	1,341,639	6.9	934,845	5.1
Total real estate	14,517,934	74.5	14,099,162	77.0
Commercial and industrial	804,000	4.1	510,784	2.8
Consumer	2,427,361	12.4	2,185,429	11.9
Other	1,764,417	9.0	1,512,450	8.3
Total loans	<u>19,513,712</u>	<u>100.0%</u>	<u>18,307,825</u>	<u>100.0%</u>
Allowance for loan losses	(200,098)		(217,380)	
Net loans	<u>\$ 19,313,614</u>		<u>\$ 18,090,445</u>	

Included in “other” loans at September 30, 2022 and December 31, 2021 are loans totaling approximately \$1.48 billion and approximately \$1.27 billion, respectively, that were originated to acquire promissory notes from non-depository financial institutions and are typically collateralized by an assignment of the promissory note and all related note documents including mortgages, deeds of trust, etc. While 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 other factors, 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 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 quarterly CRE stress testing activities and other factors.

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

Top Ten Geographies and MSAs for Real Estate Loans

Geography or MSA	Funded Balance	Unfunded Balance	Total Commitment
(Dollars in thousands)			
September 30, 2022:			
New York–Newark–Jersey City, NY–NJ–PA MSA	\$ 1,917,787	\$ 1,480,687	\$ 3,398,474
Miami–Fort Lauderdale–Pompano Beach, FL MSA	1,180,615	1,133,903	2,314,518
Los Angeles–Long Beach–Anaheim, CA MSA	1,267,992	748,905	2,016,897
Dallas–Fort Worth–Arlington, TX MSA	773,515	1,085,477	1,858,992
Atlanta–Sandy Springs–Alpharetta, GA MSA	797,799	989,791	1,787,590
Chicago–Naperville–Elgin, IL–IN–WI MSA	887,396	633,362	1,520,758
San Diego–Chula Vista–Carlsbad, CA MSA	169,477	1,350,205	1,519,682
San Francisco–Oakland–Berkeley, CA MSA	309,132	874,592	1,183,724
Boston–Cambridge–Newton, MA–NH MSA	384,366	777,684	1,162,050
Washington–Arlington–Alexandria, DC–VA–MD–WV MSA	245,485	912,681	1,158,166
All other geographies	6,584,370	7,377,165	13,961,535
Total real estate loans	<u>\$ 14,517,934</u>	<u>\$ 17,364,452</u>	<u>\$ 31,882,386</u>
December 31, 2021:			
New York–Newark–Jersey City, NY–NJ–PA MSA	\$ 2,624,677	\$ 606,806	\$ 3,231,483
Miami–Fort Lauderdale–Pompano Beach, FL MSA	1,110,064	1,274,278	2,384,342
Los Angeles–Long Beach–Anaheim, CA MSA	1,151,494	694,071	1,845,565
Atlanta–Sandy Springs–Alpharetta, GA MSA	592,394	801,326	1,393,720
San Francisco–Oakland–Berkeley, CA MSA	464,664	923,056	1,387,720
Chicago–Naperville–Elgin, IL–IN–WI MSA	803,682	518,276	1,321,958
Dallas–Fort Worth–Arlington, TX MSA	733,196	570,469	1,303,665
Tampa–St. Petersburg–Clearwater, FL MSA	784,484	362,244	1,146,728
Boston–Cambridge–Newton, MA–NH MSA	168,912	887,159	1,056,071
Philadelphia–Camden–Wilmington, PA–NJ–DE–MD MSA	499,736	461,269	961,005
All other geographies	5,165,859	5,038,188	10,204,047
Total real estate loans	<u>\$ 14,099,162</u>	<u>\$ 12,137,142</u>	<u>\$ 26,236,304</u>

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

In addition to the top ten geographies and MSAs shown above, as of September 30, 2022 and December 31, 2021, we had 87 and 78, respectively, of additional geographies and MSAs that contain total committed balances (both funded and unfunded) of \$10 million or more.

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 total non-farm/non-residential loans, as of the dates indicated, and their respective percentage of the total non-farm/non-residential loan portfolio are reflected in the following table.

Total Non-Farm/Non-Residential Loans

	September 30, 2022		December 31, 2021	
	(Dollars in thousands)			
Office, including medical offices	\$ 1,551,287	33.7%	\$ 1,044,105	27.6%
Hotels and motels	1,257,334	27.3	1,330,743	35.2
Manufacturing and industrial facilities	559,842	12.1	197,834	5.2
Retail, including shopping centers and strip centers	342,450	7.4	266,372	7.0
Churches and schools	192,178	4.2	222,171	5.9
Restaurants and bars	111,553	2.4	128,853	3.4
Office warehouse, warehouse and mini-storage	110,109	2.4	99,127	2.6
Gasoline stations and convenience stores	91,210	2.0	69,067	1.8
Mixed use properties	62,563	1.4	50,276	1.3
Golf courses, entertainment and recreational facilities	36,318	0.8	38,740	1.0
Nursing homes and assisted living centers	36,059	0.8	55,559	1.5
Hospitals, surgery centers and other medical	10,041	0.2	15,673	0.4
Other non-farm/non-residential	248,124	5.3	264,372	7.1
Total	<u>\$ 4,609,068</u>	<u>100.0%</u>	<u>\$ 3,782,892</u>	<u>100.0%</u>

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

Total Construction/Land Development Loans

	September 30, 2022		December 31, 2021	
	(Dollars in thousands)			
Unimproved land	\$ 729,273	9.9%	\$ 434,939	5.3%
Land development and lots:				
Non-residential	466,273	6.3	619,197	7.5
1-4 family residential and multifamily	513,433	7.0	378,050	4.6
Construction:				
1-4 family residential:				
Non-owner occupied	1,248,829	17.0	1,889,248	22.9
Owner occupied	7,858	0.1	8,589	0.1
Multifamily	1,539,349	20.9	890,910	10.8
Industrial, commercial and other:				
Mixed use properties	1,630,026	22.1	2,337,064	28.3
Offices, including medical offices	380,874	5.2	780,345	9.5
Manufacturing, industrial and warehouse	305,658	4.1	299,795	3.6
Life science	274,237	3.7	131,455	1.6
Hotels and motels	146,941	2.0	396,602	4.8
Agricultural	36,170	0.5	18,015	0.2
Churches and schools	28,700	0.4	26,406	0.3
Retail, including shopping centers and strip centers	20,367	0.3	7,667	0.1
Restaurants and bars	6,452	0.1	4,617	0.1
Other	32,688	0.4	23,775	0.3
Total	<u>\$ 7,367,128</u>	<u>100.0%</u>	<u>\$ 8,246,674</u>	<u>100.0%</u>

Many of our construction and development loans provide for the use of interest reserves. When we underwrite construction and development loans, we consider the expected total project costs, including hard costs such as land, site work and construction costs and soft costs such as architectural and engineering fees, closing costs, leasing commissions and construction period interest, among others. For any construction and development loan with interest reserves, we also consider the construction period interest in our underwriting process (otherwise, our underwriting of such loans with and without interest reserves is virtually identical). Based on the

total project costs and other factors, we determine the required borrower cash equity contribution and the maximum amount we are willing to lend. In the vast majority of cases, we require that all of the borrower's equity and all other required subordinated elements of the capital structure be fully funded prior to any significant loan advance. As a result of this practice, the borrower's cash equity typically goes toward the purchase of the land and early stage hard costs and soft costs. This results in our funding the loan later as the project progresses, and accordingly, we typically fund the majority of the construction period interest through loan advances.

Generally, as part of our underwriting process, we require the borrower's cash equity to cover a majority, or all, of the soft costs, including an amount equal to construction period interest and an appropriate portion of the hard costs. While we advance interest reserves as part of the funding process, we believe that the borrowers have in most cases provided for these sums as part of their initial equity contribution. During the three and nine months ended September 30, 2022 and 2021, there were no situations where interest reserves were advanced outside of the terms of the contractual loan agreement to avoid such loan from becoming nonperforming. At September 30, 2022 and December 31, 2021, we had no construction and development loans with interest reserves that were nonperforming.

During the third quarter and first nine months of 2022, we recognized approximately \$86.9 million and \$240.0 million, respectively, of interest income on construction and development loans from the advance of interest reserves, compared to approximately \$72.9 million and \$206.7 million during the comparable periods in 2021. We advanced construction period interest on construction and development loans totaling approximately \$85.4 million and \$244.8 million, respectively, in the third quarter and first nine months of 2022 compared to approximately \$71.2 million and \$209.0 million, respectively, in the third quarter and in the first nine months of 2021.

