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, 2019

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

For the transition period from _________ to _________.

FDIC Certificate No. 110

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

ARKANSAS	**71-0130170**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
17901 CHENAL PARKWAY, LITTLE ROCK, ARKANSAS	**72223**
(Address of principal executive offices)	**(Zip Code)**

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

N/A

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

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 per value per share	OZK	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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Emerging growth company	☐
Smaller reporting company	☐		

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

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

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

Class	Outstanding at October 31, 2019
Common Stock, $0.01 par value per share	128,956,781

BANK OZK
FORM 10-Q
September 30, 2019

INDEX

PART I.	**Financial Information**	
Item 1.	Financial Statements	
	Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018 (Unaudited)	3
	Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2019 and 2018 (Unaudited)	4
	Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2019 and 2018 (Unaudited)	5
	Consolidated Statements of Stockholders' Equity for the Three and Nine Months Ended September 30, 2019 and 2018 (Unaudited)	6
	Consolidated Statements of Cash Flows for the Nine Months September 30, 2019 and 2018 (Unaudited)	8
	Notes to Consolidated Financial Statements	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	63
Item 4.	Controls and Procedures	64
PART II.	**Other Information**	
Item 1.	Legal Proceedings	65
Item 1A.	Risk Factors	65
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	66
Item 3.	Defaults Upon Senior Securities	66
Item 4.	Mine Safety Disclosures	66
Item 5.	Other Information	66
Item 6.	Exhibits	66
Signature		67
Exhibit Index		68

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BANK OZK
CONSOLIDATED BALANCE SHEETS
Unaudited

	September 30, 2019	December 31, 2018
	(Dollars in thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 1,029,946	$ 290,672
Investment securities - available for sale (“AFS”)	2,414,722	2,862,340
Federal Home Loan Bank of Dallas ("FHLB") and other banker's bank stocks	13,656	25,941
Non-purchased loans	16,307,621	15,073,791
Purchased loans	1,427,230	2,044,032
Allowance for loan losses	(109,001)	(102,264)
Net loans	17,625,850	17,015,559
Premises and equipment, net	687,511	567,189
Foreclosed assets	33,319	16,171
Accrued interest receivable	76,218	81,968
Bank owned life insurance (“BOLI”)	735,531	721,238
Goodwill and other intangible assets, net	687,397	696,461
Other, net	98,529	110,491
Total assets	$ 23,402,679	$ 22,388,030
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Deposits:		
Demand non-interest bearing	$ 2,793,369	$ 2,748,273
Savings and interest bearing transaction	8,441,339	9,682,713
Time	7,205,370	5,507,429
Total deposits	18,440,078	17,938,415
Repurchase agreements with customers	12,156	20,564
Other borrowings	301,421	96,692
Subordinated notes	223,567	223,281
Subordinated debentures	119,775	119,358
Accrued interest payable and other liabilities	224,234	216,355
Total liabilities	19,321,231	18,614,665
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock; $0.01 par value; 100,000,000 shares authorized; no shares issued or outstanding at September 30, 2019 or December 31, 2018	—	—
Common stock; $0.01 par value; 300,000,000 shares authorized; 128,946,359 and 128,611,049 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	1,289	1,286
Additional paid-in capital	2,247,973	2,237,948
Retained earnings	1,801,414	1,565,201
Accumulated other comprehensive income (loss)	27,648	(34,105)
Total stockholders’ equity before noncontrolling interest	4,078,324	3,770,330
Noncontrolling interest	3,124	3,035
Total stockholders’ equity	4,081,448	3,773,365
Total liabilities and stockholders’ equity	$ 23,402,679	$ 22,388,030

See accompanying notes to consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF INCOME
Unaudited

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
	(Dollars in thousands, except per share amounts)			
Interest income:				
Non-purchased loans	$ 244,954	$ 219,847	$ 740,900	$ 620,659
Purchased loans	26,042	40,173	84,756	138,012
Investment securities:				
Taxable	12,511	12,472	40,992	35,380
Tax-exempt	3,363	3,991	10,930	12,252
Deposits with banks and federal funds sold	2,647	1,112	4,001	2,448
Total interest income	289,517	277,595	881,579	808,751
Interest expense:				
Deposits	66,248	51,785	196,727	130,009
Repurchase agreements with customers	5	215	39	759
Other borrowings	90	144	1,497	824
Subordinated notes	3,216	3,216	9,542	9,542
Subordinated debentures	1,178	1,621	4,570	4,567
Total interest expense	70,737	56,981	212,375	145,701
Net interest income	218,780	220,614	669,204	663,050
Provision for loan losses	7,854	41,949	21,303	57,126
Net interest income after provision for loan losses	210,926	178,665	647,901	605,924
Non-interest income:				
Service charges on deposit accounts	10,827	9,730	30,841	28,959
Trust income	1,975	1,730	5,544	5,114
BOLI income	5,414	5,321	15,753	18,160
Other income from purchased loans, net	674	1,418	2,925	5,413
Loan service, maintenance and other fees	4,197	4,724	13,636	15,108
Gains (losses) on sales of other assets	189	(518)	875	1,753
Net gains on investment securities	—	—	713	17
Other	3,170	1,716	6,834	5,691
Total non-interest income	26,446	24,121	77,121	80,215
Non-interest expense:				
Salaries and employee benefits	48,376	41,477	140,801	128,641
Net occupancy and equipment	14,825	14,358	44,163	42,335
Other operating expenses	37,713	47,107	111,760	114,883
Total non-interest expense	100,914	102,942	296,724	285,859
Income before taxes	136,458	99,844	428,298	400,280
Provision for income taxes	32,574	25,665	103,189	98,227
Net income	103,884	74,179	325,109	302,053
Earnings attributable to noncontrolling interest	7	1	(9)	22
Net income available to common stockholders	$ 103,891	$ 74,180	$ 325,100	$ 302,075
Basic earnings per common share	$ 0.81	$ 0.58	$ 2.52	$ 2.35
Diluted earnings per common share	$ 0.81	$ 0.58	$ 2.52	$ 2.35

See accompanying notes to consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(Dollars in thousands)			
Net income	$ 103,884	$ 74,179	$ 325,109	$ 302,053
Other comprehensive income (loss):				
Unrealized gains and losses on investment securities AFS	10,527	(16,276)	82,133	(61,302)
Tax effect of unrealized gains and losses on investment securities AFS	(2,572)	3,938	(19,840)	14,763
Reclassification of gains and losses on investment securities AFS included in net income	—	—	(713)	—
Tax effect of reclassification of gains and losses on investment securities AFS included in net income	—	—	173	—
Total other comprehensive income (loss)	7,955	(12,338)	61,753	(46,539)
Total comprehensive income	$ 111,839	$ 61,841	$ 386,862	$ 255,514

See accompanying notes to consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Unaudited

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

See accompanying notes to consolidated financial statements.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total
	(Dollars in thousands, except per share amounts)					
Three months ended September 30, 2018:						
Balances – June 30, 2018	$ 1,286	$2,230,809	$1,428,721	$ (46,913)	$ 3,039	$3,616,942
Net income	—	—	74,179	—	—	74,179
Earnings attributable to noncontrolling interest	—	—	1	—	(1)	—
Total other comprehensive loss	—	—	—	(12,338)	—	(12,338)
Common stock dividends paid, $0.20 per share	—	—	(25,723)	—	—	(25,723)
Issuance of 6,100 shares of common stock for exercise of stock options	—	92	—	—	—	92
Issuance of 5,511 shares of unvested restricted common stock	—	—	—	—	—	—
Stock-based compensation expense	—	3,482	—	—	—	3,482
Forfeitures of 18,791 shares of unvested restricted common stock	—	—	—	—	—	—
Balances – September 30, 2018	$ 1,286	$2,234,383	$1,477,178	$ (59,251)	$ 3,038	$3,656,634
Nine months ended September 30, 2018:						
Balances – December 31, 2017	$ 1,283	$2,221,844	$1,250,313	$ (12,712)	$ 3,060	$3,463,788
Net income	—	—	302,053	—	—	302,053
Earnings attributable to noncontrolling interest	—	—	22	—	(22)	—
Total other comprehensive loss	—	—	—	(46,539)	—	(46,539)
Common stock dividends paid, $0.585 per share	—	—	(75,210)	—	—	(75,210)
Issuance of 216,990 shares of common stock for exercise of stock options	2	5,677	—	—	—	5,679
Issuance of 220,102 shares of unvested restricted common stock	2	(2)	—	—	—	—
Repurchase and cancellation of 71,750 shares of common stock	(1)	(3,769)	—	—	—	(3,770)
Stock-based compensation expense	—	10,633	—	—	—	10,633
Forfeitures of 43,655 shares of unvested restricted common stock	—	—	—	—	—	—
Balances – September 30, 2018	$ 1,286	$2,234,383	$1,477,178	$ (59,251)	$ 3,038	$3,656,634

See accompanying notes to consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Nine Months Ended September 30,	
	2019	2018
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 325,109	$ 302,053
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	16,511	16,480
Amortization	9,767	10,137
Earnings attributable to noncontrolling interest	(9)	22
Provision for loan losses	21,303	57,126
Provision for losses on foreclosed assets	1,509	1,380
Writedown of signage due to strategic rebranding	—	4,915
Net amortization of investment securities AFS	13,708	17,087
Proceeds from sales of mortgage loans held for sale	—	8,313
Accretion of purchased loans	(20,037)	(35,309)
Net gains on investment securities	(713)	(17)
Amortization of operating lease right-of-use assets	5,561	—
Gains on sales of other assets	(875)	(1,753)
Deferred income tax (benefit) expense	(84,072)	25,706
Increase in cash surrender value of BOLI	(15,548)	(15,431)
BOLI death benefits in excess of cash surrender value	(205)	(2,729)
Stock-based compensation expense	10,584	10,633
Changes in assets and liabilities:		
Accrued interest receivable	5,699	(11,483)
Other assets, net	31,844	(18,718)
Accrued interest payable and other liabilities	11,848	(11,160)
Net cash provided by operating activities	331,984	357,252
Cash flows from investing activities:		
Proceeds from sales of investment securities AFS	97,210	—
Proceeds from maturities/calls/paydowns of investment securities AFS	418,834	368,694
Purchases of investment securities AFS	—	(523,072)
Proceeds from sales of FHLB and other banker's bank stock	26,591	26,263
Purchases of FHLB and other banker's bank stock	(14,307)	(33,618)
Net increase of non-purchased loans	(1,187,774)	(1,544,566)
Net payments received on purchased loans	527,434	851,361
Purchases of premises and equipment	(78,373)	(52,182)
Purchases of BOLI	—	(45,000)
Proceeds from BOLI death benefits	1,461	4,659
Proceeds from sales of other assets	26,838	27,926
Cash paid for unconsolidated investments and noncontrolling interest	(19,165)	(9,577)
Net cash used by investing activities	(201,251)	(929,112)
Cash flows from financing activities:		
Net increase in deposits	501,663	630,570
Net proceeds from (repayments of) other borrowings	204,729	(591)
Repayment of fixed-rate callable FHLB advances	—	(20,000)
Net decrease in repurchase agreements with customers	(8,408)	(17,440)
Proceeds from exercise of stock options	1,119	5,679
Repurchase and cancellation of shares of common stock	(1,675)	(3,770)
Cash dividends paid on common stock	(88,887)	(75,210)
Net cash provided by financing activities	608,541	519,238
Net increase (decrease) in cash and cash equivalents	739,274	(52,622)
Cash and cash equivalents – beginning of period	290,672	440,388
Cash and cash equivalents – end of period	$ 1,029,946	$ 387,766

See accompanying notes to consolidated financial statements.

1. Organization and Principles of Consolidation

Bank OZK ("the Bank") is headquartered in Little Rock, Arkansas and provides a wide range of retail and commercial banking services. At September 30, 2019 the Bank conducted operations through more than 250 offices, including offices in Arkansas, Georgia, Florida, North Carolina, Texas, Alabama, South Carolina, California, New York and Mississippi. The Bank owns eight 100%-owned finance subsidiary business trusts - Ozark Capital Statutory Trust II, Ozark Capital Statutory Trust III, Ozark Capital Statutory Trust IV, Ozark Capital Statutory Trust V, Intervest Statutory Trust II, Intervest Statutory Trust III, Intervest Statutory Trust IV and Intervest Statutory Trust V. In addition, the Bank owns a subsidiary that holds its investment securities, a subsidiary engaged in the development of real estate, a subsidiary that holds an ownership interest in a private aircraft and various other entities that hold loans, foreclosed assets or tax credits or engage in other activities. The consolidated financial statements include the accounts of the Bank, the investment subsidiary, the real estate subsidiary, the aircraft subsidiary and certain of those various other entities in accordance with accounting principles generally accepted in the United States ("GAAP"). Significant intercompany transactions and amounts have been eliminated in consolidation.

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

2. Basis of Presentation

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, 2018.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. In the opinion of management, all adjustments considered necessary, consisting of normal recurring items, have been included for a fair statement of the accompanying consolidated financial statements. Operating results for the three months and nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the full year or future periods.

3. Earnings Per Common Share ("EPS")

Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding after consideration of the dilutive effect, if any, of outstanding common stock options and restricted stock units using the treasury stock method. Options to purchase 1,820,850 shares and 1,492,219 shares, respectively, of the Bank's common stock for the three months ended September 30, 2019 and 2018, and options to purchase 1,836,099 shares and 1,503,823 shares, respectively, of the Bank's common stock for the nine months ended September 30, 2019 and 2018 were excluded from the diluted EPS calculations as inclusion of such options would have been anti-dilutive.

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,	
	2019	2018	2019	2018
	(In thousands, except per share amounts)			
Numerator:				
Distributed earnings allocated to common stockholders	$ 30,963	$ 25,723	$ 88,887	$ 75,210
Undistributed earnings allocated to common stockholders	72,928	48,457	236,213	226,865
Net income available to common stockholders	$ 103,891	$ 74,180	$ 325,100	$ 302,075
Denominator:				
Denominator for basic EPS – weighted-average common shares	128,946	128,608	128,916	128,589
Effect of dilutive securities – stock options and restricted stock units	66	136	79	182
Denominator for diluted EPS – weighted-average common shares and assumed conversions	129,012	128,744	128,995	128,771
Basic EPS	$ 0.81	$ 0.58	$ 2.52	$ 2.35
Diluted EPS	$ 0.81	$ 0.58	$ 2.52	$ 2.35

4. Investment Securities AFS

At both September 30, 2019 and December 31, 2018, the Bank classified its investment securities portfolio as AFS. Accordingly, investment securities are stated at estimated fair value in the consolidated financial statements with unrealized gains and losses, net of related income tax, reported as a separate component of stockholders' equity and included in accumulated other comprehensive income (loss).

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, 2019:				
Obligations of state and political subdivisions	$ 513,647	$ 18,993	$ (19)	$ 532,621
Mortgage-backed securities [(1)]	1,859,325	19,645	(2,268)	1,876,702
Corporate obligations	5,218	181	—	5,399
Total	$ 2,378,190	$ 38,819	$ (2,287)	$ 2,414,722
December 31, 2018:				
Obligations of state and political subdivisions	$ 615,328	$ 3,435	$ (12,147)	$ 606,616
Mortgage-backed securities [(1)]	2,248,065	3,656	(39,175)	2,212,546
U.S. Government agency securities	27,538	—	(602)	26,936
Corporate obligations	15,188	22	(27)	15,183
CRA qualified investment fund	1,109	—	(50)	1,059
Total	$ 2,907,228	$ 7,113	$ (52,001)	$ 2,862,340

(1) These mortgage-backed securities were issued by U.S. Government agencies.