The maximum committed balance of all construction and development loans which provide for the use of interest reserves at September 30, 2022 was approximately \$22.20 billion, of which \$6.48 billion was outstanding at September 30, 2022 and \$15.72 billion remained to be advanced. The weighted-average loan-to-cost ("LTC") on such loans, assuming such loans are ultimately fully advanced, was approximately 54%, which means that the weighted-average cash equity contributed on such loans, assuming such loans are ultimately fully advanced, was approximately 46%. The weighted-average LTV ratio on such loans, based on the most recent appraisals and assuming such loans are ultimately fully advanced, was approximately 44%.

Purchased Loans. Between 2010 and 2016, we made 15 acquisitions. Purchased loans, which are the remaining loans from those 15 acquisitions, accounted for 2.1% of our total loan portfolio at September 30, 2022 compared to 2.8% at December 31, 2021. This portfolio is expected to continue to decrease in future periods as such loans are repaid.

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

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

Purchased Loans

	September 30, 2022	December 31, 2021
	(Dollars in thousands)	
Loans not deemed PCD:		
Unpaid principal balance	\$ 388,706	\$ 487,341
Valuation discount	(4,282)	(6,029)
Carrying value	<u>384,424</u>	<u>481,312</u>
PCD loans:		
Unpaid principal balance	28,862	40,320
Valuation discount	(3,120)	(5,417)
Carrying value	<u>25,742</u>	<u>34,903</u>
Total carrying value	<u>\$ 410,166</u>	<u>\$ 516,215</u>

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 or former branches which are no longer being utilized for banking purposes.

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) deemed 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 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

	September 30, 2022	December 31, 2021
	(Dollars in thousands)	
Nonaccrual loans ⁽¹⁾	\$ 18,704	\$ 29,480
Accruing loans 90 days or more past due	—	—
TDRs – nonaccruing ⁽¹⁾	5,929	3,794
TDRs – accruing ⁽¹⁾	1,610	1,285
Total nonperforming loans, excluding purchased loans	26,243	34,559
Nonaccrual purchased loans	8,098	10,991
TDRs – accruing purchased	40	45
Total nonperforming loans	34,381	45,595
Foreclosed assets	6,559	5,744
Total nonperforming assets	<u>\$ 40,940</u>	<u>\$ 51,339</u>
Nonperforming loans to total loans, excluding purchased loans ⁽¹⁾	0.14%	0.19%
Nonperforming loans to total loans	0.18	0.25
Nonaccrual loans to total loans	0.17	0.24
Nonperforming assets to total assets, excluding purchased loans ⁽²⁾	0.13	0.15
Nonperforming assets to total assets	0.16	0.19
ALL to nonaccrual loans ⁽³⁾	611%	491%

(1) Excludes purchased loans.

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

(3) Excludes reserve for losses on unfunded loan commitments.

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

At September 30, 2022, we had reduced the carrying value of our nonperforming loans to the estimated fair value of such loans of \$23.9 million. The adjustment to reduce the carrying value of such nonperforming loans to the estimated fair value consisted of \$8.8 million of allowance for loan loss allocations. Nonperforming non-purchased loans at September 30, 2022 and December 31, 2021 included \$1.7 million and \$1.3 million, respectively, of accruing loans that were determined to be TDRs.

At September 30, 2022 and December 31, 2021 substandard loans, excluding purchased loans, not designated as nonperforming, nonaccrual or 90 days past due, totaled \$63.8 million and \$52.3 million, respectively. No loans were designated as doubtful or loss at September 30, 2022 or December 31, 2021. Included in substandard loans not deemed as nonperforming, nonaccrual or 90 days or more past due at September 30, 2022 and December 31, 2021 is a single credit at our Real Estate Specialties Group that was downgraded to substandard during the fourth quarter of 2019. This credit, which is collateralized by a lot development and townhouse

construction project near Lake Tahoe, California, had an outstanding balance of \$36.9 million at September 30, 2022 and \$42.8 million at December 31, 2021. This credit was not past due at September 30, 2022 or December 31, 2021.

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

Foreclosed Assets

	September 30, 2022	December 31, 2021
	(Dollars in thousands)	
Real estate:		
Residential 1-4 family	\$ 30	\$ —
Non-farm/non-residential	5,623	2,786
Construction/land development	—	1,990
Agricultural	630	701
Total real estate	6,283	5,477
Commercial and industrial	—	—
Consumer	276	267
Total foreclosed assets	<u>\$ 6,559</u>	<u>\$ 5,744</u>

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

Activity Within Foreclosed Assets

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Balance – beginning of period	\$ 2,593	\$ 7,542	\$ 5,744	\$ 11,085
Loans and other assets transferred into foreclosed assets	5,278	4,446	9,364	13,197
Sales of foreclosed assets	(1,225)	(1,554)	(8,204)	(12,362)
Writedowns of foreclosed assets	(87)	(990)	(345)	(2,476)
Balance – end of period	<u>\$ 6,559</u>	<u>\$ 9,444</u>	<u>\$ 6,559</u>	<u>\$ 9,444</u>

The following table presents information concerning the geographic location of nonperforming assets at September 30, 2022. Nonperforming loans are reported in the physical location of the principal collateral. Foreclosed assets are reported in the physical location of the asset. Repossessions are reported at the physical location where the borrower resided or had its principal place of business at the time of repossession.

Geographic Distribution of Nonperforming Assets

	Total Nonperforming Loans	Foreclosed Assets and Repossessions	Total Nonperforming Assets
	(Dollars in thousands)		
Arkansas	\$ 9,535	\$ 858	\$ 10,393
Georgia	8,716	13	8,729
Texas	4,436	4,824	9,260
Florida	3,922	133	4,055
North Carolina	4,154	—	4,154
Mississippi	768	630	1,398
All other	2,850	101	2,951
Total	<u>\$ 34,381</u>	<u>\$ 6,559</u>	<u>\$ 40,940</u>

Allowance for Credit Losses. Our provision for credit losses for the third quarter of 2022 was \$39.8 million, including a provision of \$13.4 million related to our allowance for loan losses (“ALL”) for outstanding loans and a provision expense of \$26.4 million related to our reserve for losses on unfunded loan commitments. Our provision for credit losses for the nine months ended September 30, 2022 was \$51.0 million, including a negative provision of \$12.9 million related to our ALL for outstanding loans and a provision expense of \$63.9 million related to our reserve for losses on unfunded loan commitments. Our provision for credit losses for the third quarter of 2021 was a negative \$7.5 million, including a negative \$9.7 million related to our ALL for outstanding loans and a provision expense of \$2.2 million related to our reserve for losses on unfunded loan commitments. Our provision expense for the nine months ended September 30, 2021 was a negative \$69.9 million, including a negative \$49.5 million related to our ALL for outstanding loans and a negative \$20.4 million related to our reserve for losses and unfunded loan commitments. Our provision for credit losses

recorded during the first nine months of 2022 decreased our ALL for outstanding loans to \$200.1 million, or 1.03% of total loans, and increased our reserve for losses on unfunded loan commitments to \$135.5 million, or 0.67% of unfunded loan commitments, bringing our total ACL to \$335.6 million at September 30, 2022. Our negative provision for credit losses recorded during the first nine months of 2021 decreased our ALL for outstanding loans to \$237.7 million, or 1.30% of total loans, and decreased our reserve for losses on unfunded loan commitments to \$61.1 million, or 0.49% of unfunded loan commitments, bringing our total ACL to \$298.8 million at September 30, 2021.

The calculations of our provision for credit losses for the third quarter and first nine months of 2022 and our total ACL at September 30, 2022 were based on a number of key estimates, assumptions and economic forecasts. Management utilized recent economic forecasts provided by Moody's, including the Moody's updates released in September 2022. In selecting the weightings for the various economic scenarios for purposes of determining our ACL at September 30, 2022, we assigned the largest weighting to the Moody's S4 (Alternative Downside) scenario and assigned smaller weightings to the Moody's S6 (Stagflation) and Baseline scenarios. Our selection and weightings of these scenarios reflected our assessment of conditions in the U.S. economy, and acknowledged the uncertainty regarding future U.S. economic conditions, including the elevated risk of a recession in the near-term, elevated inflationary pressures, increases in the Federal Funds Target Rate, prospects for a shrinking of the Federal Reserve balance sheet, the impacts of the ongoing war in Ukraine, supply chain disruptions, global trade and geopolitical matters, the impacts of U.S. fiscal policy actions, uncertainties about the COVID-19 pandemic, and various other factors. These forecasts included a number of economic variables, including gross domestic product, unemployment rates, commercial and residential real estate prices and consumer price index, among others. For purposes of the forecasts used in our CECL methodology, management utilized a reasonable and supportable forecast period of two years, followed by a reversion of estimated losses on a systematic basis back to our historical mean. Management also utilized certain qualitative adjustments to increase our ACL estimates to capture items that management believed were not fully reflected in our modeled results. Those qualitative adjustments are intended to adjust for imprecision in economic forecasts, model data limitations and other factors. CECL has and is expected to continue to increase the volatility in our provision for credit losses and associated ACL from period to period.

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

Allowance for Credit Losses

	Allowance for Loan Losses	Reserve for Losses on Unfunded Loan Commitments (Dollars in thousands)	Total Allowance for Credit Losses
Three months ended September 30, 2022:			
Balances – June 30, 2022	\$ 190,795	\$ 109,143	\$ 299,938
Net charge-offs	(4,074)	—	(4,074)
Provision for credit losses	13,377	26,394	39,771
Balances – September 30, 2022	<u>\$ 200,098</u>	<u>\$ 135,537</u>	<u>\$ 335,635</u>
Nine months ended September 30, 2022:			
Balances – December 31, 2021	\$ 217,380	\$ 71,609	\$ 288,989
Net charge-offs	(4,340)	—	(4,340)
Provision for credit losses	(12,942)	63,928	50,986
Balances – September 30, 2022	<u>\$ 200,098</u>	<u>\$ 135,537</u>	<u>\$ 335,635</u>
Three months ended September 30, 2021:			
Balances – June 30, 2021	\$ 248,753	\$ 58,811	\$ 307,564
Net charge-offs	(1,312)	—	(1,312)
Provision for credit losses	(9,719)	2,265	(7,454)
Balances – September 30, 2021	<u>\$ 237,722</u>	<u>\$ 61,076</u>	<u>\$ 298,798</u>
Nine months ended September 30, 2021:			
Balances – December 31, 2020	\$ 295,824	\$ 81,481	\$ 377,305
Net charge-offs	(8,561)	—	(8,561)
Provision for credit losses	(49,541)	(20,405)	(69,946)
Balances – September 30, 2021	<u>\$ 237,722</u>	<u>\$ 61,076</u>	<u>\$ 298,798</u>

The amount of our provision to the ACL is based on our analysis of the adequacy of the ACL utilizing the criteria discussed in the Critical Accounting Estimates section of our annual report on Form 10-K for the year ended December 31, 2021.

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

Net Charge-off and ACL/ALL Ratios

	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,		As of and for the Year Ended December 31,
	2022	2021	2022	2021	2021
	Net charge-offs of non-purchased loans to total average non-purchased loans ⁽¹⁾⁽²⁾	0.09%	0.04%	0.07%	0.07%
Net charge-offs of total loans to total average loans ⁽¹⁾	0.09	0.03	0.03	0.06	0.06
ALL to total loans ⁽³⁾	1.03	1.30	1.03	1.30	1.19
Reserve for losses on unfunded loan commitments to total unfunded loan commitments	0.67	0.49	0.67	0.49	0.53
ACL to total loans	1.72	1.63	1.72	1.63	1.58
ACL to total loans and unfunded loan commitments	0.85	0.97	0.85	0.97	0.91
ALL to nonperforming loans ⁽³⁾	582%	466%	582%	466%	477%

(1) Ratios for interim periods annualized.

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

(3) Excludes reserve for losses on unfunded loan commitments.

The following table sets forth the sum of the amounts of the ALL and the percentage of loans to total loans as of the dates indicated. The amounts shown in the following table are not necessarily indicative of the actual future losses that may occur within particular categories or in the aggregate.

Allocation of the ALL

	September 30, 2022		December 31, 2021	
	ALL	% of Loans to Total Loans	ALL	% of Loans to Total Loans
(Dollars in thousands)				
ALL for loans:				
Real estate:				
Residential 1-4 family	\$ 18,462	5.0%	\$ 18,675	4.8%
Non-farm/non-residential	49,019	23.6	79,524	20.7
Construction/land development	59,016	37.8	54,036	45.0
Agricultural	3,137	1.2	3,070	1.4
Multifamily residential	7,948	6.9	6,424	5.1
Commercial and industrial	9,338	4.1	8,017	2.8
Consumer	45,511	12.4	37,430	11.9
Other	7,667	9.0	10,204	8.3
Total ALL	<u>\$ 200,098</u>		<u>\$ 217,380</u>	

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

Allocation of ACL

	ALL	Reserve for Losses on Unfunded Loan Commitments	Total ACL
	(Dollars in thousands)		
September 30, 2022:			
Real estate:			
Residential 1-4 family	\$ 18,462	\$ 1,203	\$ 19,665
Non-farm/non-residential	49,019	2,620	51,639
Construction/land development	59,016	103,232	162,248
Agricultural	3,137	50	3,187
Multifamily residential	7,948	652	8,600
Commercial and industrial	9,338	9,841	19,179
Consumer	45,511	152	45,663
Other	7,667	17,787	25,454
Total	<u>\$ 200,098</u>	<u>\$ 135,537</u>	<u>\$ 335,635</u>

December 31, 2021:			
Real estate:			
Residential 1-4 family	\$ 18,675	\$ 1,172	\$ 19,847
Non-farm/non-residential	79,524	2,122	81,646
Construction/land development	54,036	56,364	110,400
Agricultural	3,070	53	3,123
Multifamily residential	6,424	654	7,078
Commercial and industrial	8,017	987	9,004
Consumer	37,430	166	37,596
Other	10,204	10,091	20,295
Total	<u>\$ 217,380</u>	<u>\$ 71,609</u>	<u>\$ 288,989</u>

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 Board-approved liquidity risk appetite, which is monitored through our liquidity risk profile, is further categorized into the following risks: liquid asset management risk (risk of acute funding stress related to insufficient levels of liquid assets), funding diversity and stability risk (risk of loss of a single large funding source that may lead to an inability to fund our business strategy and require us to sell assets or curtail growth) and funding capacity/contingency planning risk (risk of unanticipated growth from lending businesses or unexpected customer activity may lead to unexpected increases in demands on liquidity.) Our Assets and Liability Committee (“ALCO”) has primary responsibility for oversight of, among other responsibilities, 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 a liquidity and funds management policy, including a contingency funding plan that, among other things, includes 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 our liquidity and funds management policy, 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 and commercial customers in our markets. We have used these funds, together with public funds customers, FHLB advances and brokered deposits, as well as 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. The amount of deposits by account type, as of the dates indicated, and their respective percentage of total deposits are reflected in the following table.

Deposits – By Account Type

	September 30, 2022		December 31, 2021	
	(Dollars in thousands)			
Non-interest bearing	\$ 4,824,209	23.6%	\$ 4,983,788	24.7%
Interest bearing:				
Transaction (NOW)	3,723,109	18.2	3,412,369	16.9
Savings and money market	6,040,529	29.6	5,833,358	28.9
Time deposits	5,814,029	28.6	5,979,619	29.5
Total deposits	<u>\$ 20,401,876</u>	<u>100.0%</u>	<u>\$ 20,209,134</u>	<u>100.0%</u>

Our total deposits increased 0.95% to \$20.40 billion at September 30, 2022 compared to \$20.21 billion at December 31, 2021. Our loan-to-deposit ratio at September 30, 2022 was 95.7% compared to 90.6% at December 31, 2021.