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

	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
September 30, 2019:						
Obligations of state and political subdivisions	$ 35	$ —	$ 5,249	$ 19	$ 5,284	$ 19
Mortgage-backed securities [(1)]	327,495	492	318,516	1,776	646,011	2,268
Total temporarily impaired securities	$ 327,530	$ 492	$ 323,765	$ 1,795	$ 651,295	$ 2,287
December 31, 2018:						
Obligations of state and political subdivisions	$ 198,351	$ 3,255	$ 249,761	$ 8,892	$ 448,112	$ 12,147
Mortgage-backed securities [(1)]	242,951	2,004	1,440,618	37,171	1,683,569	39,175
U.S. Government agency securities	1,084	15	25,852	587	26,936	602
Corporate obligations	9,973	27	—	—	9,973	27
CRA qualified investment fund	—	—	1,059	50	1,059	50
Total temporarily impaired securities	$ 452,359	$ 5,301	$1,717,290	$ 46,700	$2,169,649	$ 52,001

(1) These mortgage-backed securities were issued by U.S. Government agencies.

In evaluating the Bank's unrealized loss positions for other-than-temporary impairment of its investment securities portfolio, management considers the credit quality, financial condition and near term prospects of the issuer, the nature and cause of the unrealized loss, the severity and duration of the impairments and other factors. At both September 30, 2019 and December 31, 2018, management determined the unrealized losses were the result of fluctuations in interest rates and did not reflect deteriorations of the credit quality of the investments. Accordingly, management considers these unrealized losses to be temporary in nature. While the Bank periodically evaluates its investment strategy relative to current economic and business conditions and may reposition its investment securities portfolio from time to time, at the present time, the Bank does not have the intent to sell these investment securities with unrealized losses and, more likely than not, will not be required to sell these investment securities before fair value recovers to amortized cost.

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

	September 30, 2019	
Maturity or Estimated Repayment	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
One year or less	$ 462,163	$ 466,317
After one year to five years	1,156,177	1,166,677
After five years to ten years	359,934	368,344
After ten years	399,916	413,384
Total	$ 2,378,190	$ 2,414,722

For purposes of this maturity or estimated repayment distribution, all investment securities AFS are shown based on their contractual maturity date or estimated date of repayment, except (i) mortgage-backed securities are allocated among various maturities or repayment categories based on an estimated repayment schedule utilizing Bloomberg median prepayment speeds or other estimates of prepayment speeds and interest rate levels at the measurement date and (ii) callable investment securities for which the Bank has received notification of call are included in the maturity or repayment category in which the call occurs or is expected to occur. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(Dollars in thousands)			
Sales proceeds	$ —	$ —	$ 97,210	$ —
Gross realized gains	—	—	1,071	17
Gross realized losses	—	—	(358)	—
Net gains on investment securities	$ —	$ —	$ 713	$ 17

The Bank sold $3.4 million of FHLB and other banker's bank stocks during the three months ended September 30, 2019. There were no sales of FHLB or other banker's bank stocks during the three months ended September 30, 2018. The Bank sold $26.6 million and $26.3 million of FHLB and other banker's bank stocks during the nine months ended September 30, 2019 and 2018, respectively. The Bank purchased $5.4 million and $26.9 million of FHLB and other banker's bank stocks during the three months ended September 30, 2019 and 2018, respectively. The Bank purchased $14.3 million and $33.6 million of FHLB and other banker's bank stocks during the nine months ended September 30, 2019 and 2018, respectively.

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

Allowance for Loan Losses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(Dollars in thousands)			
Beginning balance	$ 106,642	$ 104,638	$ 102,264	$ 94,120
Charge-offs of non-purchased loans	(2,994)	(48,160)	(10,683)	(51,843)
Recoveries of non-purchased loans previously charged off	353	322	1,420	1,173
Net charge-offs – non-purchased loans	(2,641)	(47,838)	(9,263)	(50,670)
Charge-offs of purchased loans	(3,211)	(1,413)	(7,574)	(4,140)
Recoveries of purchased loans previously charged off	357	864	2,271	1,764
Net charge-offs – purchased loans	(2,854)	(549)	(5,303)	(2,376)
Net charge-offs – total loans	(5,495)	(48,387)	(14,566)	(53,046)
Provision for loan losses:				
Non-purchased loans	5,000	41,400	16,000	54,750
Purchased loans	2,854	549	5,303	2,376
Total provision	7,854	41,949	21,303	57,126
Ending balance	$ 109,001	$ 98,200	$ 109,001	$ 98,200
ALL allocated to non-purchased loans	$ 107,401	$ 96,600	$ 107,401	$ 96,600
ALL allocated to purchased loans	1,600	1,600	1,600	1,600
Total ALL	$ 109,001	$ 98,200	$ 109,001	$ 98,200

The following tables are a summary of the Bank's ALL for the periods indicated.

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
			(Dollars in thousands)		
Three months ended September 30, 2019:					
Non-purchased loans:					
Real estate:					
Residential 1-4 family	$ 14,153	$ (186)	$ 2	$ 246	$ 14,215
Non-farm/non-residential	16,863	(2)	—	(326)	16,535
Construction/land development	27,579	(304)	11	(1,969)	25,317
Agricultural	1,563	(3)	—	116	1,676
Multifamily residential	7,463	—	—	(445)	7,018
Commercial and industrial	7,808	(506)	68	(6)	7,364
Consumer	25,544	(968)	119	5,641	30,336
Other	4,069	(1,025)	153	1,743	4,940
Total non-purchased loans	105,042	(2,994)	353	5,000	107,401
Purchased loans	1,600	(3,211)	357	2,854	1,600
Total loans	$ 106,642	$ (6,205)	$ 710	$ 7,854	$ 109,001
Nine months ended September 30, 2019:					
Non-purchased loans:					
Real estate:					
Residential 1-4 family	$ 13,754	$ (461)	$ 179	$ 743	$ 14,215
Non-farm/non-residential	18,456	(3,322)	39	1,362	16,535
Construction/land development	27,103	(330)	110	(1,566)	25,317
Agricultural	1,343	(15)	—	348	1,676
Multifamily residential	6,208	—	—	810	7,018
Commercial and industrial	9,256	(1,505)	271	(658)	7,364
Consumer	20,382	(2,506)	276	12,184	30,336
Other	4,162	(2,544)	545	2,777	4,940
Total non-purchased loans	100,664	(10,683)	1,420	16,000	107,401
Purchased loans	1,600	(7,574)	2,271	5,303	1,600
Total loans	$ 102,264	$ (18,257)	$ 3,691	$ 21,303	$ 109,001

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
	(Dollars in thousands)				
Three months ended September 30, 2018:					
Non-purchased loans:					
Real estate:					
Residential 1-4 family	$ 13,328	$ (42)	$ 64	$ 610	$ 13,960
Non-farm/non-residential	29,192	(20,342)	4	8,462	17,316
Construction/land development	29,718	(25,370)	4	23,257	27,609
Agricultural	1,249	(85)	—	172	1,336
Multifamily residential	2,002	—	—	2,743	4,745
Commercial and industrial	9,523	(777)	53	1,229	10,028
Consumer	15,578	(517)	44	3,642	18,747
Other	2,448	(1,027)	153	1,285	2,859
Total non-purchased loans	103,038	(48,160)	322	41,400	96,600
Purchased loans	1,600	(1,413)	864	549	1,600
Total loans	$ 104,638	$ (49,573)	$ 1,186	$ 41,949	$ 98,200
Nine months ended September 30, 2018:					
Non-purchased loans:					
Real estate:					
Residential 1-4 family	$ 12,829	$ (210)	$ 160	$ 1,181	$ 13,960
Non-farm/non-residential	26,855	(20,502)	151	10,812	17,316
Construction/land development	27,422	(25,580)	29	25,738	27,609
Agricultural	1,093	(92)	30	305	1,336
Multifamily residential	2,395	—	—	2,350	4,745
Commercial and industrial	10,448	(1,912)	87	1,405	10,028
Consumer	8,858	(1,030)	121	10,798	18,747
Other	2,620	(2,517)	595	2,161	2,859
Total non-purchased loans	92,520	(51,843)	1,173	54,750	96,600
Purchased loans	1,600	(4,140)	1,764	2,376	1,600
Total loans	$ 94,120	$ (55,983)	$ 2,937	$ 57,126	$ 98,200

The following table is a summary of the Bank's ALL for non-purchased loans and outstanding principal balance in non-purchased loans as of the dates indicated.

	ALL for Non-Purchased Loans			Non-Purchased Loans		
	ALL for Individually Evaluated Impaired Loans	ALL for All Other Loans	Total ALL[1]	Individually Evaluated Impaired Loans	All Other Loans	Total Loans
	(Dollars in thousands)					
September 30, 2019:						
Real estate:						
Residential 1-4 family	$ 1,157	$ 13,058	$ 14,215	$ 8,986	$ 734,572	$ 743,558
Non-farm/non-residential	147	16,388	16,535	9,505	3,138,111	3,147,616
Construction/land development	29	25,288	25,317	2,206	6,643,352	6,645,558
Agricultural	2	1,674	1,676	1,404	204,145	205,549
Multifamily residential	116	6,902	7,018	2,312	1,320,736	1,323,048
Commercial and industrial	283	7,081	7,364	1,754	678,609	680,363
Consumer	109	30,227	30,336	519	2,606,019	2,606,538
Other	—	4,940	4,940	376	955,015	955,391
Total	$ 1,843	$ 105,558	$ 107,401	$ 27,062	$16,280,559	$16,307,621
December 31, 2018:						
Real estate:						
Residential 1-4 family	$ 716	$ 13,038	$ 13,754	$ 6,006	$ 697,191	$ 703,197
Non-farm/non-residential	24	18,432	18,456	13,648	3,293,346	3,306,994
Construction/land development	60	27,043	27,103	11,409	6,400,222	6,411,631
Agricultural	—	1,343	1,343	848	160,932	161,780
Multifamily residential	81	6,127	6,208	637	1,050,350	1,050,987
Commercial and industrial	263	8,993	9,256	2,453	770,017	772,470
Consumer	57	20,325	20,382	354	1,935,238	1,935,592
Other	—	4,162	4,162	34	731,106	731,140
Total	$ 1,201	$ 99,463	$ 100,664	$ 35,389	$15,038,402	$15,073,791

(1) Excludes $1.6 million of ALL allocated to the Bank's purchased loans at both September 30, 2019 and December 31, 2018.

The following table is a summary of impaired non-purchased loans as of September 30, 2019.

	Principal Balance	Net Charge-offs to Date	Principal Balance, Net of Charge-offs	Specific ALL
	(Dollars in thousands)			
Impaired loans for which there is a related ALL:				
Real estate:				
Residential 1-4 family	$ 7,963	$ —	$ 7,963	$ 1,157
Non-farm/non-residential	2,941	—	2,941	147
Construction/land development	531	—	531	29
Agricultural	50	—	50	2
Multifamily residential	2,311	—	2,311	116
Commercial and industrial	1,487	—	1,487	283
Consumer	519	—	519	109
Other	6	—	6	—
Total impaired loans with a related ALL	15,808	—	15,808	1,843
Impaired loans for which there is not a related ALL:				
Real estate:				
Residential 1-4 family	1,298	(275)	1,023	—
Non-farm/non-residential	10,292	(3,728)	6,564	—
Construction/land development	2,051	(376)	1,675	—
Agricultural	1,404	(50)	1,354	—
Multifamily residential	133	(132)	1	—
Commercial and industrial	427	(160)	267	—
Other	388	(18)	370	—
Total impaired loans without a related ALL	15,993	(4,739)	11,254	—
Total impaired non-purchased loans	$ 31,801	$ (4,739)	$ 27,062	$ 1,843

The following table is a summary of the average carrying value of impaired non-purchased loans for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(Dollars in thousands)			
Real estate:				
Residential 1-4 family	$ 8,452	$ 5,053	$ 7,071	$ 4,627
Non-farm/non-residential	9,920	9,143	11,979	6,132
Construction/land development	1,407	6,371	6,478	4,136
Agricultural	1,393	1,056	1,259	1,129
Multifamily residential	2,338	49	1,353	25
Commercial and industrial	1,196	1,235	1,336	1,487
Consumer	554	292	460	373
Other	400	52	210	78
Average carrying value of impaired non-purchased loans	$ 25,660	$ 23,251	$ 30,146	$ 17,987

The following table is a summary of impaired non-purchased loans as of December 31, 2018.

	Principal Balance	Net Charge-offs to Date	Principal Balance, Net of Charge-offs	Specific ALL	Average Carrying Value – Year Ended December 31, 2018
	(Dollars in thousands)				
Impaired loans for which there is a related ALL:					
Real estate:					
Residential 1-4 family	$ 5,138	$ —	$ 5,138	$ 716	$ 3,972
Non-farm/non-residential	970	—	970	24	757
Construction/land development	401	—	401	60	576
Agricultural	—	—	—	—	14
Multifamily residential	538	—	538	81	134
Commercial and industrial	1,345	—	1,345	263	985
Consumer	353	—	353	57	309
Other	—	—	—	—	35
Total impaired loans with a related ALL	8,745	—	8,745	1,201	6,782
Impaired loans for which there is not a related ALL:					
Real estate:					
Residential 1-4 family	1,192	(324)	868	—	930
Non-farm/non-residential	33,425	(20,747)	12,678	—	6,878
Construction/land development	36,559	(25,551)	11,008	—	5,015
Agricultural	883	(35)	848	—	1,058
Multifamily residential	232	(133)	99	—	40
Commercial and industrial	1,208	(100)	1,108	—	695
Consumer	7	(6)	1	—	60
Other	40	(6)	34	—	34
Total impaired loans without a related ALL	73,546	(46,902)	26,644	—	14,710
Total impaired loans	$ 82,291	$ (46,902)	$ 35,389	$ 1,201	$ 21,492

Management has determined that certain of the Bank's impaired non-purchased loans do not require any specific allowance at September 30, 2019 or at December 31, 2018 because (i) management's analysis of such individual loans resulted in no impairment or (ii) all identified impairment on such loans had previously been charged off.

Interest income on impaired non-purchased loans is recognized on a cash basis when and if actually collected. Total interest income recognized on impaired non-purchased loans for the three months and nine months ended September 30, 2019 and 2018 was not material.

Credit Quality Indicators

Non-Purchased Loans

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

	Satisfactory	Moderate	Watch	Substandard	Total
			(Dollars in thousands)		
September 30, 2019:					
Real estate:					
Residential 1-4 family [(1)]	$ 732,668	$ —	$ 2,014	$ 8,876	$ 743,558
Non-farm/non-residential	2,110,480	976,248	48,558	12,330	3,147,616
Construction/land development	6,035,299	540,209	67,294	2,756	6,645,558
Agricultural	23,671	174,243	5,247	2,388	205,549
Multifamily residential	1,220,943	96,762	2,068	3,275	1,323,048
Commercial and industrial	133,309	531,698	11,048	4,308	680,363
Consumer [(1)]	2,604,082	—	1,959	497	2,606,538
Other [(1)]	914,136	40,815	15	425	955,391
Total	$13,774,588	$ 2,359,975	$ 138,203	$ 34,855	$16,307,621
December 31, 2018:					
Real estate:					
Residential 1-4 family [(1)]	$ 691,019	$ —	$ 6,831	$ 5,347	$ 703,197
Non-farm/non-residential	2,422,985	805,483	61,480	17,046	3,306,994
Construction/land development	5,888,359	456,265	54,980	12,027	6,411,631
Agricultural	31,883	121,903	6,116	1,878	161,780
Multifamily residential	951,082	96,465	1,811	1,629	1,050,987
Commercial and industrial	326,951	436,832	3,823	4,864	772,470
Consumer [(1)]	1,934,567	—	873	152	1,935,592
Other [(1)]	692,828	38,198	26	88	731,140
Total	$12,939,674	$ 1,955,146	$ 135,940	$ 43,031	$15,073,791

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

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

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

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

Watch – Loans in this category are presently protected from apparent loss; however, weaknesses exist which could cause future impairment of repayment of principal or interest.