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

Deposits – By Customer Type

	September 30, 2022		December 31, 2021	
	(Dollars in thousands)			
Non-Interest Bearing	\$ 4,824,209	23.6%	\$ 4,983,788	24.7%
Interest Bearing:				
Consumer and Commercial:				
Consumer – Non-Time	4,197,997	20.6	4,334,378	21.4
Consumer – Time	4,127,269	20.2	4,318,742	21.4
Commercial – Non-Time	2,891,061	14.2	2,634,817	13.0
Commercial – Time	557,130	2.7	905,347	4.5
Public Funds	2,054,727	10.1	2,094,800	10.4
Brokered	1,322,297	6.5	452,137	2.2
Reciprocal	427,186	2.1	485,125	2.4
Total deposits	<u>\$ 20,401,876</u>	<u>100.0%</u>	<u>\$ 20,209,134</u>	<u>100.0%</u>

At September 30, 2022 brokered deposits totaled \$1.32 billion, or 6.5% of total deposits, compared to \$0.45 billion, or 2.2% of total deposits, at December 31, 2021. We use brokered deposits, subject to certain limitations and requirements, as a source of funding to augment deposits generated from our branch network, which are our principal source of funding. Our Board has established policies and procedures with respect to the use of brokered deposits. Such policies and procedures require, among other things, that (i) we limit the amount of brokered deposits as a percentage of total deposits and (ii) ALCO monitor our use of brokered deposits on a regular basis, including interest rates and the volume of such deposits in relation to our total deposits.

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

Average Deposit Balances and Rates

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
(Dollars in thousands)								
Interest bearing:								
Transaction (NOW)	\$ 3,452,271	0.66%	\$ 3,197,361	0.13%	\$ 3,417,634	0.34%	\$ 3,206,626	0.14%
Savings and money market	6,162,535	0.51	5,693,681	0.13	6,194,082	0.28	5,450,136	0.16
Time deposits	5,232,727	0.63	6,920,513	0.54	5,464,267	0.48	7,964,704	0.76
Total interest-bearing deposits	14,847,533	0.59	15,811,555	0.31	15,075,983	0.37	16,621,466	0.44
Non-interest bearing	4,998,392	—	4,523,521	—	4,915,023	—	4,289,589	—
Total deposits	<u>\$19,845,925</u>	0.44%	<u>\$20,335,076</u>	0.24%	<u>\$19,991,006</u>	0.28%	<u>\$20,911,055</u>	0.35%

The calculation of the average rate paid on total interest bearing deposits of 0.59% for the three months and 0.37% for the nine months ended September 30, 2022 and 0.31% for the three months and 0.44% for the nine months ended September 30, 2021 includes interest paid and average balances of all categories of interest bearing deposits. The average rate paid for all deposits, including both interest bearing and non-interest bearing deposits, was 0.44% for the three months and 0.28% for the nine months ended September 30, 2022 and 0.24% for the three months and 0.35% for the nine months ended September 30, 2021. Future increases or decreases in the rate paid on our interest bearing deposits will depend on funding needs to support growth in our earning assets, changes in the federal funds rate and other interest rates, competitive conditions and other activities.

The estimated amount of uninsured deposits at September 30, 2022 was \$8.12 billion compared to \$8.77 billion at December 31, 2021. The following table sets forth time deposits that exceed FDIC insurance limits or are otherwise uninsured as of the dates indicated.

Maturity Distribution of Time Deposits

	Individual Time Deposits that Exceed the FDIC Insurance Limit	Estimated Aggregate Time Deposits that Exceed the FDIC Insurance Limit or Otherwise Uninsured Time Deposits
(Dollars in thousands)		
September 30, 2022:		
3 months or less	\$ 434,003	\$ 509,737
Over 3 to 6 months	224,008	299,282
Over 6 to 12 months	451,938	579,963
Over 12 months	268,956	370,414
Total	<u>\$ 1,378,905</u>	<u>\$ 1,759,396</u>
December 31, 2021:		
3 months or less	\$ 403,773	\$ 510,507
Over 3 to 6 months	391,809	542,862
Over 6 to 12 months	640,309	808,725
Over 12 months	217,942	395,360
Total	<u>\$ 1,653,833</u>	<u>\$ 2,257,454</u>

Estimated uninsured deposits do not necessarily reflect an evaluation of all scenarios that potentially would determine the availability of deposit insurance to individual accounts or customers based on FDIC regulations.

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

Deposits by State

Deposits Attributable to Offices In	September 30, 2022		December 31, 2021	
	(Dollars in thousands)			
Arkansas	\$ 6,754,650	33.1%	\$ 6,224,650	30.8%
Georgia	5,685,032	27.9	5,579,130	27.6
Florida	3,433,249	16.8	3,639,634	18.0
Texas	3,042,625	14.9	3,280,149	16.2
North Carolina	1,486,320	7.3	1,485,571	7.4
Total	\$ 20,401,876	100.0%	\$ 20,209,134	100.0%

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

Loan Portfolio. In addition to customer deposits, cash flows from our loan portfolio provide us with a significant source of liquidity. The following table reflects total loans grouped by remaining maturities at September 30, 2022 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 Through 15 Years	Over 15 Years	Total
	(Dollars in thousands)				
Real estate	\$ 4,291,044	\$ 8,683,057	\$ 893,396	\$ 650,437	\$ 14,517,934
Commercial and industrial	238,607	509,532	55,496	365	804,000
Consumer	7,401	21,952	620,919	1,777,089	2,427,361
Other	782,191	971,581	5,581	5,064	1,764,417
Total	\$ 5,319,243	\$ 10,186,122	\$ 1,575,392	\$ 2,432,955	\$ 19,513,712
Fixed rate	\$ 291,864	\$ 1,476,548	\$ 754,104	\$ 1,990,938	\$ 4,513,454
Floating rate (not at a floor or ceiling rate) ⁽¹⁾	4,927,472	8,304,032	232,004	243,077	13,706,585
Floating rate (at floor rate) ⁽¹⁾	92,456	399,557	576,234	198,927	1,267,174
Floating rate (at ceiling rate)	7,451	5,985	13,050	13	26,499
Total	\$ 5,319,243	\$ 10,186,122	\$ 1,575,392	\$ 2,432,955	\$ 19,513,712

(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.

At September 30, 2022, we had \$20.09 billion in unfunded balances on loans already closed, the majority of which is attributable to construction and development loans. In most cases the borrower's equity and all or most other required subordinated elements of the capital structure must be fully funded before we advance funds. In many cases we do not advance funds on construction and development loans for many months after closing because the borrower's equity and a majority of other funding sources must fund first. This conservative practice for handling construction loans has led to the large unfunded balance of closed loans. As a result, we maintain a detailed 36-month forward funding forecast projecting all loan fundings and loan pay downs and pay offs. Our ability to project monthly net portfolio growth with a substantial degree of accuracy is an important part of our liquidity management process.

Investment Securities – Available for Sale (“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 AFS, at estimated fair value, at September 30, 2022 and weighted average yields (for tax exempt obligations on FTE basis) of such securities.

Expected Maturity Distribution of Investment Securities AFS

	1 Year Or Less	Weighted Average Yield- FTE	Over 1 Through 5 Years	Weighted Average Yield- FTE	Over 5 Through 10 Years	Weighted Average Yield- FTE	Over 10 Years	Weighted Average Yield- FTE	Total	Weighted Average Yield- FTE
(Dollars in thousands)										
Obligations of state and political subdivisions	\$ 116,534	1.81 %	\$ 188,915	2.96 %	\$ 124,482	4.14 %	\$ 778,472	4.59 %	\$ 1,208,403	4.02 %
U.S. Government agency mortgage-backed securities	414,506	1.51	967,781	1.37	255,111	1.00	8,935	2.88	1,646,333	1.37
Other U.S. Government agency securities	—	—	613,402	1.07	—	—	—	—	613,402	1.07
Corporate obligations	1,500	3.08	11,762	3.75	14,648	4.69	8,101	4.28	36,011	4.22
U.S. Treasuries	—	—	23,928	0.69	—	—	—	—	23,928	0.69
Total	<u>\$ 532,540</u>	<u>1.58 %</u>	<u>\$ 1,805,788</u>	<u>1.44 %</u>	<u>\$ 394,241</u>	<u>2.19 %</u>	<u>\$ 795,508</u>	<u>4.56 %</u>	<u>\$ 3,528,077</u>	<u>2.25 %</u>
Percentage of total	15.1 %		51.2 %		11.2 %		22.5 %		100.0 %	
Cumulative percentage of total	15.1 %		66.3 %		77.5 %		100.0 %			

The maturity for all investment securities AFS 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 third party median prepayment speeds or other estimates of prepayment speeds and interest rate levels at September 30, 2022 and (2) callable investment securities for which we have received notification of call, which are included in the maturity category in which the call occurs or is expected to occur. Actual maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. The weighted-average yields-FTE are calculated based on the coupon rate and amortized cost for such securities and includes any projected discount accretion or premium amortization.

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 other sources of liquidity to meet growth in loans and deposit withdrawal demands or otherwise fund operations. Such other sources include, among others, secured and unsecured federal funds lines of credit from correspondent banks, other borrowings (primarily FHLB advances and, to a lesser extent, federal funds purchased), FRB borrowings, subordinated notes, subordinated debentures and/or accessing the capital markets.

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

Average Balances and Rates of Other Interest Bearing Liabilities

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
	Average Balance	Rate Paid	Average Balance	Rate Paid	Average Balance	Rate Paid	Average Balance	Rate Paid
(Dollars in thousands)								
Other borrowings	\$ 517,161	1.89 %	\$ 757,786	0.53 %	\$ 647,083	0.93 %	\$ 757,141	0.53 %
Subordinated notes	346,642	3.01	56,468	3.01	346,433	3.01	167,636	5.39
Subordinated debentures	121,382	5.17	120,822	3.07	121,239	4.13	120,681	3.12
Total other interest bearing liabilities	<u>\$ 985,185</u>	<u>2.69 %</u>	<u>\$ 935,076</u>	<u>1.01 %</u>	<u>\$ 1,114,755</u>	<u>1.92 %</u>	<u>\$ 1,045,458</u>	<u>1.61 %</u>

In recent quarters, we have utilized FHLB advances to support our funding sources and provide additional on-balance sheet liquidity to the Bank. Details of our FHLB advances, at September 30, 2022, are shown in the following table.

FHLB Advances

Borrowing Type	Balance	Interest Rate	Maturity Date
		(Dollars in thousands)	
Fixed-rate FHLB advance	\$ 75,000	2.83%	October 4, 2022
Fixed-rate FHLB advance	25,000	2.87	October 4, 2022
Fixed-rate FHLB advance	50,000	3.05	October 4, 2022
Fixed-rate FHLB advance	50,000	3.15	October 5, 2022
Fixed-rate FHLB advance	100,000	3.00	October 11, 2022
Fixed-rate FHLB advance	50,000	3.17	October 11, 2022
Fixed-rate FHLB advance	100,000	3.32	October 18, 2022
Other FHLB advances	18	2.37	Various
Total	\$ 450,018	3.07%	

At September 30, 2022, we had substantial unused borrowing availability. This availability was primarily comprised of the following four options: (1) \$5.03 billion of available blanket borrowing capacity with the FHLB, (2) \$2.56 billion of investment securities available to pledge for federal funds or other borrowings, (3) \$1.08 billion of available unsecured federal funds borrowing lines and (4) up to \$0.40 billion of available borrowing capacity from borrowing programs of the FRB.

We anticipate we will continue to rely primarily on deposits, repayments of loans and cash flows from our investment securities to provide liquidity, as well as other funding sources as appropriate. Additionally, where necessary, the other 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 \$0.59 billion for the first nine months of 2022 and \$0.38 billion for the first nine months of 2021. 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 \$1.21 billion in the first nine months of 2022 and provided \$0.27 billion in the first nine months of 2021. The increase in net cash used by investing activities in the first nine months of 2022 was primarily the result of changes in the net cash used for our total loan portfolio, which used \$1.21 billion in the first nine months of 2022 and provided \$0.90 billion in the first nine months of 2021, offset by changes in our total investments portfolio, which provided net cash of \$0.03 billion in the first nine months of 2022 and used net cash of \$0.51 billion in the first nine months of 2021.

Financing activities used net cash of \$0.54 billion in the first nine months of 2022 and \$1.26 billion in the first nine months of 2021. The decrease in net cash used by financing activities was primarily the result of an increase in deposits which provided \$0.22 billion in the first nine months of 2022 and used \$1.24 billion in the first nine months of 2021, offset by changes in our net repayments of other borrowings and repurchase and cancellation of shares of common stock from our share repurchase program.

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 security prices. We are exposed to both interest rate risk and price risk. Interest rate risk is the risk that arises from increased volatility in net interest income due to a change of interest rates. There are different types of risk exposures that can arise when there is a change of interest rates, such as basis risk, options risk, term structure and repricing risk. 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. 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, price risk is systematic because it affects multiple asset classes.

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

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 indices 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 timing and amount of prepayments that are anticipated from our loan portfolio, (9) the need, if any, for additional capital and/or debt to support continued growth and (10) 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. For purposes of these scenarios, 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, prepayment assumptions, 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. Our Earnings Simulation Model is governed through our Model Risk Management framework.

The following table presents the earnings simulation model's projected impact of a change in interest rates on the projected baseline net interest income for the 12-month period commencing October 1, 2022. This change in interest rates is assumed to occur ratably over that 12-month period, and also 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	14.4%
+200	9.7
+100	4.9
-100	(4.9)
-200	(8.9)
-300	(12.0)

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

EVE Model. EVE is calculated as the fair value of all assets minus the fair value of liabilities and incorporates a number of assumptions including (1) the timing and amount of cash flows expected to be received or paid on various assets and liabilities, (2) the expected exercise of call features on various assets and liabilities, (3) estimated discount rates, and (4) other relevant factors. 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.

The following table presents our EVE results as of September 30, 2022.

EVE Model Results

Change in Interest Rates (in bps)	% Change in Projected Baseline EVE
+200	0.7%
+100	0.4
-100	(1.3)
-200	(3.3)

Variable Rate Loans and Loan Repricing. At September 30, 2022, approximately 77% of our total loans had variable rates. Additionally, approximately 97% of our variable rate loans had floor rates. The following table reflects total loans as of September 30, 2022 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 into 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	\$ 485,951	\$ 414,290	\$ 387,227	\$ 1,104,393	\$ 2,121,593	\$ 4,513,454
Floating rate (not at a floor or ceiling rate) ⁽¹⁾	13,439,711	57,914	57,735	130,441	20,784	13,706,585
Floating rate (at floor rate) ⁽¹⁾	429,776	105,580	190,632	465,070	76,116	1,267,174
Floating rate (at ceiling rate)	26,469	7	7	16	—	26,499
Total	\$ 14,381,907	\$ 577,791	\$ 635,601	\$ 1,699,920	\$ 2,218,493	\$ 19,513,712
Percentage of total	73.7%	3.0%	3.3%	8.7%	11.3%	100.0%
Cumulative percentage of total	73.7%	76.7%	80.0%	88.7%	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.

Most of our floating rate loans are tied to three major benchmark interest rates, the 1-month LIBOR, 1-month term SOFR and WSJ Prime. The following table is a summary of our floating rate loan portfolio and contractual interest rate indices at September 30, 2022.

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	\$ 60,744	\$ 8,358,125	\$ —	\$ 8,418,869
1-month term SOFR	236,918	3,432,279	—	3,669,197
Wall Street Journal Prime	871,712	1,668,636	26,499	2,566,847
Other contractual interest rate indices	97,800	247,545	—	345,345
Total	\$ 1,267,174	\$ 13,706,585	\$ 26,499	\$ 15,000,258

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 Transition. Our subordinated debentures and related trust preferred securities and significant portions of our loan portfolio are tied to LIBOR benchmark interest rates. Most LIBOR index tenors are expected to be phased-out by June 2023. The Federal Reserve formed the Alternative Reference Rates Committee (“ARRC”) to guide the transition process in the United States. ARRC has issued a number of recommendations including the adoption of SOFR as a replacement for LIBOR. We have created an internal working group that is managing our transition away from LIBOR. This working group is a cross-functional team composed of representatives from credit, lending, deposits, retail, investment securities, loan administration, operations, finance, compliance, legal and other support functions to address issues related to the LIBOR transition and phase-out. All of our loans that are tied to LIBOR benchmark interest rates include fallback language for when LIBOR ceases to exist. As of January 1, 2022, the Bank is no longer originating loans that are tied to LIBOR benchmark interest rates. We will continue to evaluate the financial impact regarding pricing, valuation and operations of the transition. For further details see “Item 1A. - Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2021.

Market Risk Management Actions. We are exposed to market risk primarily through changes in fair value of our fixed income investment securities portfolio. Investment portfolio strategies are set by senior management and are subject to the oversight and direction of ALCO. At September 30, 2022, and at December 31, 2021, with the exception of a small balance of investment securities designated as “trading,” most of our investment securities portfolio was classified as available for sale. Accordingly, our investment securities AFS are reported at estimated fair value with the unrealized gains and losses, net of related income tax, reported as a separate component of stockholders’ equity and included in other comprehensive income (loss). At September 30, 2022, we had \$300.0 million of net unrealized losses in our investment securities portfolio that was reported, net of applicable income taxes, in accumulated other comprehensive income.