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

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

	30-89 Days Past Due [(1)]	90 Days or More [(2)]	Total Past Due	Current [(3)]	Total
			(Dollars in thousands)		
September 30, 2019:					
Real estate:					
Residential 1-4 family	$ 3,736	$ 2,855	$ 6,591	$ 736,967	$ 743,558
Non-farm/non-residential	3,949	5,249	9,198	3,138,418	3,147,616
Construction/land development	1,626	583	2,209	6,643,349	6,645,558
Agricultural	173	661	834	204,715	205,549
Multifamily residential	—	—	—	1,323,048	1,323,048
Commercial and industrial	1,025	306	1,331	679,032	680,363
Consumer	2,380	227	2,607	2,603,931	2,606,538
Other	15	366	381	955,010	955,391
Total	$ 12,904	$ 10,247	$ 23,151	$ 16,284,470	$ 16,307,621
December 31, 2018:					
Real estate:					
Residential 1-4 family	$ 7,720	$ 3,209	$ 10,929	$ 692,268	$ 703,197
Non-farm/non-residential	3,127	11,574	14,701	3,292,293	3,306,994
Construction/land development	621	11,409	12,030	6,399,601	6,411,631
Agricultural	122	27	149	161,631	161,780
Multifamily residential	538	99	637	1,050,350	1,050,987
Commercial and industrial	1,453	1,718	3,171	769,299	772,470
Consumer	916	109	1,025	1,934,567	1,935,592
Other	—	35	35	731,105	731,140
Total	$ 14,497	$ 28,180	$ 42,677	$ 15,031,114	$ 15,073,791

(1) Includes $3.9 million at September 30, 2019 and $2.2 million at December 31, 2018 of loans on nonaccrual status.
(2) All loans greater than 90 days past due were on nonaccrual status at September 30, 2019 and December 31, 2018.
(3) Includes $11.4 million and $4.4 million of loans on nonaccrual status at September 30, 2019 and December 31, 2018, respectively.

Purchased Loans

As provided for under GAAP, management has up to 12 months following the date of an acquisition to finalize the fair values of acquired assets and assumed liabilities, including purchased loans. Once management has finalized the fair values of acquired assets and assumed liabilities within this 12-month period, management considers such values to be the day 1 fair values ("Day 1 Fair Values").

As of September 30, 2019, the Bank had identified purchased loans where it had determined it was probable that the Bank would be unable to collect all amounts according to the contractual terms thereof (for purchased loans without evidence of credit deterioration at date of acquisition) or the expected performance of such loans had deteriorated from management's performance expectations established in conjunction with the determination of the Day 1 Fair Values or since management's most recent review of such portfolio's performance (for purchased loans with evidence of credit deterioration at date of acquisition). At September 30, 2019, the Bank had $13.0 million of impaired purchased loans (purchased loans graded FV 77 or FV 88) compared to $7.8 million at December 31, 2018.

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

	Purchased Loans Without Evidence of Credit Deterioration at Date of Acquisition					Purchased Loans With Evidence of Credit Deterioration at Date of Acquisition		Total Purchased Loans
	FV 33	FV 44	FV 55	FV 36	FV 77	FV 66	FV 88	
				(Dollars in thousands)				
September 30, 2019:								
Real estate:								
Residential 1-4 family	$ 35,288	$ 148,556	$ 34,759	$23,570	$ 579	$ 29,084	$ 1,440	$ 273,276
Non-farm/non-residential	84,609	458,844	138,752	680	7,583	43,056	1,973	735,497
Construction/land development	2,308	24,915	4,408	373	996	3,491	94	36,585
Agricultural	180	864	16	37	—	1,155	—	2,252
Multifamily residential	4,370	29,263	19	488	—	939	—	35,079
Commercial and industrial	2,936	14,187	2,846	105	—	5,611	—	25,685
Consumer	143,927	148,250	22,142	134	304	12	—	314,769
Other	3,355	667	65	—	—	—	—	4,087
Total	$276,973	$ 825,546	$203,007	$25,387	$ 9,462	$ 83,348	$ 3,507	$1,427,230
December 31, 2018:								
Real estate:								
Residential 1-4 family	$ 49,105	$ 181,169	$ 47,573	$30,511	$ 489	$ 35,525	$ 1,891	$ 346,263
Non-farm/non-residential	117,578	641,182	174,063	1,450	1,759	73,342	3,020	1,012,394
Construction/land development	37,630	101,478	6,373	650	280	4,122	21	150,554
Agricultural	96	1,092	665	48	—	1,407	—	3,308
Multifamily residential	13,898	46,120	2,785	524	—	1,712	—	65,039
Commercial and industrial	8,393	32,542	3,374	220	18	6,353	47	50,947
Consumer	184,635	193,390	31,408	443	276	119	—	410,271
Other	3,893	1,061	211	—	—	91	—	5,256
Total	$415,228	$1,198,034	$266,452	$33,846	$ 2,822	$122,671	$ 4,979	$2,044,032

The following grades are used for purchased loans without evidence of credit deterioration at the date of acquisition.

FV 33 – Loans in this category are considered to be satisfactory with minimal credit risk and are generally considered collectible.

FV 44 – Loans in this category are considered to be marginally satisfactory with minimal to moderate credit risk and are generally considered collectible.

FV 55 – Loans in this category exhibit weakness and are considered to have elevated credit risk and elevated risk of repayment.

FV 36 – Loans in this category were not individually reviewed at the date of purchase and are assumed to have characteristics similar to the characteristics of the aggregate acquired portfolio.

FV 77 – Loans in this category have deteriorated since the date of purchase and are considered impaired.

The following grades are used for purchased loans with evidence of credit deterioration at the date of acquisition.

FV 66 – Loans in this category are performing in accordance with or exceeding management's performance expectations established in conjunction with the determination of Day 1 Fair Values.

FV 88 – Loans in this category have deteriorated from management's performance expectations established in conjunction with the determination of Day 1 Fair Values and are considered impaired.

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

	30-89 Days Past Due	90 Days or More	Total Past Due	Current	Total Purchased Loans
			(Dollars in thousands)		
September 30, 2019:					
Real estate:					
Residential 1-4 family	$ 4,736	$ 2,392	$ 7,128	$ 266,148	$ 273,276
Non-farm/non-residential	8,568	14,340	22,908	712,589	735,497
Construction/land development	112	1,089	1,201	35,384	36,585
Agriculture	179	155	334	1,918	2,252
Multifamily residential	—	—	—	35,079	35,079
Commercial and industrial	180	752	932	24,753	25,685
Consumer	1,415	615	2,030	312,739	314,769
Other	—	—	—	4,087	4,087
Total	$ 15,190	$ 19,343	$ 34,533	$ 1,392,697	$ 1,427,230
Purchased loans without evidence of credit deterioration at date of acquisition	$ 8,873	$ 12,384	$ 21,257	$ 1,319,118	$ 1,340,375
Purchased loans with evidence of credit deterioration at date of acquisition	6,317	6,959	13,276	73,579	86,855
Total	$ 15,190	$ 19,343	$ 34,533	$ 1,392,697	$ 1,427,230
December 31, 2018:					
Real estate:					
Residential 1-4 family	$ 8,950	$ 2,818	$ 11,768	$ 334,495	$ 346,263
Non-farm/non-residential	17,243	14,015	31,258	981,136	1,012,394
Construction/land development	346	1,179	1,525	149,029	150,554
Agriculture	—	204	204	3,104	3,308
Multifamily residential	—	—	—	65,039	65,039
Commercial and industrial	527	785	1,312	49,635	50,947
Consumer	2,828	644	3,472	406,799	410,271
Other	—	—	—	5,256	5,256
Total	$ 29,894	$ 19,645	$ 49,539	$ 1,994,493	$ 2,044,032
Purchased loans without evidence of credit deterioration at date of acquisition	$ 25,304	$ 10,165	$ 35,469	$ 1,880,913	$ 1,916,382
Purchased loans with evidence of credit deterioration at date of acquisition	4,590	9,480	14,070	113,580	127,650
Total	$ 29,894	$ 19,645	$ 49,539	$ 1,994,493	$ 2,044,032

6. Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *"Leases (Topic 842)"* which required lessees to recognize on the lessee's balance sheet a right-of-use asset and lease liability related to their leasing agreements. The Bank adopted ASU 2016-02 effective January 1, 2019 and, as a result, recorded an operating lease right-of-use asset and operating lease liability of $59.6 million at adoption. The Bank's right-of-use asset is included in premises and equipment, net and the Bank's lease liability is included in accrued interest payable and other liabilities on the Bank's consolidated balance sheets. At September 30, 2019, the Bank's leases were comprised primarily of building and ground leases associated with certain of its branch locations or loan production offices. A portion of the Bank's leases are tied to the consumer price index and rent escalations associated with these leases are measured on a periodic basis. The majority of the Bank's lease agreements do not contain

residual value guarantees or restricted covenants. In addition, many of the Bank's ground leases contain renewal options. The Bank is reasonably certain that such options will be exercised; thus, the Bank has included the effects of extending these ground leases in the determination of the lease term.

ASU 2016-02 also requires that lessees evaluate other contracts to determine whether any embedded leases are included in such contracts. In evaluating such contracts for potential embedded leases, the Bank considered whether a contract contained an identified asset, did the Bank have the right to obtain substantially all of the economic benefits from the use of the identified asset, and did the Bank have the right to direct how and for what purposes the identified asset is used.

For the three months and nine months ended September 30, 2019, the Bank incurred $2.6 million and $7.5 million, respectively, in operating cost that is included in net occupancy and equipment expense in the Bank's consolidated statements of income. The Bank's variable lease costs were not material for the three months or nine months ended September 30, 2019. At September 30, 2019, the Bank's weighted average remaining lease term and weighted average interest rate for its lease liabilities were 16.4 years and 3.5%, respectively.

For leases whose term is less than one year, the Bank elected to apply the short-term measurement and recognition exception provided under Topic 842. Additionally, the Bank elected certain transition relief provisions whereby the Bank did not reassess (i) whether any expired or existing contract is a lease or contains a lease, (ii) the lease classification of any expired or existing lease, and (iii) initial direct costs for any existing leases. Also, the Bank elected not to restate previous periods as a result of adoption.

7. Goodwill and Intangible Assets

Goodwill and intangible assets consist of goodwill, bank charter costs, core deposit and intellectual property intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The Bank had goodwill of $660.8 million at both September 30, 2019 and December 31, 2018. The Bank performed its annual impairment test of goodwill as of September 30, 2019. This impairment test included various valuation considerations including comparable peer data, precedent transaction comparables, overall Bank financial performance, share price of the Bank's common stock and other factors. The September 30, 2019 impairment test indicated no impairment of the Bank's goodwill.

8. Supplemental Data for Cash Flows

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

	Nine Months Ended September 30,	
	2019	**2018**
	(Dollars in thousands)	
Cash paid during the period for:		
Interest	$ 213,598	$ 145,771
Taxes	146,884	76,169
Supplemental schedule of non-cash investing and financing activities:		
Net change in unrealized gains/losses on investment securities AFS	81,421	61,302
Loans transferred to foreclosed assets	27,348	8,518
Unsettled loan purchases	—	25,000

9. Commitments and Contingencies

Outstanding standby letters of credit are contingent commitments issued by the Bank generally to guarantee the performance of a customer in third party arrangements. The maximum amount of future payments the Bank could be required to make under these guarantees at September 30, 2019 was $14.0 million. The Bank holds collateral to support guarantees when deemed necessary. Collateralized commitments at September 30, 2019 totaled $13.3 million.

At September 30, 2019, the Bank had outstanding commitments totaling $11.43 billion to extend credit, consisting primarily of loans closed but not yet funded. These commitments may or may not fund in whole or part prior to maturity; however, such funding is subject to a number of factors, including, among others, economic conditions, real estate market conditions and competitive factors.

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

Contractual Maturities at September 30, 2019		
Maturity		**Amount**
(Dollars in thousands)		
2019	$	254,709
2020		2,004,007
2021		3,588,129
2022		2,807,357
2023		1,943,153
Thereafter		832,563
Total	$	11,429,918

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

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

10. Stock-Based Compensation

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

The Bank previously had a nonqualified stock option plan for non-employee directors. No options were granted under this plan during the three months or nine months ended September 30, 2019 or 2018. 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, 2019 were issued with a vesting date three years after issuance and an expiration date seven years after issuance.

The following table summarizes stock option activity under the Bank's equity plans 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, 2019:				
Outstanding – January 1, 2019	1,877,123	$ 46.68		
Granted	280,558	31.66		
Exercised	(67,350)	16.63		
Forfeited	(180,807)	47.98		
Outstanding – September 30, 2019	1,909,524	45.41	4.3	640.0 (1)
Fully vested and exercisable – September 30, 2019	754,396	$ 42.72	2.8	640.0 (1)

(1) Based on closing price of $27.27 per share on September 30, 2019.

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, 2019 and 2018 was $0.1 million and $0.2 million, respectively. The total intrinsic value of options exercised during the nine months ended September 30, 2019 and 2018 was $0.9 million and $5.5 million respectively.

Options to purchase 280,558 shares were granted during the nine months ended September 30, 2019 with a weighted-average grant date fair value of $7.72. The fair value for each option grant is estimated on the date of the grant using the Black-Scholes option pricing model. The following table is a summary of the weighted-average assumptions used in the Black-Scholes option pricing model for stock options granted during the period indicated.

	Nine Months Ended September 30, 2019
Risk-free interest rate	2.58%
Expected dividend yield	3.10%
Expected stock volatility	33.7%
Expected life (years)	5.0

The Bank uses the U.S. Treasury yield curve in effect at the time of the grant to determine the risk-free interest rate. The expected dividend yield is estimated using the current annual dividend level and recent stock price of the Bank's common stock at the date of grant. Expected stock volatility is based on historical volatilities of the Bank's common stock. The expected life of the options is calculated based on the "simplified" method as provided for under SEC Staff Accounting Bulletin No. 110.

Stock-based compensation expense for stock options included in non-interest expense was $1.1 million and $1.4 million for the three months ended September 30, 2019 and 2018, respectively, and $3.0 million and $4.4 million for the nine months ended September 30, 2019 and 2018, respectively. Total unrecognized compensation cost related to non-vested stock option grants was $4.8 million at September 30, 2019 and is expected to be recognized over a weighted-average period of 1.5 years.

During the nine months ended September 30, 2019, the Bank issued 383,874 shares of restricted common stock under the 2009 Plan. These grants of restricted stock cliff vest 100% three years after issuance, assuming continuous employment by the participant during this period.

During the nine months ended September 30, 2019, the Bank issued 22,200 shares, or $50,000 worth of shares per recipient rounded down to the nearest whole share, of restricted common stock under the Director Plan. The restricted stock awarded to each non-employee director under the Director Plan contained a one-year vesting period.

The following table summarizes non-vested restricted stock activity under the Bank's equity plans for the period indicated.

	Shares	Weighted-Average Grant Date Fair Value
Nine Months Ended September 30, 2019:		
Outstanding – January 1, 2019	543,999	
Granted	406,074	
Forfeited	(74,398)	
Vested	(181,990)	
Outstanding – September 30, 2019	693,685	$ 40.85

Restricted stock awards totaling 406,074 shares with a weighted-average grant date fair value of $31.77 were granted pursuant to the 2009 Plan and the Director Plan during the nine months ended September 30, 2019. The fair value of the restricted stock awards is amortized to compensation expense over the vesting period and is based on the market price of the Bank's common stock at the date of grant multiplied by the number of shares granted. Stock-based compensation expense for restricted stock included in non-interest expense was $2.4 million and $1.9 million for the three months ended September 30, 2019 and 2018, respectively and $6.3 million and $6.2 million for the nine months ended September 30, 2019 and 2018, respectively. Unrecognized compensation expense for non-vested restricted stock awards was $13.4 million at September 30, 2019 and is expected to be recognized over a weighted-average period of 1.9 years.