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

Investment Securities – AFS

	September 30, 2022		December 31, 2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
U.S. Government agency mortgage-backed securities	\$ 1,819,171	\$ 1,646,333	\$ 2,203,398	\$ 2,217,281
Obligations of state and political subdivisions	1,284,751	1,208,403	794,704	813,213
Other U.S. Government agency securities	658,809	613,402	556,290	555,261
Corporate obligations	40,445	36,011	305,966	306,071
U.S. Treasuries	24,945	23,928	24,910	24,907
Total	<u>\$ 3,828,121</u>	<u>\$ 3,528,077</u>	<u>\$ 3,885,268</u>	<u>\$ 3,916,733</u>

Our investment securities portfolio is reported at estimated fair value, which included gross unrealized gains of \$1.3 million and gross unrealized losses of \$301.3 million at September 30, 2022 and gross unrealized gains of \$47.0 million and gross unrealized losses of \$15.5 million at December 31, 2021. We believe that all unrealized losses on individual investment securities at September 30, 2022 and December 31, 2021 are the result of fluctuations in interest rates and do not reflect deterioration in the credit quality of these investments. If we intend to sell an AFS security, or if it is more likely than not that we will be required to sell an AFS security before recovery of its amortized cost basis, the security's amortized cost basis is written down to fair value through current period expense. If we do not intend to sell an AFS security or if it is more likely than not that we will not sell an AFS security that is in an unrealized loss position, we are required to assess whether the decline in fair value has resulted from credit losses or non-credit factors. If our assessment determines a credit loss exists, the present value of cash flows expected to be collected from the AFS security is compared to the amortized cost basis of the security and if the present value cash flows expected to be collected is less than amortized cost, an allowance for credit losses and a provision for credit loss expense is recorded. If our assessment determines that a credit loss does not exist, we record the decline in fair value through other comprehensive income, net of related tax effects.

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

Unaccreted Discount and Unamortized Premium

	Amortized Cost	Unaccreted Discount	Unamortized Premium	Par Value
	(Dollars in thousands)			
September 30, 2022:				
U.S. Government agency mortgage-backed securities	\$ 1,819,171	\$ 63	\$ (48,828)	\$ 1,770,406
Obligations of state and political subdivisions	1,284,751	10,482	(29,328)	1,265,905
Other U.S. Government agency securities	658,809	51	—	658,860
Corporate obligations	40,445	226	(2,197)	38,474
U.S. Treasuries	24,945	55	—	25,000
Total	<u>\$ 3,828,121</u>	<u>\$ 10,877</u>	<u>\$ (80,353)</u>	<u>\$ 3,758,645</u>
December 31, 2021:				
U.S. Government agency mortgage-backed securities	\$ 2,203,398	\$ 94	\$ (63,612)	\$ 2,139,880
Obligations of state and political subdivisions	794,704	1,562	(18,703)	777,563
Other U.S. Government agency securities	556,290	71	—	556,361
Corporate obligations	305,966	42	(3,659)	302,349
U.S. Treasuries	24,910	90	—	25,000
Total	<u>\$ 3,885,268</u>	<u>\$ 1,859</u>	<u>\$ (85,974)</u>	<u>\$ 3,801,153</u>

We recognized premium amortization, net of discount accretion, of \$7.4 million during the three months and \$25.8 million during the nine months ended September 30, 2022 compared to \$15.3 million during the three months and \$46.7 million during the nine months ended September 30, 2021. Any premium amortization or discount accretion is considered an adjustment to the yield of our investment securities.

We had no sales of investment securities AFS in the third quarter and no net gains or losses from the sale of approximately \$0.02 million of investment securities AFS during the first nine months of 2022. We had no sales of investment securities AFS during the third quarter of 2021 and no net gains or losses from the sale of approximately \$592 million of investment securities AFS in the first nine months of 2021, consisting entirely of variable rate demand notes which were purchased at, carried at and called at their par value. Investment securities AFS totaling \$0.27 billion in the third quarter and \$0.94 billion in the first nine months of 2022 matured,

were called or were otherwise paid down by the issuer. Investment securities AFS totaling \$0.87 billion in the third quarter and \$1.98 billion in the first nine months of 2021 matured, were called or were otherwise paid down by the issuer. We purchased \$0.25 billion of investment securities AFS in the third quarter and \$0.91 billion of investment securities AFS during the first nine months of 2022. We purchased \$0.05 billion of investment securities AFS in the third quarter and \$3.09 billion in the first nine months of 2021.

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 2021, we added trading investment securities to our investment securities portfolio which are intended to help us capitalize on additional investment and trading opportunities. Our trading securities are carried at estimated fair value with unrealized and realized gains and losses reported in net income. In future periods, we will be exposed to market and interest rate risk primarily through changes in fair value of our trading securities portfolio. As of September 30, 2022, we owned \$2.5 million of trading securities and for the third quarter and first nine months of 2022, we realized net gains on investment securities of \$0.3 million and \$0.8 million, respectively. As of September 30, 2021, we owned no trading securities and no sales of trading securities occurred during the third quarter and first nine months of 2021.

At September 30, 2022, approximately 96.4% of our investment securities had an investment grade credit rating (i.e., the equivalent of a rating of BBB- or better) and approximately 3.6% 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 stockholders' equity, comprised of preferred and 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 \$4.20 billion at September 30, 2022 compared to \$4.50 billion at December 31, 2021. Included below in this Capital Management section of our MD&A is the calculation and reconciliation of our common stockholders' equity to the most directly comparable GAAP measure. Additionally, our common stockholders' equity is augmented by our preferred stock, our subordinated notes, our subordinated debentures and our ACL.

Common Stock Repurchase Program. During 2021, our Board adopted a stock repurchase program authorizing the purchase of up to \$650 million of our outstanding shares of common stock. During the third quarter of 2022, we repurchased approximately 1.23 million shares of common stock at a weighted average price of \$38.96 for a total of \$47.7 million. During the first nine months of 2022, we repurchased approximately 7.8 million shares of common stock at a weighted average price of \$41.90 for a total of \$326.7 million. This stock repurchase program expired on November 4, 2022 and any new repurchase program will be subject to approval by the Bank's Board of Directors and any required regulatory approval. In evaluating any plans for stock repurchases after the expiration of our current program, management will consider a variety of factors including our capital position, expected growth, alternative uses of capital, liquidity, financial performance, stock price, current and expected macroeconomic environment, regulatory requirements and other factors.

Preferred Stock. During November 2021, we completed a public offering of 14,000,000 shares of 4.625% Series A Non-Cumulative Perpetual Preferred Stock, par value \$0.01 per share, with a liquidation preference of \$25 per share (the "Preferred Stock"). Our Preferred Stock offering generated total net proceeds of \$339.0 million after deducting the initial purchaser discount and estimated offering expenses. We pay cash dividends on our Preferred Stock, when, as, and if declared by our Board. Subject to declaration by our Board, cash dividends accrue and are payable from the original date of issuance at a rate of 4.625% per annum, payable quarterly, in arrears, on February 15, May 15, August 15, and November 15 of each year, beginning on February 15, 2022. Dividends on our Preferred Stock are not cumulative or mandatory. During the third quarter of 2022, we paid dividends on our Preferred Stock of \$4.0 million and during the first nine months of 2022, we paid dividends on our Preferred Stock of \$12.6 million.

Subordinated Notes. At September 30, 2022, we had \$350 million in aggregate principal amount of our 2.75% Fixed-to-Floating rate Subordinated Notes (the “2.75% Notes”) due 2031, which bear interest at a fixed rate of 2.75% per annum until September 30, 2026. On October 1, 2026, the 2.75% Notes will bear interest at a floating rate equal to a benchmark (which is expected to be three-month SOFR) plus 209 basis points. The 2.75% Notes are unsecured, subordinated debt obligations and mature on October 1, 2031. As of September 30, 2022, the Bank’s 2.75% Notes had a carrying value of \$346.7 million and underwriting discounts and offering expenses totaled \$3.3 million and are being amortized over five years.

Subordinated Debentures. We own eight 100%-owned finance subsidiary business trusts – Ozark Capital Statutory Trust II (“Ozark II”), Ozark Capital Statutory Trust III (“Ozark III”), Ozark Capital Statutory Trust IV (“Ozark IV”), Ozark Capital Statutory Trust V (“Ozark V”), Intervest Statutory Trust II (“Intervest II”), Intervest Statutory Trust III (“Intervest III”), Intervest Statutory Trust IV (“Intervest IV”) and Intervest Statutory Trust V (“Intervest V”), (collectively, the “Trusts”). At September 30, 2022, we had the following issues of trust preferred securities and subordinated debentures owed to the Trusts.