On January 23, 2019, pursuant to the 2009 Plan, the Personnel and Compensation Committee awarded its executive officers an aggregate of 170,003 performance-based restricted stock units (PSUs"), based on target performance, with each PSU representing the right to receive one share of common stock at a future date. 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 common 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, 2019 (for the TSR component) and compared to the Bank's 2018 executive compensation peer group (for the ROAE and ROAA component) over the same three-year period. Measurement is determined on a percentile basis relative to the KRX or the Bank's peer group. 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.

Compensation expense for PSU awards included in non-interest expense was $0.5 million for the three months ended September 30, 2019 and $1.3 million for the nine months ended September 30, 2019 (none in 2018). Unrecognized compensation expense for non-vested PSU awards was $4.3 million at September 30, 2019 and is expected to be recognized over a weighted-average period of 2.3 years.

11. Fair Value Measurements

The Bank measures certain of its assets and liabilities on a fair value basis using various valuation techniques and assumptions, depending on the nature of the asset or liability. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, fair value is used either on a periodic basis, typically at least quarterly, or on a non-recurring basis to evaluate certain assets and liabilities for impairment or for disclosure purposes. The Bank had no material liabilities that were accounted for at fair value at September 30, 2019 or December 31, 2018.

The Bank applies the following fair value hierarchy.

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

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

Level 3 − Instruments whose inputs are unobservable.

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

	Level 1	Level 2	Level 3	Total
		(Dollars in thousands)		
September 30, 2019:				
Investment securities AFS:				
Mortgage-backed securities [1]	$ —	$ 1,876,702	$ —	$ 1,876,702
Obligations of state and political subdivisions	—	518,310	14,311	532,621
Corporate obligations	—	5,399	—	5,399
Total investment securities AFS	—	2,400,411	14,311	2,414,722
Impaired non-purchased loans	—	—	25,219	25,219
Impaired purchased loans	—	—	12,969	12,969
Foreclosed assets	—	—	33,319	33,319
Total assets at fair value	$ —	$ 2,400,411	$ 85,818	$ 2,486,229
December 31, 2018:				
Investment securities AFS:				
Mortgage-backed securities[1]	$ —	$ 2,212,546	$ —	$ 2,212,546
Obligations of state and political subdivisions	—	591,380	15,236	606,616
U.S. Government agency securities	—	26,936	—	26,936
Corporate obligations	—	15,183	—	15,183
CRA qualified investment fund	1,059	—	—	1,059
Total investment securities AFS	1,059	2,846,045	15,236	2,862,340
Impaired non-purchased loans	—	—	34,188	34,188
Impaired purchased loans	—	—	7,801	7,801
Foreclosed assets	—	—	16,171	16,171
Total assets at fair value	$ 1,059	$ 2,846,045	$ 73,396	$ 2,920,500

(1) These mortgage-backed securities were issued by U.S. Government agencies.

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

Description	Fair Value at September 30, 2019	Technique	Unobservable Inputs
	(Dollars in thousands)		
Impaired non-purchased loans	$ 25,219	Third party appraisal [1] and/or discounted cash flows	1. Management discount based on underlying collateral characteristics and market conditions 2. Life of loan
Impaired purchased loans	$ 12,969	Third party appraisal [1] and/or discounted cash flows	1. Management discount based on underlying collateral characteristics and market conditions 2. Life of loan
Foreclosed assets	$ 33,319	Third party appraisal, [1] broker price opinions and/or discounted cash flows	1. Management discount based on underlying collateral characteristics and market conditions 2. Discount rate 3. Holding period

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

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

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

The Bank has determined that certain of its investment securities AFS had a limited to non-existent trading market at September 30, 2019. 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 $14.3 million at September 30, 2019 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 lack of existence of any 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 services for comparable unrated municipal securities or (ii) par value. At September 30, 2019, the third parties' pricing matrices valued the Bank's portfolio of private placement bonds at $14.3 million, which was approximately the same as the aggregate par value of the private placement bonds. Accordingly, at September 30, 2019, the Bank reported the private placement bonds at $14.3 million.

Impaired non-purchased loans – Fair values are measured on a non-recurring basis and are based on the underlying collateral value of the impaired loan, reduced for holding and selling costs, or the estimated discounted cash flows for such loan. At September 30, 2019 the Bank had reduced the carrying value of its impaired non-purchased loans (all of which are included in nonaccrual loans) by $6.5 million to the estimated fair value of $25.2 million. The $6.5 million adjustment to reduce the carrying value of such impaired loans to estimated fair value consisted of $4.7 million of partial charge-offs and $1.8 million of specific allowance allocations for loan losses.

Impaired purchased loans – Impaired purchased loans are measured at fair value on a non-recurring basis. As of September 30, 2019, the Bank had identified purchased loans where current information indicates it is probable that (i) the Bank will not be able to collect all amounts according to the contractual terms thereof (for purchased loans without evidence of credit deterioration at date of acquisition) or (ii) the expected performance of such loans had deteriorated from management's performance expectations established in conjunction with the determination of the Day 1 Fair Values or since management's most recent review of such portfolio's performance (for purchased loans with evidence of credit deterioration at date of acquisition). At September 30, 2019, the Bank had $13.0 million of impaired purchased loans.

Foreclosed assets – Repossessed personal properties and real estate acquired through or in lieu of foreclosure, excluding purchased foreclosed assets, are measured on a non-recurring basis and are initially recorded at fair value less estimated cost to sell at the date of repossession or foreclosure. Purchased foreclosed assets are initially recorded at Day 1 Fair Values. Valuations of these assets are periodically reviewed by management with the carrying value of such assets adjusted through non-interest expense to the then estimated fair value net of estimated selling costs, if lower, until disposition. At September 30, 2019, the Bank had $33.3 million of foreclosed assets.

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

	Investment Securities AFS
	(Dollars in thousands)
Balance – December 31, 2018	$ 15,236
Total realized gains (losses) included in earnings	—
Total unrealized gains (losses) included in comprehensive income	250
Paydowns and maturities	(1,175)
Sales	—
Transfers in and/or out of Level 3	—
Balance – September 30, 2019	$ 14,311
Balance – December 31, 2017	$ 16,425
Total realized gains (losses) included in earnings	—
Total unrealized gains (losses) included in comprehensive income	(259)
Paydowns and maturities	(860)
Sales	—
Transfers in and/or out of Level 3	—
Balance – September 30, 2018	$ 15,306

12. Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

Off-balance sheet instruments – The fair values of outstanding commitments and letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements. The fair values of outstanding commitments and letters of credit were not material at September 30, 2019 or December 31, 2018.

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

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

	Fair Value Hierarchy	September 30, 2019		December 31, 2018	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
		(Dollars in thousands)			
Financial assets:					
Cash and cash equivalents	Level 1	$ 1,029,946	$ 1,029,946	$ 290,672	$ 290,672
Investment securities AFS	Levels 2 and 3	2,414,722	2,414,722	2,862,340	2,862,340
Loans, net of ALL	Level 3	17,625,850	17,604,950	17,015,559	16,735,923
Financial liabilities:					
Demand, savings and interest bearing transaction deposits	Level 1	$ 11,234,708	$ 11,234,708	$ 12,430,986	$ 12,430,986
Time deposits	Level 2	7,205,370	7,250,519	5,507,429	5,532,908
Repurchase agreements with customers	Level 1	12,156	12,156	20,564	20,564
Other borrowings	Level 2	301,421	301,435	96,692	96,686
Subordinated notes	Level 2	223,567	224,421	223,281	217,571
Subordinated debentures	Level 2	119,775	106,256	119,358	107,712

13. Repurchase Agreements With Customers

At September 30, 2019 and December 31, 2018, securities sold under agreements to repurchase ("repurchase agreements") totaled $12.2 million and $20.6 million, respectively. Securities utilized as collateral for repurchase agreements are primarily U.S. Government agency securities and are maintained by the Bank's safekeeping agents. These securities are reviewed by the Bank on a daily basis, and the Bank may be required to provide additional collateral due to changes in the fair market value of these securities. The terms of the Bank's repurchase agreements are continuous but may be cancelled at any time by the Bank or the customer.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(Dollars in thousands)			
Beginning balance of AOCI – unrealized net losses on investment securities AFS	$ 19,693	$ (46,913)	$ (34,105)	$ (12,712)
Other comprehensive income (loss):				
Unrealized gains and losses on investment securities AFS	10,527	(16,276)	82,134	(61,302)
Tax effect of unrealized gains and losses on investment securities AFS	(2,572)	3,938	(19,841)	14,763
Amounts reclassified from AOCI	—	—	(713)	—
Tax effect of amounts reclassified from AOCI	—	—	173	—
Total other comprehensive income (loss)	7,955	(12,338)	61,753	(46,539)
Ending balance of AOCI – unrealized net gains (losses) on investment securities AFS	$ 27,648	$ (59,251)	$ 27,648	$ (59,251)

15. Other Operating Expenses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(Dollars in thousands)			
Professional and outside services	$ 9,204	$ 9,725	$ 25,874	$ 27,542
Software and data processing	5,095	3,336	14,561	9,786
Deposit insurance and assessments	2,505	3,948	9,645	11,068
Travel and meals	2,777	2,517	8,385	7,168
Telecommunication services	2,094	3,373	8,248	10,056
Postage and supplies	2,040	2,517	6,201	6,930
Advertising and public relations	2,067	6,977	5,421	10,084
ATM expense	1,277	1,202	3,363	3,683
Loan collection and repossession expense	317	932	2,218	2,225
Writedowns of foreclosed assets and other assets	354	544	1,509	1,156
Writedown of signage due to strategic branding	—	4,915	—	4,915
Amortization of intangibles	2,907	3,145	9,064	9,435
Other	7,076	3,976	17,271	10,835
Total other operating expenses	$ 37,713	$ 47,107	$ 111,760	$ 114,883

16. Recent Accounting Pronouncements

In February 2016, FASB issued ASU 2016-02, *"Leases (Topic 842)*." ASU 2016-02 requires lessees to recognize a right-of-use asset and a lease liability on their balance sheet. The Bank adopted the provisions of ASU 2016-02 as of January 1, 2019. See Note 6 for additional disclosure related to the adoption of ASU 2016-02.

In June 2016, FASB issued ASU 2016-13 *"Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"* which significantly revises the guidance related to impairment of financial instruments. The new guidance replaces the current incurred loss framework that is utilized in estimating the ALL with a framework that requires management to estimate all contractual cash flows that are not expected to be collected over the life of the loan. This revised framework is what FASB describes as the current expected credit loss ("CECL") framework, and FASB believes the CECL framework will result in more timely recognition of credit losses since the CECL framework incorporates expected credit losses versus incurred credit losses. The scope of ASU 2016-13 includes loans, including purchased loans with credit deterioration, available-for-sale debt instruments, lease receivables, loan commitments and financial guarantees that are not accounted for at fair value. ASU 2016-13 is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted for interim and annual periods beginning after December 15, 2018. In preparation for the adoption of CECL effective January 1, 2020, the Bank is continuing the implementation of various CECL models. The results from the Bank's initial parallel runs, which utilized June 30, 2019 data, suggest an increase in the Bank's ALL in the range of 30% to 60% upon the adoption of CECL. In addition, those results also indicate a reserve for potential losses on unfunded commitments, which will be presented as a liability on the Bank's balance sheet separate from its ALL, in the range of $50 million to $80 million. Results from the Bank's ongoing parallel runs continue to support those estimates. Thus, the total reserve for credit losses upon adoption of CECL is estimated to increase in the range of 75% to 135%. These estimates are based on the Bank's preliminary analyses, current expectations and forecasted economic conditions, and are contingent upon continued testing and refinement of models, methodologies and judgements. The extent of impact of the adoption of CECL at the effective date will depend on the size, mix and quality of the Bank's loan portfolio, and economic conditions and forecasts at adoption, as well as any refinements to models, methodology and assumptions. The Bank expects to continue to process additional parallel runs through its CECL models prior to year-end.

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

In March 2017, FASB issued ASU 2017-08 *"Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20)"* which amends the accounting for the amortization of premiums for certain purchased callable debt securities by shortening the amortization

period to the earliest call date. ASU 2017-08 is effective for interim and annual periods beginning after December 15, 2019. The Bank is evaluating the effect that ASU 2017-08 may have, if any, on its financial position or results of operations.

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

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

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

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

FORWARD-LOOKING INFORMATION

This quarterly report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), other public filings made by us and other oral and written statements or reports by us and our management include certain forward-looking statements that are intended to be covered by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management's expectations as well as certain assumptions and estimates made by, and information available to, management at the time. Those statements are not guarantees of future results or performance and are subject to certain known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Forward-looking statements include, without limitation, statements about economic, real estate market, competitive, employment, credit market and interest rate conditions, including expectations for further changes in monetary and interest rate policy by the Board of Governors of the Federal Reserve System ("FRB"); our plans, goals, beliefs, expectations, thoughts, estimates and outlook for the future with respect to our revenue growth; net income and earnings per common share; net interest margin; net interest income; non-interest income, including service charges on deposit accounts, trust income, bank owned life insurance ("BOLI") income, other income from purchased loans, loan service, maintenance and other fees, and gains (losses) on investment securities and sales of other assets; non-interest expense; efficiency ratio; anticipated future operating results and financial performance; asset quality and asset quality ratios, including the effects of current economic and real estate market conditions; nonperforming loans; nonperforming assets; net charge-offs and net charge-off ratios; provision and allowance for loan losses; past due loans; current or future litigation; interest rate sensitivity, including the effects of possible interest rate changes; future growth and expansion opportunities, including plans for making additional acquisitions; problems with obtaining regulatory approval of or integrating or managing acquisitions; the effect of the announcement of any future acquisition on customer relationships and operating results; plans for opening new offices or relocating or closing existing offices; opportunities and goals for future market share growth; expected capital expenditures; loan and deposit growth, including growth from unfunded closed loans; changes in the volume, yield and value of our investment securities portfolio; availability of unused borrowings; the need to issue debt or equity securities and other similar forecasts and statements of expectation. Words such as "anticipate," "assume," "believe," "could," "estimate," "expect," "goal," "hope," "intend," "look," "may," "plan," "project," "seek," "target," "trend," "will," "would," and similar words and expressions, as they relate to us or our management, identify forward-looking statements.

Actual future performance, outcomes and results may differ materially from those expressed in, or implied by, forward-looking statements made by us and our management due to certain risks, uncertainties and assumptions. Certain factors that may affect our future results include, but are not limited to, potential delays or other problems in implementing our growth, expansion and acquisition strategies, including delays in identifying satisfactory sites, hiring or retaining qualified personnel, obtaining regulatory or other approvals, obtaining permits and designing, constructing and opening new offices or relocating or closing existing offices; the ability to enter into and/or close additional acquisitions; the availability of and access to capital; possible downgrades in our credit ratings or outlook which could increase the costs or availability of funding from capital markets; the ability to attract new or retain existing or acquired deposits or to retain or grow loans, including growth from unfunded closed loans; the ability to generate future revenue growth or to control future growth in non-interest expense; interest rate fluctuations, including changes in the yield curve between short-term and long-term interest rates or changes in the relative relationships of various interest rate indices; the potential impact of the change in the method for determining LIBOR; competitive factors and pricing pressures, including their effect on our net interest margin or core spread; general economic, unemployment, credit market and real estate market conditions, and the effect of such conditions on the creditworthiness of borrowers, collateral values, the value of investment securities and asset recovery values; changes in legal, financial and/or regulatory requirements; recently enacted and potential legislation and regulatory actions and the costs and expenses to comply with new and/or existing legislation and regulatory actions; changes in U.S. Government monetary and fiscal policy; Federal Deposit Insurance Corporation ("FDIC") special assessments or changes to regular assessments; the ability to keep pace with technological changes, including changes regarding maintaining cybersecurity; the impact of failure in, or breach of, our operational or security systems or infrastructure, or those of third parties with whom we do business, including as a result of cyber attacks or an increase in the incidence or severity of fraud, illegal payments, security breaches or other illegal acts impacting us or our customers; adoption of new accounting standards, including the estimated effects from the adoption of the current expected credit loss ("CECL") model on January 1, 2020, or changes in existing standards; and adverse results (including costs, fines, reputational harm and/or other negative effects) from current or future litigation, regulatory examinations or other legal and/or regulatory actions or rulings as well as other factors described in this quarterly report on Form 10-Q or as detailed from time to time in the other public reports we file with the FDIC, including those factors identified in the disclosures under the 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, 2018 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. We disclaim any obligation to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information or otherwise.

SELECTED AND SUPPLEMENTAL FINANCIAL DATA

The following tables set forth selected unaudited consolidated financial data as of and for the three months and nine months ended September 30, 2019 and 2018 and supplemental unaudited quarterly financial data for each of the most recent eight quarters beginning with the fourth quarter of 2017 through the third quarter of 2019. These tables are qualified in their entirety by our consolidated financial statements and related notes presented in Part I, Item 1 – Financial Statements in this quarterly report on Form 10-Q. The calculations of our tangible book value per common share and our annualized returns on average tangible common stockholders' equity and the reconciliations to generally accepted accounting principles ("GAAP") are included in this MD&A under "Capital Resources and Liquidity" in this quarterly report on Form 10-Q.

Selected Consolidated Financial Data – Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(Dollars in thousands, except per share amounts)			
Income statement data:				
Interest income	$ 289,517	$ 277,595	$ 881,579	$ 808,751
Interest expense	70,737	56,981	212,375	145,701
Net interest income	218,780	220,614	669,204	663,050
Provision for loan losses	7,854	41,949	21,303	57,126
Non-interest income	26,446	24,121	77,121	80,215
Non-interest expense	100,914	102,942	296,724	285,859
Net income available to common stockholders	103,891	74,180	325,100	302,075
Common share and per common share data:				
Earnings – diluted	$ 0.81	$ 0.58	$ 2.52	$ 2.35
Book value	31.63	28.41	31.63	28.41
Tangible book value	26.30	22.97	26.30	22.97
Dividends	0.24	0.20	0.69	0.585
Weighted-average diluted shares outstanding (thousands)	129,012	128,744	128,995	128,771
End of period shares outstanding (thousands)	128,946	128,609	128,946	128,609
Balance sheet data at period end:				
Total assets	$ 23,402,679	$ 22,086,539	$ 23,402,679	$ 22,086,539
Total loans	17,734,851	16,725,791	17,734,851	16,725,791
Non-purchased loans	16,307,621	14,440,623	16,307,621	14,440,623
Purchased loans	1,427,230	2,285,168	1,427,230	2,285,168
Allowance for loan losses	109,001	98,200	109,001	98,200
Foreclosed assets	33,319	18,470	33,319	18,470
Investment securities - AFS	2,414,722	2,669,877	2,414,722	2,669,877
Goodwill and other intangible assets, net	687,397	699,606	687,397	699,606
Deposits	18,440,078	17,822,915	18,440,078	17,822,915
Repurchase agreements with customers	12,156	51,891	12,156	51,891
Other borrowings	301,421	1,729	301,421	1,729
Subordinated notes	223,567	223,185	223,567	223,185
Subordinated debentures	119,775	119,217	119,775	119,217
Unfunded balance of closed loans	11,429,918	11,891,247	11,429,918	11,891,247
Total common stockholders' equity	4,078,324	3,653,596	4,078,324	3,653,596
Loan (including purchased loans) to deposit ratio	96.18%	93.84%	96.18%	93.84%
Average balance sheet data:				
Total average assets	$ 22,786,827	$ 22,148,146	$ 22,673,159	$ 21,773,882
Total average common stockholders' equity	4,032,066	3,648,398	3,925,321	3,567,148
Average common stockholders' equity to average assets	17.69%	16.47%	17.31%	16.38%
Performance ratios:				
Return on average assets [(1)]	1.81%	1.33%	1.92%	1.85%
Return on average common stockholders' equity [(1)]	10.22	8.07	11.07	11.32
Return on average tangible common stockholders' equity [(1)]	12.33	9.99	13.44	14.11
Net interest margin – FTE [(1)]	4.26	4.47	4.41	4.60
Efficiency ratio	40.98	41.87	39.58	38.28
Common stock dividend payout ratio	29.81	34.68	27.34	24.90
Asset quality ratios:				
Net charge-offs to average non-purchased loans [(1) (2)]	0.07%	1.32%	0.08%	0.49%
Net charge-offs to average total loans [(1)]	0.12	1.14	0.11	0.43
Nonperforming loans to total loans[(3)]	0.17	0.23	0.17	0.23
Nonperforming assets to total assets [(3)]	0.26	0.23	0.26	0.23
Allowance for loan losses as a percentage of:				
Total non-purchased loans [(4)]	0.66%	0.67%	0.66%	0.67%
Nonperforming loans[(4)]	397%	293%	397%	293%
Capital ratios at period end:				
Common equity tier 1	13.28%	12.15%	13.28%	12.15%
Tier 1 risk based capital	13.28	12.15	13.28	12.15
Total risk based capital	15.08	13.93	15.08	13.93
Tier 1 leverage	15.17	13.95	15.17	13.95

(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 purchased loans and any allowance for such loans.

Supplemental Quarterly Financial Data – Unaudited

	12/31/17	3/31/18	6/30/18	9/30/18	12/31/18	3/31/19	6/30/19	9/30/19
	(Dollars in thousands, except per share amounts)							
Earnings Summary:								
Net interest income	$ 214,831	$ 217,776	$ 224,661	$ 220,614	$ 228,382	$ 225,888	$ 224,536	$ 218,780
Federal tax (FTE) adjustment	2,450	1,166	1,151	1,132	1,219	1,207	1,136	1,038
Net interest income (FTE)	217,281	218,942	225,812	221,746	229,601	227,095	225,672	219,818
Provision for loan losses	(9,279)	(5,567)	(9,610)	(41,949)	(7,271)	(6,681)	(6,769)	(7,854)
Non-interest income	30,213	28,707	27,386	24,121	27,560	24,072	26,603	26,446
Non-interest expense	(86,177)	(93,810)	(89,107)	(102,942)	(94,893)	(96,678)	(99,131)	(100,914)
Pretax income (FTE)	152,038	148,272	154,481	100,976	154,997	147,808	146,375	137,496
FTE adjustment	(2,450)	(1,166)	(1,151)	(1,132)	(1,219)	(1,207)	(1,136)	(1,038)
Provision for income taxes	(3,434)	(33,973)	(38,589)	(25,665)	(38,750)	(35,889)	(34,726)	(32,574)
Noncontrolling interest	10	11	10	1	3	(6)	(10)	7
Net income available to common stockholders	$ 146,164	$ 113,144	$ 114,751	$ 74,180	$ 115,031	$ 110,706	$ 110,503	$ 103,891
Earnings per common share – diluted	$ 1.14	$ 0.88	$ 0.89	$ 0.58	$ 0.89	$ 0.86	$ 0.86	$ 0.81
Non-interest Income:								
Service charges on deposit accounts	$ 10,058	$ 9,525	$ 9,704	$ 9,730	$ 10,585	$ 9,722	$ 10,291	$ 10,827
Trust income	1,729	1,793	1,591	1,730	1,821	1,730	1,839	1,975
BOLI income	5,166	7,580	5,259	5,321	5,751	5,162	5,178	5,414
Other income from purchased loans	2,009	1,251	2,744	1,418	2,370	795	1,455	674
Loan service, maintenance and other fees	4,289	4,743	5,641	4,724	5,245	4,874	4,565	4,197
Net gains on investment securities	1,201	17	—	—	—	—	713	—
Gains (losses) on sales of other assets	1,899	1,426	844	(518)	465	284	402	189
Other	3,862	2,372	1,603	1,716	1,323	1,505	2,160	3,170
Total non-interest income	$ 30,213	$ 28,707	$ 27,386	$ 24,121	$ 27,560	$ 24,072	$ 26,603	$ 26,446
Non-interest Expense:								
Salaries and employee benefits	$ 38,417	$ 45,499	$ 41,665	$ 41,477	$ 41,837	$ 44,868	$ 47,558	$ 48,376
Net occupancy expense	13,474	14,150	13,827	14,358	14,027	14,750	14,587	14,825
Other operating expenses	34,286	34,161	33,615	47,107	39,029	37,060	36,986	37,713
Total non-interest expense	$ 86,177	$ 93,810	$ 89,107	$ 102,942	$ 94,893	$ 96,678	$ 99,131	$ 100,914
Balance Sheet Data:								
Total assets	$21,275,647	$22,039,439	$22,220,380	$22,086,539	$22,388,030	$23,005,652	$22,960,731	$23,402,679
Non-purchased loans	12,733,937	13,674,561	14,183,533	14,440,623	15,073,791	15,610,681	15,786,809	16,307,621
Purchased loans	3,309,092	2,934,535	2,580,341	2,285,168	2,044,032	1,864,715	1,698,396	1,427,230
Investment securities – AFS	2,593,873	2,603,600	2,608,439	2,669,877	2,862,340	2,769,602	2,548,489	2,414,722
Deposits	17,192,345	17,833,672	17,897,085	17,822,915	17,938,415	18,476,868	18,186,215	18,440,078
Unfunded balance of closed loans	13,192,439	12,551,032	11,999,661	11,891,247	11,364,975	11,544,218	11,167,055	11,429,918
Common stockholders' equity	3,460,728	3,526,605	3,613,903	3,653,596	3,770,330	3,882,643	3,993,247	4,078,324
Allowance for Loan Losses:								
Balance at beginning of period	$ 86,784	$ 94,120	$ 98,097	$ 104,638	$ 98,200	$ 102,264	$ 105,954	$ 106,642
Net charge-offs	(1,943)	(1,590)	(3,069)	(48,387)	(3,207)	(2,991)	(6,081)	(5,495)
Provision for loan losses	9,279	5,567	9,610	41,949	7,271	6,681	6,769	7,854
Balance at end of period	$ 94,120	$ 98,097	$ 104,638	$ 98,200	$ 102,264	$ 105,954	$ 106,642	$ 109,001
Selected Ratios:								
Net interest margin – FTE[(1)]	4.72%	4.69%	4.66%	4.47%	4.55%	4.53%	4.45%	4.26%
Efficiency ratio	34.82	37.88	35.19	41.87	36.90	38.49	39.30	40.98
Net charge–offs to average non-purchased loans[(1) (2)]	0.08	0.04	0.05	1.32	0.06	0.05	0.12	0.07
Net charge-offs to average total loans[(1)]	0.05	0.04	0.07	1.14	0.07	0.07	0.14	0.12
Nonperforming loans to total loans[(3)]	0.10	0.09	0.10	0.23	0.23	0.22	0.15	0.17
Nonperforming assets to total assets[(3)]	0.18	0.16	0.15	0.23	0.23	0.21	0.25	0.26
Allowance for loan losses to total non–purchased loans[(4)]	0.73	0.71	0.73	0.67	0.67	0.67	0.67	0.66
Loans past due 30 days or more, including past due non-accrual loans, to total loans[(3)]	0.15	0.14	0.12	0.17	0.28	0.28	0.13	0.14

(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 purchased loans and any allowance for such loans.

OVERVIEW

The following discussion explains our financial condition and results of operations as of and for the three months and nine months ended September 30, 2019. 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 the financial statements and related notes and disclosures in our annual report on Form 10-K for the year ended December 31, 2018. 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, other income from purchased loans, loan service, maintenance and other fees and gains on investment securities and from sales of other assets.

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

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements. Our determination of the (i) provisions to and the adequacy of the allowance for loan losses ("ALL"), (ii) fair value of our investment securities portfolio, and (iii) accounting for our income taxes all involve a higher degree of judgment and complexity than our other significant accounting policies. Accordingly, we consider the determination of (i) provisions to and the adequacy of the ALL, (ii) the fair value of our investment securities portfolio, and (iii) accounting for our income taxes to be critical accounting policies. A detailed discussion of each of these critical accounting policies is included in our annual report on Form 10-K for the year ended December 31, 2018. There has been no change in our critical accounting policies and no material change in the application of critical accounting policies as presented in our annual report on Form 10-K for the year ended December 31, 2018.

ANALYSIS OF RESULTS OF OPERATIONS

General

Net income available to our common stockholders was $103.9 million for the third quarter of 2019, a 40.1% increase from $74.2 million for the third quarter of 2018. Net income available to our common stockholders was $325.1 million for the first nine months of 2019, a 7.6% increase from $302.1 million for the first nine months of 2018. Diluted earnings per common share were $0.81 for the third quarter of 2019, a 39.7% increase from $0.58 for the third quarter of 2018. Diluted earnings per common share were $2.52 for the first nine months of 2019, a 7.2% increase from $2.35 for the first nine months of 2018.

Our annualized return on average assets was 1.81% for the third quarter and 1.92% for the first nine months of 2019 compared to 1.33% for the third quarter and 1.85% for the first nine months of 2018. Our annualized return on average common stockholders' equity was 10.22% for the third quarter and 11.07% for the first nine months of 2019 compared to 8.07% for the third quarter and 11.32% for the first nine months of 2018. Our annualized return on average tangible common stockholders' equity was 12.33% for the third quarter and 13.44% for the first nine months of 2019 compared to 9.99% for the third quarter and 14.11% for the first nine months of 2018. 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 Resources and Liquidity" in this MD&A.

Total assets were $23.40 billion at September 30, 2019 compared to $22.39 billion at December 31, 2018. Total loans were $17.73 billion at September 30, 2019 compared to $17.12 billion at December 31, 2018. Non-purchased loans were $16.31 billion at September 30, 2019 compared to $15.07 billion at December 31, 2018. Purchased loans were $1.43 billion at September 30, 2019 compared to $2.04 billion at December 31, 2018. Deposits were $18.44 billion at September 30, 2019 compared to $17.94 billion at December 31, 2018.

Common stockholders' equity was $4.08 billion at September 30, 2019 compared to $3.77 billion at December 31, 2018. Tangible common stockholders' equity was $3.39 billion at September 30, 2019 compared to $3.07 billion at December 31, 2018. Book value per common share was $31.63 at September 30, 2019 compared to $29.32 at December 31, 2018. Tangible book value per common share was $26.30 at September 30, 2019 compared to $23.90 at December 31, 2018. 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 Resources and Liquidity" in this MD&A.

Net Interest Income

Net interest income is our largest source of our revenue and represents the amount by which interest income on interest earning assets exceeds the interest expense on interest bearing liabilities. Net interest income is affected by many factors, including our volume of average earning assets; our mix of average earning assets; our volume and mix of deposits and other liabilities; our net interest margin; and other factors.