Trust Preferred Securities and Subordinated Debentures

	Subordinated Debentures Owed to Trusts	Unamortized Discount at September 30, 2022	Carrying Value of Subordinated Debentures at September 30, 2022	Trust Preferred Securities of the Trusts	Contractual Interest Rate at September 30, 2022	Final Maturity Date
(Dollars in thousands)						
Ozark II	\$ 14,433	\$ —	\$ 14,433	\$ 14,000	6.57%	September 29, 2033
Ozark III	14,434	—	14,434	14,000	5.46	September 25, 2033
Ozark IV	15,464	—	15,464	15,000	5.18	September 28, 2034
Ozark V	20,619	—	20,619	20,000	4.89	December 15, 2036
Intervest II	15,464	(32)	15,432	15,000	6.48	September 17, 2033
Intervest III	15,464	(37)	15,427	15,000	6.32	March 17, 2034
Intervest IV	15,464	(68)	15,396	15,000	5.93	September 20, 2034
Intervest V	10,310	(65)	10,245	10,000	4.94	December 15, 2036
	<u>\$ 121,652</u>	<u>\$ (202)</u>	<u>\$ 121,450</u>	<u>\$ 118,000</u>		

Our subordinated debentures and trust preferred securities are tied to a spread over the 90 day LIBOR. As previously discussed, most LIBOR tenors are expected to be phased out after June 2023. Subsequent to June 2023, we would expect the rates on these trust preferred securities and related subordinated debentures to be tied to a spread over an index comparable to 90-day LIBOR, such as the three-month term SOFR. See Risk Elements-Market and Interest Rate Risk Management-LIBOR Transition for additional information about the phase out of LIBOR. Our subordinated debentures and related trust preferred securities generally mature 30 years after issuance and may be prepaid at par, subject to regulatory approval. These subordinated debentures and the related trust preferred securities provide us additional Tier 2 regulatory capital to support our expected future growth.

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 total common stockholders' equity, 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 Common Stockholders' Equity,
Total Tangible Common Stockholders' Equity and
the Ratio of Total Tangible Common
Stockholders' Equity to Total Tangible Assets**

	September 30,		December 31,
	2022	2021	2021
	(Dollars in thousands)		
Total stockholders' equity before noncontrolling interest	\$ 4,539,424	\$ 4,553,240	\$ 4,836,243
Less preferred stock	(338,980)	—	(338,980)
Total common stockholders' equity	\$ 4,200,444	\$ 4,553,240	\$ 4,497,263
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(3,943)	(9,791)	(8,274)
Total intangibles	(664,732)	(670,580)	(669,063)
Total tangible common stockholders' equity	\$ 3,535,712	\$ 3,882,660	\$ 3,828,200
Total assets	\$ 26,232,119	\$ 26,143,367	\$ 26,530,430
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(3,943)	(9,791)	(8,274)
Total intangibles	(664,732)	(670,580)	(669,063)
Total tangible assets	\$ 25,567,387	\$ 25,472,787	\$ 25,861,367
Ratio of total common stockholders' equity to total assets	16.01%	17.42%	16.95%
Ratio of total tangible common stockholders' equity to total tangible assets	13.83%	15.24%	14.80%

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

	September 30,		December 31,
	2022	2021	2021
	(In thousands, except per share amounts)		
Total stockholders' equity before noncontrolling interest	\$ 4,539,424	\$ 4,553,240	\$ 4,836,243
Less preferred stock	(338,980)	—	(338,980)
Total common stockholders' equity	\$ 4,200,444	\$ 4,553,240	\$ 4,497,263
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(3,943)	(9,791)	(8,274)
Total intangibles	(664,732)	(670,580)	(669,063)
Total tangible common stockholders' equity	\$ 3,535,712	\$ 3,882,660	\$ 3,828,200
Shares of common stock outstanding	117,762	128,818	125,444
Book value per common share	\$ 35.67	\$ 35.35	\$ 35.85
Tangible book value per common share	\$ 30.02	\$ 30.14	\$ 30.52

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Net income available to common stockholders	\$ 128,302	\$ 130,290	\$ 388,688	\$ 429,240
Average stockholders' equity before noncontrolling interest	\$ 4,635,887	\$ 4,530,995	\$ 4,680,513	\$ 4,421,240
Less average preferred stock	(338,980)	—	(338,980)	—
Total average common stockholders' equity	\$ 4,296,907	\$ 4,530,995	\$ 4,341,533	\$ 4,421,240
Less average intangible assets:				
Goodwill	(660,789)	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(4,747)	(10,617)	(6,124)	(12,195)
Total average intangibles	(665,536)	(671,406)	(666,913)	(672,984)
Average tangible common stockholders' equity	\$ 3,631,371	\$ 3,859,589	\$ 3,674,620	\$ 3,748,256
Return on average common stockholders' equity ⁽¹⁾	11.85%	11.41%	11.97%	12.98%
Return on average tangible common stockholders' equity ⁽¹⁾	14.02%	13.39%	14.14%	15.31%

(1) Ratios annualized based on actual days.

Common Stock Dividend Policy. During 2022, we paid cash dividends of \$0.30 per common share in the first quarter, \$0.31 in the second quarter, and \$0.32 in the third quarter compared to \$0.2775 per common share in the first quarter and \$0.28 in the second quarter and \$0.285 in the third quarter of 2021. On October 1, 2022, our Board approved a cash dividend of \$0.33 per common share that was paid on October 21, 2022. 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 common stock dividends to our shareholders is subject to the restrictions set forth in Arkansas law, by our federal regulator, the relative powers, preferences and other rights of the holders of our Preferred Stock and by certain covenants contained in the indentures governing the trust preferred securities, the subordinated debentures and the 2.75% Notes.

Preferred Stock Dividend Policy. As previously disclosed in the Capital Management section, during 2021, we completed a public offering of 14,000,000 shares of 4.625% non-cumulative preferred stock generating \$339.0 million of net proceeds, after deducting the initial purchaser discount and estimated offering expenses. We will pay cash dividends on the Preferred Stock, when, as, and if declared by our Board. If declared, we would expect our cash dividends on shares of the Preferred Stock to be approximately \$4.0 million per quarter. The determination of future dividends on our Preferred Stock will depend on conditions at that time and approval by our Board. In addition, our ability to pay dividends on our preferred shares is subject to the restrictions set forth in Arkansas law and by our federal regulator.

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 risk weightings and other factors.

In recent years, the FDIC and other federal banking regulators revised the risk-based capital requirements applicable to insured depository institutions, including us, to make them consistent with agreements reached by the Basel Committee on Banking Supervision ("Basel III") and certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Basel III Rules"). The Basel III Rules require the maintenance of minimum amounts and ratios of common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets, and of tier 1 capital to adjusted quarterly average assets.

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

Tier 1 capital includes common equity tier 1 capital and certain additional tier 1 items as provided under the Basel III Rules. At September 30, 2022 and December 31, 2021, our tier 1 capital includes both our common equity tier 1 capital and our Preferred Stock that we issued in November 2021.

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

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

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

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

The Basel III Rules limit capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” in addition to the amount necessary to meet minimum risk-based capital requirements for common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets. At September 30, 2022 and December 31, 2021, 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 as of the dates indicated under the Basel III Rules. The minimum required capital amounts presented include the minimum required capital levels, plus the capital conservation buffer. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Rules. At September 30, 2022 and December 31, 2021, capital levels exceed all minimum capital requirements and requirements to be considered well capitalized under the Basel III Rules.