Net interest income and net interest margin are analyzed in this discussion on a fully taxable equivalent ("FTE") basis. The adjustment to convert net interest income to a FTE basis consists of dividing tax-exempt interest income by one minus the statutory federal income tax rate of 21%. The FTE adjustments to net interest income were $1.0 million and $1.1 million for the three months ended September 30, 2019 and 2018, respectively, and $3.4 million for both the nine month periods ended September 30, 2019 and 2018. 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 2019 decreased 0.9% to $219.8 million compared to $221.7 million for the third quarter of 2018. Net interest income for the first nine months of 2019 increased 0.9% to $672.6 million compared to $666.5 million for the first nine months of 2018. The slight decrease in net interest income for the third quarter of 2019 compared to the same period in 2018 was primarily due to a decrease in our net interest margin, partially offset by an increase in average earning assets. The slight increase in net interest income for the first nine months of 2019 compared to the same period in 2018 was primarily due to a decrease in our net interest margin that was more than offset by an increase in average earning assets.

Our net interest margin was 4.26% for the third quarter and 4.41% for the first nine months of 2019 compared to 4.47% for the third quarter and 4.60% for the first nine months of 2018. The 21 basis points ("bps") decrease in net interest margin for the third quarter of 2019 compared to the same period in 2018 was due primarily to a 33 bps increase in the rate on interest bearing liabilities. The 19 bps decrease in net interest margin for the first nine months of 2019 compared to the same period of 2018 was due primarily to a 53 bps increase in the rate on interest bearing liabilities, partially offset by a 19 bps increase in yield on earning assets.

The yield on interest earning assets was 5.63% for the third quarter and 5.80% for the first nine months of 2019 compared to 5.62% for the third quarter and 5.61% for the first nine months of 2018. The yield on our non-purchased loans increased three bps to 6.10% for the third quarter of 2019 compared to 6.07% for the comparable period in 2018. For the first nine months of 2019, the yield on our non-purchased loans increased 27 bps to 6.30% compared to 6.03% for the comparable period in 2018, primarily as a result of higher interest rates. At September 30, 2019, approximately 74% of our non-purchased loans were variable rate and generally repriced higher with increases in London Interbank Offered Rate ("LIBOR") and/or Wall Street Journal Prime Rate ("WSJ Prime") during 2018. Also, in recent quarters, we have experienced high levels of loan repayments, caused by a variety of factors, in our non-purchased loan portfolio. These payoffs have created varying levels of minimum interest, prepayment penalties and other such items in recent quarters. Additionally, our loan yields include accretion of deferred loan fees and discounts and amortization of deferred costs and premiums that varies based on loan prepayments and other factors.

The yield on our purchased loan portfolio increased 11 bps to 6.65% for the third quarter of 2019 compared to 6.54% for the third quarter of 2018. The yield on our purchased loan portfolio decreased 18 bps to 6.44% for the first nine months of 2019 compared to 6.62% for the first nine months of 2018. The yield on our purchased loan portfolio is significantly affected by both the volume and timing of early payoffs and paydowns which typically result in any remaining purchase accounting valuation amounts treated as yield adjustments. Because the volume and timing of purchased loan payoffs and paydowns may vary significantly from period to period, the yield on such loans will also vary from period to period. At September 30, 2019, approximately 41% of our purchased loans have variable interest rates.

To the extent that the Federal Reserve decreases the federal funds target rate in future periods and LIBOR and/or WSJ Prime also decrease, we would expect our yield on both non-purchased and, to a lesser extent, purchased loans to decrease, although we have endeavored to reduce the potential effect of any such decreases in interest rates by placing floor rates in many of our variable rate loans. At September 30, 2019 approximately 99% of our variable rate non-purchased loans and approximately 48% of our variable rate purchased loans had floor rates.

The yield on our aggregate investment securities portfolio increased five bps to 2.67% for the third quarter and 16 bps to 2.75% for the first nine months of 2019 compared to 2.62% for the third quarter and 2.59% for the first nine months of 2018. This increase in yield on our aggregate investment securities portfolio was primarily the result of higher yielding taxable securities that were purchased during 2018.

The overall increase in rates on average interest bearing liabilities, which increased 33 bps for the third quarter and 53 bps for the first nine months of 2019 compared to the same periods in 2018, was primarily due to an increase in rates on interest bearing

deposits, which increased 34 bps for the third quarter and 54 bps for the first nine months of 2019 compared to the same periods in 2018. The increase in rates on our interest bearing deposits, the largest component of our interest bearing liabilities, was primarily due to increases, in previous periods, in the federal funds target rate and increased competition for deposits. To the extent that there are future decreases in the federal funds target rate, we would expect to experience decreases in our costs of interest bearing deposits in future periods. Conversely, to the extent that there are future increases in the federal funds target rate, we would expect to experience increases in our costs of interest bearing deposits in future periods. However, future decreases or increases in our costs of interest bearing deposits may lag future decreases or increases in the federal funds target rate. Additionally, changes in expected deposit levels necessary to fund future potential growth in earning assets or to otherwise provide on-balance sheet liquidity, or changes in competitive conditions could affect deposit costs in future periods.

Our other borrowing sources include (i) repurchase agreements with customers ("repos"), (ii) other borrowings, comprised primarily of Federal Home Loan Bank of Dallas ("FHLB") advances and federal funds purchased, (iii) subordinated notes and (iv) subordinated debentures. Our other borrowings for the third quarter and first nine months of 2019 and 2018 consisted primarily of short-term FHLB advances and federal funds purchased and are reported net of interest capitalized. Our subordinated notes consist of $225 million in aggregate principal amount of 5.50% fixed-to-floating rate subordinated notes. The rate on these subordinated notes includes amortization of debt issuance costs using a level-yield methodology over the estimated holding period of seven years. The rates paid on our subordinated debentures, which are tied to spreads over the 90-day LIBOR and reset periodically, decreased during the third quarter of 2019 primarily due to decreases in LIBOR on the applicable reset dates. Additionally, during both the third quarter and the first nine months of 2019, the rates on our subordinated debentures were affected by interest capitalized primarily for our new corporate headquarters facility that is under construction. There was no adjustment to our rates on subordinated debentures during 2018 for capitalized interest.

The increase in average earning assets for the third quarter of 2019 compared to the same period in 2018 was primarily due to an increase in the average balance of non-purchased loans, partially offset by a decrease in the average balance of purchased loans and investment securities. The increase in average assets for the first nine months of 2019 compared to the same period in 2018 was primarily due to an increase in the average balances of non-purchased loans and investment securities, partially offset by a decrease in purchased loans. Average non-purchased loans increased $1.57 billion, or 10.9%, to $15.93 billion for the third quarter and increased $1.97 billion, or 14.3%, to $15.73 billion for the first nine months of 2019 compared to the same periods in 2018. The increase in the average balance of our non-purchased loans was due primarily to continued growth in loan fundings, partially offset by continued high levels of loan repayments. Average investment securities decreased 6.0% to $2.49 billion for the third quarter and increased 1.6% to $2.66 billion for the first nine months of 2019 compared to the same periods in 2018. The average balance of our purchased loans decreased 36.3% to $1.55 billion for the third quarter and decreased 36.9% to $1.76 billion for the first nine months of 2019 compared to the same periods in 2018. The decreases in average purchased loans were due to continued paydown and payoff activity in that portfolio.

The following table sets forth certain information relating to our average balances of assets and liabilities and our net interest income for the periods indicated. Average balances are derived from daily average balances for such assets and liabilities. The yields and rates are derived by dividing interest income or interest expense by the average balance of the related assets or liabilities, respectively. The average balances of investment securities are computed based on amortized cost adjusted for unrealized gains and losses on investment securities available for sale ("AFS") and other-than-temporary impairment writedowns, if any. The yields on investment securities include amortization of premiums and accretion of discounts. The average balance of non-purchased loans includes loans on which we have discontinued accruing interest. The yields on non-purchased loans and purchased loans without evidence of credit deterioration at date of acquisition include late fees, any prepayment penalties, yield maintenance or minimum interest provisions on loan repayments and amortization of certain deferred fees, origination costs, dealer fees (for non-purchased indirect marine and RV loans) and, for such purchased loans, accretion or amortization of any purchase accounting yield adjustment. The yields on purchased loans with evidence of credit deterioration at date of acquisition include accretion of the net present value of expected future cash flows using the effective yield method over the term of the loans and include late fees and any prepayment penalties. Interest expense and rates on our other borrowing sources and our subordinated debentures are presented net of interest capitalized on construction projects and include the amortization of debt issuance costs, if any. Interest expense on subordinated notes includes amortization of debt issuance costs. The interest expense on the subordinated debentures assumed through an acquisition includes the amortization of any purchase accounting adjustments.

Average Consolidated Balance Sheets and Net Interest Analysis – FTE

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2019			2018			2019			2018		
	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	$ 486,174	$ 2,647	2.16%	$ 240,665	$ 1,112	1.83%	$ 242,476	$ 4,001	2.21%	$ 179,429	$ 2,448	1.82%
Investment securities:												
Taxable	2,027,267	12,511	2.45	2,117,498	12,472	2.34	2,169,218	40,992	2.53	2,078,710	35,380	2.28
Tax-exempt – FTE	462,927	4,256	3.65	532,503	5,051	3.76	495,694	13,835	3.73	544,728	15,509	3.81
Non-purchased loans – FTE	15,934,033	245,099	6.10	14,363,015	219,919	6.07	15,727,447	741,375	6.30	13,760,166	620,851	6.03
Purchased loans	1,553,398	26,042	6.65	2,436,888	40,173	6.54	1,760,740	84,756	6.44	2,789,226	138,012	6.62
Total earning assets – FTE	20,463,799	290,555	5.63	19,690,569	278,727	5.62	20,395,575	884,959	5.80	19,352,259	812,200	5.61
Non-interest earning assets	2,323,028			2,457,577			2,277,584			2,421,623		
Total assets	$ 22,786,827			$ 22,148,146			$ 22,673,159			$ 21,773,882		
LIABILITIES AND STOCKHOLDERS' EQUITY												
Interest bearing liabilities:												
Deposits:												
Savings and interest bearing transaction	$ 8,792,998	$ 30,108	1.36%	$ 10,231,569	$ 33,753	1.31%	$ 9,318,915	$ 103,721	1.49%	$ 10,113,882	$ 85,571	1.13%
Time deposits of $100 or more	3,564,862	19,803	2.20	3,306,014	13,288	1.59	3,292,375	52,056	2.11	3,175,855	33,096	1.39
Other time deposits	3,069,997	16,337	2.11	1,580,886	4,744	1.19	2,697,660	40,950	2.03	1,492,575	11,342	1.02
Total interest bearing deposits	15,427,857	66,248	1.70	15,118,469	51,785	1.36	15,308,950	196,727	1.72	14,782,312	130,009	1.18
Repurchase agreements with customers	9,037	5	0.24	97,249	215	0.88	14,062	39	0.37	123,587	759	0.82
Other borrowings[(1)]	29,422	90	1.21	63,909	144	0.90	122,254	1,497	1.64	88,101	824	1.25
Subordinated notes	223,516	3,216	5.71	223,135	3,216	5.72	223,419	9,542	5.71	223,042	9,542	5.72
Subordinated debentures[(1)]	119,700	1,178	3.90	119,145	1,621	5.40	119,558	4,570	5.11	119,006	4,567	5.13
Total interest bearing liabilities	15,809,532	70,737	1.78	15,621,907	56,981	1.45	15,788,243	212,375	1.80	15,336,048	145,701	1.27
Non-interest bearing liabilities:												
Non-interest bearing deposits	2,728,596			2,685,802			2,736,350			2,689,818		
Other non-interest bearing liabilities	213,505			189,003			220,126			177,824		
Total liabilities	18,751,633			18,496,712			18,744,719			18,203,690		
Common stockholders' equity	4,032,066			3,648,398			3,925,321			3,567,148		
Noncontrolling interest	3,128			3,036			3,119			3,044		
Total liabilities and stockholders' equity	$ 22,786,827			$ 22,148,146			$ 22,673,159			$ 21,773,882		
Net interest income – FTE		$ 219,818			$ 221,746			$ 672,584			$ 666,499	
Net interest margin – FTE			4.26%			4.47%			4.41%			4.60%

(1) The interest expense and the rates for "other borrowings" and for "subordinated debentures" were affected by capitalized interest primarily for our new corporate headquarters facility that is currently under construction. Capitalized interest included in other borrowings totaled $0.11 million for the third quarter and $0.86 million for the first nine months of 2019 and $0.20 million for the third quarter and $0.38 million for the first nine months of 2018. In the absence of this interest capitalization, the rates on other borrowings would have been 2.69% for the third quarter and 2.57% for the first nine months of 2019 and 2.12% for the third quarter and 1.83% for the first nine months of 2018. Capitalized interest included in subordinated debentures totaled $0.45 million for both the third quarter and the first nine months of 2019 and none in 2018. In the absence of this interest capitalization, the rates on subordinated debentures would have been 5.39% for the third quarter and 5.61% for the first nine months of 2019.

The following table reflects how changes in the volume of interest earning assets and interest bearing liabilities and changes in interest rates have affected our interest income—FTE, interest expense and net interest income—FTE for the periods indicated. Information is provided in each category with respect to changes attributable to (1) changes in volume (changes in volume multiplied by prior yield/rate); (2) changes in yield/rate (changes in yield/rate multiplied by prior volume); and (3) changes in both yield/rate and volume (changes in yield/rate multiplied by changes in volume). The changes attributable to the combined impact of volume and yield/rate have all been allocated to the changes due to volume.

Analysis of Changes in Net Interest Income – FTE

	Three Months Ended September 30, 2019 Over Three Months Ended September 30, 2018			Nine Months Ended September 30, 2019 Over Nine Months Ended September 30, 2018		
	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	$ 1,337	$ 198	$ 1,535	$ 1,040	$ 513	$ 1,553
Investment securities:						
Taxable	(557)	596	39	1,710	3,902	5,612
Tax-exempt – FTE	(640)	(155)	(795)	(1,368)	(306)	(1,674)
Non-purchased loans – FTE	24,165	1,015	25,180	92,736	27,788	120,524
Purchased loans	(14,811)	680	(14,131)	(49,507)	(3,749)	(53,256)
Total interest income – FTE	9,494	2,334	11,828	44,611	28,148	72,759
Interest expense:						
Savings and interest bearing transaction	(4,926)	1,281	(3,645)	(8,848)	26,998	18,150
Time deposits of $100 or more	1,438	5,077	6,515	1,842	17,118	18,960
Other time deposits	7,925	3,668	11,593	18,293	11,315	29,608
Repurchase agreements with customers	(53)	(157)	(210)	(302)	(418)	(720)
Other borrowings	(104)	50	(54)	418	255	673
Subordinated notes	5	(5)	—	16	(16)	—
Subordinated debentures	6	(449)	(443)	22	(19)	3
Total interest expense	4,291	9,465	13,756	11,441	55,233	66,674
Increase (decrease) in net interest income – FTE	$ 5,203	$ (7,131)	$ (1,928)	$ 33,170	$ (27,085)	$ 6,085

Non-Interest Income

Our non-interest income consists primarily of, among others, service charges on deposit accounts, trust income, BOLI income, other income from purchased loans, loan service, maintenance and other fees and net gains on investment securities and on sales of other assets. Non-interest income for the third quarter of 2019 increased 9.6% to $26.4 million compared to $24.1 million for the third quarter of 2018. Non-interest income for the first nine months of 2019 decreased 3.9% to $77.1 million compared to $80.2 million for the first nine months of 2018.

Service charges on deposit accounts, our largest component of non-interest income, increased 11.3% to $10.8 million for the third quarter of 2019 compared to $9.7 million for the third quarter of 2018. Service charges on deposit accounts increased 6.5% to $30.8 million for the first nine months of 2019 compared to $29.0 million for the first nine months of 2018. These increases were due primarily to net growth in the number of core checking accounts during recent quarters.

Trust income increased 14.2% to $2.0 million for the third quarter of 2019 compared to $1.7 million for the third quarter of 2018. Trust income increased 8.4% to $5.5 million for the first nine months of 2019 compared to $5.1 million for the first nine months of 2018. These increases were due primarily to increases in both corporate trust and personal trust income.