Regulatory Capital Ratios

	Actual		Minimum Capital Required – Basel III		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
(Dollars in thousands)						
September 30, 2022:						
Common equity tier 1 to risk-weighted assets	\$3,771,204	11.88%	\$2,221,748	7.00%	\$2,063,052	6.50%
Tier 1 capital to risk-weighted assets	4,110,184	12.95	2,697,837	8.50	2,539,141	8.00
Total capital to risk-weighted assets	4,894,983	15.42	3,332,623	10.50	3,173,926	10.00
Tier 1 leverage to average assets	4,110,184	16.21	1,014,503	4.00	1,268,129	5.00
December 31, 2021:						
Common equity tier 1 to risk-weighted assets	\$3,826,895	14.07%	\$1,904,582	7.00%	\$1,768,541	6.50%
Tier 1 capital to risk-weighted assets	4,165,875	15.31	2,312,707	8.50	2,176,665	8.00
Total capital to risk-weighted assets	4,885,192	17.95	2,856,873	10.50	2,720,832	10.00
Tier 1 leverage to average assets	4,165,875	16.17	1,030,239	4.00	1,287,799	5.00

Capital Stress Testing. During the third quarter of 2022, we completed our annual capital stress tests utilizing multiple economic scenarios, including an adverse idiosyncratic scenario unique to our Bank. The results of that stress test reflected that we would maintain well-capitalized status for all capital ratios over the stress test time horizon.

Our historically strong earnings and earnings retention rate have contributed to our building strong capital ratios. We are focused on strategies to utilize our capital for the long-term interests of shareholders, including organic loan growth, adding new business lines, continuing to increase our quarterly cash dividend, financially attractive acquisitions and various other options.

Growth and Branching. During the third quarter of 2022, we opened a retail branch in Atlanta (Buckhead), Georgia, converted a loan production office in Jacksonville Beach, Florida to a retail branch, relocated a branch in Clearwater, Florida to Oldsmar, Florida and sold a branch building in Tampa, Florida. During the fourth quarter of 2022, we expect to close one branch each in Tampa and Clearwater Florida.

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

Capital Expenditures. During the first nine months of 2022, we spent approximately \$23.7 million on capital expenditures for premises and equipment. Our capital expenditures for the remainder of 2022 are expected to be in the range of \$5 million to \$15 million, including progress payments on construction projects expected to be completed in 2022 or 2023, furniture and equipment costs, network equipment and other information technology 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 other adverse internal or 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 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, has responsibilities for assisting the business units in identifying, managing and monitoring operational 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 (second line oversight), which reports to our CRO, that has developed and implemented a model framework, in compliance with FRB Supervision and Regulation Letter *SR 11-7: Guidance on Model Risk Management*, whereby all models and tools utilized throughout the Bank are inventoried, assessed, and validated in accordance with this framework. Ownership of our internal models resides with our analytics and modeling team (first line oversight), who, along with our business units, manages the use of such models in accordance with our model 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.

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, among others, (i) tracking and measuring a variety of social media posts, (ii) 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, and (iii) coordinating with our learning and development team enterprise-wide training focused on reputational risk and how to reduce our exposure to such risk. 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, among other items, 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, among others. 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, or could affect, our franchise or enterprise value. It also incorporates how management analyzes external factors, such as economic, technological, competitive, regulatory, and other environmental changes that affect our strategic direction. Our strategic risk exposure is measured against our Board-approved strategic risk appetite by our CRMG, which monitors our performance against our strategic objectives in addition to measuring our financial performance against our peer group. Also, as part of our strategic risk monitoring process, the current and expected systemic macroeconomic environment is monitored using a combination of metrics, models and various other tools.

Compliance Risk Management

Compliance risk is the risk of legal or regulatory sanctions, financial loss or damage to reputation resulting from failure to comply with laws, regulations, rules, other regulatory requirements, or codes of conduct and other standards of self-regulatory organizations applicable to us. Compliance risk exposures are actively and primarily managed by our business units in conjunction with our Corporate Compliance group, our legal department and the associated compliance programs operated under our compliance framework and our compliance management system that 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 provided 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 13 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 50 and is hereby incorporated by reference.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

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

(b) Changes in Internal Control over Financial Reporting.

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On October 26, 2018, a purported class action complaint alleging violations of federal securities laws was filed against Bank OZK in the United States District Court for the Eastern District of Arkansas, captioned Jordan Colbert et al. v. Bank OZK et al., case number now 4:18-cv-793-DPM. Under applicable federal law, the federal district court in the Colbert Case named Strathclyde Pension Fund as the lead class plaintiff. The complaint, as first amended on June 21, 2019, alleged 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 first 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 sought damages against the Bank and the individual defendants. In May 2022, the parties entered into an agreement to settle the claims for \$45 million, and the court granted preliminary approval of the settlement in June 2022. The settlement does not include or constitute an admission, concession, or finding of any fault, liability, or wrongdoing by the Bank or any other defendant. The Bank's insurance carriers funded the \$45 million settlement into an escrow account. On September 23, 2022, the court granted final approval of the settlement and entered a judgment dismissing the securities litigation.

In the ordinary course of business, we are or may be involved in various legal or regulatory proceedings, claims, including claims related to employment, wage-hour and labor law claims, consumer and privacy claims, lender liability claims, breach of contract, and other similar lending-related claims encountered on a routine basis, some of which may be styled as "class action" or representative cases. While the ultimate resolution of these 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

There are no material changes from the risk factors disclosed under Item 1A. of our annual report on Form 10-K for the year ended December 31, 2021, as filed with the FDIC on February 28, 2022.

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

During the third quarter of 2022, the Bank issued an aggregate 5,414 shares of common stock with the exercise of stock options issued to certain participants under the Bank's Stock Option Plan. 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 third quarter of 2022, the Bank repurchased shares of its common stock as indicated in the following table.

<u>Period</u>	<u>Total Number of Shares Purchased</u> ⁽¹⁾⁽²⁾	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of a Publicly Announced Program</u> ⁽¹⁾	<u>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program</u> ⁽¹⁾
July 1-31, 2022	700,200	\$ 37.84	700,200	\$ 151,062
August 1-31, 2022	200,593	40.88	200,593	142,861
September 1-30, 2022	324,895	40.17	324,895	\$ 129,811
Total	<u>1,225,688</u>	<u>\$ 38.96</u>	<u>1,225,688</u>	

- (1) On July 22, 2021, we announced that our board of directors approved a stock repurchase program authorizing the repurchase of up to \$300 million of our outstanding shares of common stock (the "Stock Repurchase Program"). On October 28, 2021, we announced that our board of directors approved an increase in the amount of its outstanding shares of common stock authorized to be repurchased under the Stock Repurchase Program by \$350 million, bringing the cumulative total value of authorized share repurchases under the program since its inception to \$650 million. The Stock Repurchase Program, as amended, expired on November 4, 2022 and any new repurchase program will be subject to approval by the Bank's Board of Directors and any required regulatory approval. In evaluating any plans for stock repurchases after the expiration of our current program, management will consider a variety of factors including our capital position, expected growth, alternative uses of capital, liquidity, financial performance, stock price, current and expected macroeconomic environment, regulatory requirements and other factors.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

SIGNATURE

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

Bank OZK

DATE: November 8, 2022

/s/ Tim Hicks

Tim Hicks

Chief Financial Officer

(Principal Financial Officer and Authorized Officer)

Bank OZK
Exhibit Index

**Exhibit
Number**

- 3.1 Amended and Restated Articles of Incorporation of Bank of the Ozarks (previously filed as Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on June 26, 2017, and incorporated herein by reference).
- 3.2 Articles of Amendment to the Amended and Restated Articles of Incorporation of Bank OZK (previously filed as Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on July 16, 2018, and incorporated herein by reference).
- 3.3 Articles of Amendment to the Amended and Restated Articles of Incorporation of Bank OZK (previously filed as Exhibit 3.3 to the Bank's Registration Statement on Form 8-A filed with the FDIC on November 4, 2021, and incorporated herein by reference).
- 3.4 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 Form of Certificate Representing Series A Preferred Stock (previously filed as Exhibit 4.1 to the Bank's Registration Statement on Form 8-A filed with the FDIC on November 4, 2021, 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.

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

I, George Gleason, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bank OZK;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2022

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

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

I, Tim Hicks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bank OZK;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2022

/s/ Tim Hicks

Tim Hicks
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report of Bank OZK (the Bank) on Form 10-Q for the period ended September 30, 2022, as filed with the Federal Deposit Insurance Corporation on the date hereof (the Report), I, George Gleason, Chairman and Chief Executive Officer of the Bank, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

November 8, 2022

/s/ George Gleason

George Gleason

Chairman and Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report of Bank OZK (the Bank) on Form 10-Q for the period ended September 30, 2022, as filed with the Federal Deposit Insurance Corporation on the date hereof (the Report), I, Tim Hicks, Chief Financial Officer of the Bank, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

November 8, 2022

/s/ Tim Hicks

Tim Hicks

Chief Financial Officer