BOLI income increased 1.7% to $5.4 million for the third quarter of 2019 compared to $5.3 million for the third quarter of 2018. BOLI income decreased 13.3% to $15.8 million for the first nine months of 2019 compared to $18.2 million for the first nine months of 2018. The third quarter and first nine months of 2019 included $0.2 million of tax-exempt BOLI death benefits. The first nine months of 2018 included $2.7 million of tax-exempt BOLI death benefits (none during the third quarter of 2018).

Other income from purchased loans decreased 52.5% to $0.7 million for the third quarter of 2019 compared to $1.4 million for the third quarter of 2018 and decreased 46.0% to $2.9 million for the first nine months of 2019 compared to $5.4 million for the first

nine months of 2018. Other income from purchased loans consists primarily of income recognized on purchased loan prepayments and payoffs that are not considered yield adjustments. Because other income from purchased loans may be significantly affected by purchased loan payments and payoffs, this income item may vary significantly from period to period.

Loan service, maintenance and other fees decreased 11.2% to $4.2 million for the third quarter of 2019 compared to $4.7 million for the third quarter of 2018 and decreased 9.7% to $13.6 million during the first nine months of 2019 compared to $15.1 million during the first nine months of 2018. Loan service, maintenance and other fees include unused line of credit fees, asset management fees, certain underwriting fees and various other fees on non-purchased loans that are not considered yield adjustments. Income from these items may vary significantly from period to period.

We had net gains on investment securities of $0.7 million from the sale of $97.2 million of investment securities AFS during the first nine months of 2019 compared to essentially no gains on investment securities AFS for the first nine months of 2018.

Gains on sales of other assets were $0.2 million for the third quarter of 2019 compared to losses of $0.5 million for the third quarter of 2018. Gains on sales of other assets were $0.9 million during the first nine months of 2019 compared to $1.8 million during the first nine months of 2018.

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

Non-Interest Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(Dollars in thousands)			
Service charges on deposit accounts	$ 10,827	$ 9,730	$ 30,841	$ 28,959
Trust income	1,975	1,730	5,544	5,114
BOLI income	5,414	5,321	15,753	18,160
Other income from purchased loans	674	1,418	2,925	5,413
Loan service, maintenance and other fees	4,197	4,724	13,636	15,108
Gains (losses) on sales of other assets	189	(518)	875	1,753
Net gains on investment securities	—	—	713	17
Other	3,170	1,716	6,834	5,691
Total non-interest income	$ 26,446	$ 24,121	$ 77,121	$ 80,215

Non-Interest Expense

Our non-interest expense consists of salaries and employee benefits, net occupancy and equipment and other operating expenses. Non-interest expense decreased 2.0% to $100.9 million for the third quarter of 2019 compared to $102.9 million for the third quarter of 2018. Non-interest expense increased 3.8% to $296.7 million for the first nine months of 2019 compared to $285.9 million for the first nine months of 2018. In recent quarters, our non-interest expense has included elevated expenses related to our continued focus on expanding and enhancing our infrastructure for information technology, cybersecurity, business resilience, enterprise risk management, internal audit, compliance, Bank Secrecy Act and anti-money laundering monitoring and a number of other important areas, including expanding our infrastructure to serve low-to-moderate income and majority-minority markets and customer segments. Additionally, our non-interest expense included $10.8 million for the third quarter and $11.4 million for the first nine months of 2018 related to our name change and strategic rebranding initiatives.

Salaries and employee benefits, our largest component of non-interest expense, increased 16.6% to $48.4 million in the third quarter of 2019 compared to $41.5 million in the third quarter of 2018. Salaries and employee benefits increased 9.5% to $140.8 million in the first nine months of 2019 compared to $128.6 million in the first nine months of 2018. This increase in salaries and employee benefits for the third quarter and first nine months of 2019 was due primarily to employees added as we continue to focus on expanding and enhancing our infrastructure. We had 2,756 full-time equivalent employees at September 30, 2019 compared to 2,509 full-time equivalent employees at September 30, 2018.

Net occupancy and equipment expenses increased 3.3% to $14.8 million for the third quarter of 2019 compared to $14.4 million for the third quarter of 2018. Net occupancy and equipment expenses increased 4.3% to $44.2 million for the first nine months of 2019 compared to $42.3 million for the first nine months of 2018. At September 30, 2019 we had 254 offices compared to 252 offices at September 30, 2018.

Our aggregate other operating expenses decreased 19.9% to $37.7 million for the third quarter of 2019 compared to $47.1 million for the third quarter of 2018. Our aggregate other operating expenses decreased 2.7% to $111.8 million for the first nine months of 2019 compared to $114.9 million for the first nine months of 2018. The decreases in our other operating expenses for both

the third quarter and first nine months of 2019 compared to the same periods in 2018 were primarily attributable to the costs incurred for our name change and strategic rebranding initiatives during 2018.

Our efficiency ratio (non-interest expense divided by the sum of net interest income – FTE and non-interest income) was 41.0% for the third quarter and 39.6% for the first nine months of 2019 compared to 41.9% for the third quarter and 38.3% for the first nine months of 2018.

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

Non-Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(Dollars in thousands)			
Salaries and employee benefits	$ 48,376	$ 41,477	$ 140,801	$ 128,641
Net occupancy and equipment	14,825	14,358	44,163	42,335
Other operating expenses:				
Professional and outside services	9,204	9,725	25,874	27,542
Software and data processing	5,095	3,336	14,561	9,786
Deposit insurance and assessments	2,505	3,948	9,645	11,068
Travel and meals	2,777	2,517	8,385	7,168
Telecommunication services	2,094	3,373	8,248	10,056
Postage and supplies	2,040	2,517	6,201	6,930
Advertising and public relations	2,067	6,977	5,421	10,084
ATM expense	1,277	1,202	3,363	3,683
Loan collection and repossession expense	317	932	2,218	2,225
Writedowns of foreclosed assets and other assets	354	544	1,509	1,156
Writedown of signage due to strategic branding	—	4,915	—	4,915
Amortization of intangibles	2,907	3,145	9,064	9,435
Other	7,076	3,976	17,271	10,835
Total non-interest expense	$ 100,914	$ 102,942	$ 296,724	$ 285,859

Income Taxes

The provision for income taxes was $32.6 million for the third quarter and $103.2 million for the first nine months of 2019 compared to $25.7 million for the third quarter and $98.2 million for the first nine months of 2018. The effective income tax rate was 23.9% for the third quarter and 24.1% for the first nine months of 2019 compared to 25.7% for the third quarter and 24.5% for the first nine months of 2018. The effective tax rates for both the third quarter and first nine months of 2019 compared to the same periods in 2018 were affected by (i) the timing and amount of various federal and state tax credits realized, (ii) a reduction of tax benefit in 2019 associated with the vesting of equity grants and (iii) changes in various other factors related to non-taxable income and non-deductible expenses. Accounting for our income taxes is deemed a critical accounting policy and is discussed in the Critical Accounting Policies section of our annual report on Form 10-K for the year ended December 31, 2018.

ANALYSIS OF FINANCIAL CONDITION

Loan Portfolio

At September 30, 2019, our total loan portfolio was $17.73 billion compared to $17.12 billion at December 31, 2018. Real estate loans, our largest category of loans, consist of all loans secured by real estate as evidenced by mortgages or other liens, including all loans made to finance the development of real property construction projects, provided such loans are secured by real estate. Total real estate loans were $13.15 billion at September 30, 2019 compared to $13.21 billion at December 31, 2018. The amount and type of loans outstanding as of the dates indicated, and their respective percentage of the total loan portfolio, are reflected in the following table.

Total Loan Portfolio

	September 30, 2019		December 31, 2018	
	(Dollars in thousands)			
Real estate:				
Residential 1-4 family	$ 1,016,834	5.7%	$ 1,049,460	6.1%
Non-farm/non-residential	3,883,113	21.9	4,319,388	25.2
Construction/land development	6,682,143	37.7	6,562,185	38.4
Agricultural	207,801	1.2	165,088	1.0
Multifamily residential	1,358,127	7.6	1,116,026	6.5
Total real estate	13,148,018	74.1	13,212,147	77.2
Commercial and industrial	706,048	4.0	823,417	4.8
Consumer	2,921,307	16.5	2,345,863	13.7
Other	959,478	5.4	736,396	4.3
Total loans	$ 17,734,851	100.0%	$ 17,117,823	100.0%

Included in our consumer loans at September 30, 2019 and December 31, 2018 are loans totaling approximately $2.82 billion and $2.19 billion, respectively, which were originated to finance the acquisition of RV and marine collateral.

Included in "other" loans at September 30, 2019 and December 31, 2018 are loans totaling approximately $888 million and $656 million, respectively, which were originated to acquire promissory notes from non-depository financial institutions and are typically collateralized by an assignment of the promissory note and all related note documents including mortgages, deeds of trust, etc. While such loans are considered "other" loans in accordance with FDIC instructions for the Federal Financial Institutions Examination Council 041 Consolidated Reports of Condition and Income ("Call Report"), we underwrite these lending transactions based on the fundamentals of the underlying collateral, repayment sources and guarantors, among others, consistent with other similar lending transactions.

The amount and type of our total real estate loans at September 30, 2019, based on the metropolitan statistical area ("MSA") and other geographic areas in which the principal collateral is located, are reflected in the following table. Data for individual states and MSAs is separately presented when aggregate real estate loans in that state or MSA exceed $10 million.

Geographic Distribution of Total Real Estate Loans

	Residential 1-4 Family	Non-Farm/ Non-Residential	Construction/ Land Development	Agricultural	Multifamily Residential	Total
			(Dollars in thousands)			
New York:						
New York–Newark–Jersey City, NY–NJ–PA MSA	$ 4,705	$ 407,567	$ 2,922,502	$ —	$ 224,619	$3,559,393
All other New York[1]	554	10,519	—	—	—	11,073
Total New York	5,259	418,086	2,922,502	—	224,619	3,570,466
Florida:						
Miami–Fort Lauderdale–West Palm Beach, FL MSA	53,979	236,713	729,144	—	191,092	1,210,928
Tampa–St. Petersburg–Clearwater, FL MSA	80,031	197,494	115,840	—	7,359	400,724
Orlando–Kissimmee–Sanford, FL MSA	6,669	108,058	104,638	—	53	219,418
North Port–Sarasota–Bradenton, FL MSA	39,611	47,425	14,932	—	1,737	103,705
Cape Coral–Fort Myers, FL MSA	13,686	43,374	11,638	—	12	68,710
Jacksonville, FL MSA	2,690	25,573	10,083	237	—	38,583
Ocala, FL MSA	3,187	21,157	483	—	—	24,827
Punta Gorda, FL MSA	7,335	8,100	2,303	—	—	17,738
Gainesville, FL MSA	30	12,758	—	—	—	12,788
Lakeland–Winter Haven, FL MSA	303	11,978	185	—	19	12,485
Deltona–Daytona Beach–Ormond Beach, FL MSA	36	10,208	387	—	—	10,631
All other Florida[1]	17,200	100,132	1,241	260	1,426	120,259
Total Florida	224,757	822,970	990,874	497	201,698	2,240,796
Texas:						
Dallas–Fort Worth–Arlington, TX MSA	60,755	242,036	405,135	157	128,538	836,621
Houston–The Woodlands–Sugar Land, TX MSA	7,621	76,890	99,192	—	35,508	219,211
Austin–Round Rock, TX MSA	10,988	41,522	130,847	—	210	183,567
Texarkana, TX–AR MSA	8,498	4,476	1,276	151	1,145	15,546
San Antonio–New Braunfels, TX MSA	840	4,857	5,875	—	401	11,973
All other Texas[1]	817	37,700	20,820	28,188	—	87,525
Total Texas	89,519	407,481	663,145	28,496	165,802	1,354,443
California:						
Los Angeles–Long Beach–Anaheim, CA MSA	—	52,834	479,399	—	103,902	636,135
San Francisco–Oakland–Hayward, CA MSA	—	—	87,473	—	177,763	265,236
Sacramento–Roseville–Arden–Arcade, CA MSA	—	129,008	57,108	—	—	186,116
San Jose–Sunnyvale–Santa Clara, CA MSA	—	81,168	62,830	—	—	143,998
San Diego–Carlsbad, CA MSA	—	20,285	10,017	—	—	30,302
Riverside–San Bernardino–Ontario, CA MSA	—	14,377	—	—	—	14,377
Total California	—	297,672	696,827	—	281,665	1,276,164
Georgia:						
Atlanta–Sandy Springs–Roswell, GA MSA	161,181	394,250	110,073	5,637	23,271	694,412
Gainesville, GA MSA	3,225	13,855	9,996	—	678	27,754
Dalton, GA MSA	8,364	11,034	805	2,354	270	22,827
Athens–Clarke County, GA MSA	2,710	18,789	753	88	—	22,340
All other Georgia[1]	63,999	122,594	30,162	14,924	16,277	247,956
Total Georgia	239,479	560,522	151,789	23,003	40,496	1,015,289

Geographic Distribution of Total Real Estate Loans (continued)

	Residential 1-4 Family	Non-Farm/ Non-Residential	Construction/ Land Development	Agricultural	Multifamily Residential	Total
	(Dollars in thousands)					
Arkansas:						
Little Rock–North Little Rock–Conway, AR MSA	132,180	260,447	48,579	10,061	23,611	474,878
Fayetteville–Springdale–Rogers, AR–MO MSA	22,665	38,014	11,054	23,136	6,972	101,841
Hot Springs, AR MSA	37,528	50,532	7,479	732	1,872	98,143
Fort Smith, AR–OK MSA	25,008	39,941	4,497	8,885	12,978	91,309
Western Arkansas[2]	13,859	17,428	2,422	10,563	1,856	46,128
Southern Arkansas[3]	16,912	15,533	976	11,798	166	45,385
Northern Arkansas[4]	22,593	8,241	1,427	10,316	43	42,620
Jonesboro, AR MSA	6,760	6,343	5,580	—	—	18,683
All other Arkansas[1]	17,586	20,070	3,173	49,728	3,539	94,096
Total Arkansas	295,091	456,549	85,187	125,219	51,037	1,013,083
North Carolina:						
Charlotte–Concord–Gastonia, NC–SC MSA	43,583	100,002	68,879	1,248	79,189	292,901
Winston–Salem, NC MSA	35,336	25,494	2,621	—	1,207	64,658
North Carolina Foothills[5]	29,819	23,431	1,033	2,161	683	57,127
Greensboro–High Point, NC MSA	12,958	32,371	1,639	694	441	48,103
Wilmington, NC MSA	3,731	34,532	4,420	357	—	43,040
Raleigh, NC MSA	205	1,439	27,967	—	14	29,625
Greenville, NC MSA	—	—	—	—	10,531	10,531
All other North Carolina[1]	7,421	11,503	26,218	457	98	45,697
Total North Carolina	133,053	228,772	132,777	4,917	92,163	591,682
Colorado:						
Denver–Aurora–Lakewood, CO MSA	—	64,538	167,529	—	147,258	379,325
Boulder, CO MSA	—	4,795	17,768	—	—	22,563
All other Colorado[1]	1,012	3,971	—	—	—	4,983
Total Colorado	1,012	73,304	185,297	—	147,258	406,871
Illinois:						
Chicago–Naperville–Elgin, IL–IN–WI MSA	—	167,723	124,859	—	2,041	294,623
All other Illinois[1]	—	3,465	—	—	—	3,465
Total Illinois	—	171,188	124,859	—	2,041	298,088
Washington, DC / Virginia / Maryland:						
Washington–Arlington–Alexandria, DC–VA–MD–WV MSA	215	8,091	168,721	—	—	177,027
Virginia Beach–Norfolk–Newport News, VA–NC MSA	—	5,168	7,259	—	—	12,427
All other Virginia[1]	317	6,223	334	—	73	6,947
All other Maryland[1]	—	2,832	—	—	—	2,832
Total Washington, DC / Virginia / Maryland	532	22,314	176,314	—	73	199,233
South Carolina:						
Charleston–North Charleston, SC MSA	616	1,978	43,963	—	76,386	122,943
Greenville, SC MSA	2,642	626	23,383	—	—	26,651
Myrtle Beach–Conway–North Myrtle Beach, SC–NC MSA	1,466	2,868	7,045	—	22	11,401
All other South Carolina[1]	4,546	13,937	3,372	—	151	22,006
Total South Carolina	9,270	19,409	77,763	—	76,559	183,001

Geographic Distribution of Total Real Estate Loans (continued)

	Residential 1-4 Family	Non-Farm/ Non-Residential	Construction/ Land Development	Agricultural	Multifamily Residential	Total
			(Dollars in thousands)			
Phoenix–Mesa–Scottsdale, AZ MSA	—	51,893	112,497	—	—	164,390
Tennessee:						
Nashville–Davidson–Murfreesboro–Franklin, TN MSA	192	17,197	88,226	—	—	105,615
All other Tennessee[1]	932	14,048	1,497	4,264	—	20,741
Total Tennessee	1,124	31,245	89,723	4,264	—	126,356
Massachusetts:						
Boston, MA MSA	—	—	88,022	—	—	88,022
All other Massachusetts[1]	—	657	—	—	—	657
Total Massachusetts	—	657	88,022	—	—	88,679
Providence–Warwick, RI–MA MSA	—	76,086	—	—	—	76,086
Oregon:						
Portland–Vancouver–Hillsboro, OR–WA MSA	—	—	31,630	—	39,942	71,572
All other Oregon[1]	—	1,190	—	—	—	1,190
Total Oregon	—	1,190	31,630	—	39,942	72,762
Kentucky:						
Louisville, KY MSA	—	37,978	7,667	—	—	45,645
Lexington–Fayette, KY MSA	169	16,265	—	—	—	16,434
All other Kentucky[1]	—	5,125	—	—	—	5,125
Total Kentucky	169	59,368	7,667	—	—	67,204
Utah	—	2,807	54,425	—	—	57,232
Alabama:						
Mobile, AL MSA	4,362	12,462	1,225	—	512	18,561
All other Alabama[1]	11,925	9,600	4,434	232	4,176	30,367
Total Alabama	16,287	22,062	5,659	232	4,688	48,928
Pennsylvania:						
Philadelphia–Camden–Wilmington, PA–NJ–DE–MD MSA	—	3,226	30,684	—	—	33,910
All other Pennsylvania[1]	—	12,358	—	—	—	12,358
Total Pennsylvania	—	15,584	30,684	—	—	46,268
Ohio:						
Cincinnati, OH–KY–IN MSA	—	23,082	—	—	—	23,082
All other Ohio[1]	—	21,357	911	—	—	22,268
Total Ohio	—	44,439	911	—	—	45,350
Washington:						
Seattle–Tacoma–Bellevue, WA MSA	—	—	40,008	—	—	40,008
All other Washington[1]	—	1,034	—	—	—	1,034
Total Washington	—	1,034	40,008	—	—	41,042

Geographic Distribution of Total Real Estate Loans (continued)

	Residential 1-4 Family	Non-Farm/ Non-Residential	Construction/ Land Development	Agricultural	Multifamily Residential	Total
	(Dollars in thousands)					
Wisconsin:						
Madison, WI MSA	—	1,998	—	—	28,323	30,321
All other Wisconsin(1)	—	3,139	—	—	—	3,139
Total Wisconsin	—	5,137	—	—	28,323	33,460
Missouri:						
St. Louis, MO–IL MSA	—	8,012	4,383	—	—	12,395
All other Missouri(1)	262	11,628	1,093	2,213	—	15,196
Total Missouri	262	19,640	5,476	2,213	—	27,591
Minnesota:						
Minneapolis–St. Paul–Bloomington, MN MSA	—	26,385	—	—	—	26,385
All other Minnesota(1)	—	1,032	—	—	—	1,032
Total Minnesota	—	27,417	—	—	—	27,417
Oklahoma	713	7,883	273	9,767	1,763	20,399
Mississippi	—	4,076	—	9,193	—	13,269
All other states(6)	307	34,328	7,834	—	—	42,469
Total Real Estate Loans	$1,016,834	$3,883,113	$ 6,682,143	$ 207,801	$1,358,127	$13,148,018

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

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

Total Non-Farm/Non-Residential Loans

	September 30, 2019		December 31, 2018	
	(Dollars in thousands)			
Office, including medical offices	$ 956,062	24.6%	$ 1,005,946	23.3%
Hotels and motels	853,365	22.0	978,959	22.7
Retail, including shopping centers and strip centers	417,483	10.7	560,222	13.0
Churches and schools	307,553	7.9	285,044	6.6
Manufacturing and industrial facilities	266,727	6.9	274,569	6.4
Mixed use properties	210,412	5.4	234,887	5.4
Restaurants and bars	168,365	4.3	162,573	3.8
Nursing homes and assisted living centers	133,831	3.4	210,869	4.9
Gasoline stations and convenience stores	88,926	2.3	100,416	2.3
Office warehouse, warehouse and mini-storage	71,995	1.9	47,513	1.1
Hospitals, surgery centers and other medical	31,064	0.8	41,479	1.0
Golf courses, entertainment and recreational facilities	29,572	0.8	33,450	0.8
Other non-farm/non-residential (1)	347,758	9.0	383,461	8.7
Total	$ 3,883,113	100.0%	$ 4,319,388	100.0%

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

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

Total Construction/Land Development Loans

	September 30, 2019		December 31, 2018	
	(Dollars in thousands)			
Unimproved land	$ 183,973	2.8%	$ 203,127	3.1%
Land development and lots:				
1-4 family residential and multifamily	347,177	5.2	407,502	6.2
Non-residential	526,298	7.9	576,130	8.8
Construction:				
1-4 family residential:				
Owner occupied	4,903	0.1	11,342	0.2
Non-owner occupied:				
Pre-sold	2,119,321	31.7	2,189,475	33.4
Speculative	132,644	2.0	130,310	2.0
Multifamily	1,017,696	15.2	1,616,408	24.6
Industrial, commercial and other	2,350,131	35.1	1,427,891	21.7
Total	$ 6,682,143	100.0%	$ 6,562,185	100.0%

Many of our construction and development loans provide for the use of interest reserves. When we underwrite construction and development loans, we consider the expected total project costs, including hard costs such as land, site work and construction costs and soft costs such as architectural and engineering fees, closing costs, leasing commissions and construction period interest. 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 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. This ensures that the borrower’s cash equity required to complete the project will be available for such purposes. As a result of this practice, the borrower’s cash equity typically goes toward the purchase of the land and early stage hard costs and soft costs. This results in 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, 2019 and 2018, 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, 2019, we had no construction and development loans with interest reserves that were nonperforming compared to $10.6 million at December 31, 2018.

During the third quarter and first nine months of 2019, we recognized approximately $70.9 million and $222.7 million, respectively, of interest income on construction and development loans from the advance of interest reserves compared to approximately $63.2 million and $196.5 million, respectively, during the comparable periods in 2018. We advanced construction period interest on construction and development loans totaling approximately $73.5 million and $225.8 million, respectively, in the third quarter and first nine months of 2019 compared to approximately $65.8 million and $191.2 million, respectively, during the comparable periods in 2018.

The maximum committed balance of all construction and development loans which provide for the use of interest reserves at September 30, 2019 was $14.96 billion, of which $6.18 billion was outstanding at September 30, 2019 and $8.78 billion remained to be advanced. The weighted-average loan-to-cost on such loans, assuming such loans are ultimately fully advanced, will be approximately 48%, which means that the weighted-average cash equity contributed on such loans, assuming such loans are ultimately fully advanced, will be approximately 52%. The weighted-average final loan-to-value ratio on such loans, based on the most recent appraisals and assuming such loans are ultimately fully advanced, is expected to be approximately 41%.

The following table reflects total loans as of September 30, 2019 grouped by expected amortizations, expected paydowns or the earliest repricing opportunity for floating rate loans. This cash flow or repricing schedule approximates our ability to reprice the outstanding principal of total loans either by adjusting rates on existing loans or reinvesting principal cash flow in new loans. For non-purchased loans and purchased loans without evidence of credit deterioration on the date of acquisition, the table below reflects the earliest contractual repricing period. For purchased loans with evidence of credit deterioration at the date of acquisition, the table below reflects estimated cash flows based on the most recent evaluation of each individual loan. Because income on purchased loans with evidence of credit deterioration on the date of acquisition is recognized by accretion of the discount of estimated cash flows, such loans are not considered to be floating or adjustable rate loans and are reported below as fixed rate loans.

Loan 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	$ 672,398	$511,869	$507,327	$ 808,060	$2,573,280	$ 5,072,934
Floating rate (not at a floor or ceiling rate)	9,405,934	124,851	99,076	169,210	53,754	9,852,825
Floating rate (at floor rate) [(1)]	2,045,017	140,736	122,283	275,892	113,336	2,697,264
Floating rate (at ceiling rate)	111,764	30	34	—	—	111,828
Total	$12,235,113	$777,486	$728,720	$1,253,162	$2,740,370	$17,734,851
Percentage of total	69.0%	4.4%	4.1%	7.1%	15.4%	100.0%
Cumulative percentage of total	69.0%	73.4%	77.5%	84.6%	100.0%	

(1) We have included a floor rate in many of our loans. As a result of such floor rates, certain loans may not immediately reprice in a rising rate environment or reprice in a falling rate environment if the interest rate index and margin on such loans results in a computed interest rate less than the applicable floor rate. The earnings simulation model results included in this MD&A in Part 2, Item 3, "Quantitative and Qualitative Disclosures about Market Risk" include consideration of the impact of interest rate floors and ceilings in loans.

The majority of our floating rate loans are tied to the 1-month LIBOR, 3-month LIBOR or WSJ Prime. The following table is a summary of our floating rate loan portfolio and contractual interest rate indices at September 30, 2019.

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	$ 1,435,877	$ 7,980,385	$ —	$ 9,416,262
3-month LIBOR	60,306	617,100	—	677,406
WSJ Prime	1,009,106	1,169,819	111,828	2,290,753
Other contractual interest rate indices	191,975	85,521	—	277,496
Total	$ 2,697,264	$ 9,852,825	$ 111,828	$ 12,661,917

At September 30, 2019, 99% of our floating rate non-purchased loans have interest rate floors, of which 21% were at their floor at September 30, 2019. 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. Additionally, to the extent we experience further decreases in LIBOR or WSJ Prime rates, we would expect the percentage of our floating rate loans at their floor rates to increase.

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

Purchased Loans

As provided for under GAAP, we have up to 12 months following the date of an acquisition to finalize the fair values of acquired assets and assumed liabilities, including purchased loans. Once we have finalized the fair values of acquired assets and assumed liabilities within this 12-month period, we consider such values to be the day 1 fair values ("Day 1 Fair Values").

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

Purchased Loans

	September 30, 2019	December 31, 2018
	(Dollars in thousands)	
Loans without evidence of credit deterioration at date of acquisition:		
Unpaid principal balance	$ 1,359,439	$ 1,943,962
Valuation discount	(19,064)	(27,580)
Carrying value	1,340,375	1,916,382
Loans with evidence of credit deterioration at date of acquisition:		
Unpaid principal balance	110,384	157,853
Valuation discount	(23,529)	(30,203)
Carrying value	86,855	127,650
Total carrying value	$ 1,427,230	$ 2,044,032

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

Purchased Loans Activity With Evidence of Credit Deterioration at Date of Acquisition

	Nine Months Ended September 30,	
	2019	2018
	(Dollars in thousands)	
Balance – beginning of period	$ 127,650	$ 175,221
Accretion	11,798	19,324
Transfers to foreclosed assets	(436)	(1,519)
Payments received	(51,333)	(56,965)
Charge-offs	(811)	(457)
Other activity, net	(13)	10
Balance – end of period	$ 86,855	$ 135,614

A summary of changes in the accretable difference on purchased loans with evidence of credit deterioration at the date of acquisition is shown below for the periods indicated.

Accretable Difference on Purchased Loans With Evidence of Credit Deterioration at Date of Acquisition

	Nine Months Ended September 30,	
	2019	2018
	(Dollars in thousands)	
Accretable difference – beginning of period	$ 36,002	$ 45,182
Transfers to foreclosed assets	(48)	(114)
Cash flow revisions as a result of renewals and/or modifications	3,918	12,331
Accretion	(11,798)	(19,324)
Accretable difference – end of period	$ 28,074	$ 38,075

Nonperforming Assets

Non-Purchased Loans and Foreclosed Assets

Our nonperforming assets consist of (1) nonaccrual loans, (2) accruing loans 90 days or more past due, (3) troubled and restructured loans for which a concession has been granted by us to the borrower because of a deterioration in the financial condition 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. Purchased loans are not included in the following table as nonperforming assets, except for their inclusion in total assets for purposes of calculation of certain asset quality ratios.

The accrual of interest on non-purchased 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 impaired or (ii) 90 days or more past due, or earlier when doubt exists as to the ultimate collection of payments. We may continue to accrue interest on certain loans 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 less than 90 days past due and we reasonably expect to collect all contractual principal and interest payments. If a loan is determined to be uncollectible, the portion of the principal determined to be uncollectible is charged against the ALL. Loans for which the terms have been modified and for which (i) the borrower is experiencing financial difficulties and (ii) we have granted a concession to the borrower are considered troubled debt restructurings ("TDRs") and are included in impaired loans. Income on nonaccrual loans, including impaired loans but excluding certain TDRs which may accrue interest, is recognized on a cash basis when and if actually collected.

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

Nonperforming Assets

	September 30, 2019	December 31, 2018
	(Dollars in thousands)	
Nonaccrual loans[1]	$ 22,546	$ 30,884
Accruing loans 90 days or more past due	—	—
TDRs – nonaccrual	3,006	3,878
TDRs – accruing	1,510	627
Total nonperforming loans	27,062	35,389
Foreclosed assets[2]	33,319	16,171
Total nonperforming assets	$ 60,381	$ 51,560
Nonperforming loans to total loans[3]	0.17%	0.23%
Nonperforming assets to total assets[3]	0.26	0.23

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

During the second quarter of 2019, we transferred to foreclosed assets two unrelated non-purchased credits. Both credits were past due and deemed impaired at December 31, 2018. At September 30, 2019, the carrying value of these two assets totaled $18.8 million.

If an adequate current determination of collateral value has not been performed, once a collateral dependent loan is considered impaired, we seek to establish an appropriate value for the collateral. This assessment may include (i) obtaining an updated appraisal, (ii) obtaining one or more broker price opinions or comprehensive market analyses, (iii) internal evaluations or (iv) other methods deemed appropriate considering the size and complexity of the loan and the underlying collateral. On an ongoing basis, we evaluate collateral dependent impaired loans and, if needed, due to changes in market or property conditions or other factors, the underlying collateral is reassessed and the estimated fair value is revised. The determination of collateral value includes any adjustments considered necessary related to estimated holding periods and estimated selling costs.

At September 30, 2019, we had reduced the carrying value of our non-purchased loans deemed impaired (all of which were included in nonaccrual loans or as accruing TDRs) by $6.5 million to the estimated fair value of such loans of $25.2 million. The adjustment to reduce the carrying value of such impaired loans to estimated fair value consisted of $4.7 million of partial charge-offs and $1.8 million of specific loan loss allocations. These amounts do not include the balance of, any partial or full charge-offs on, or any specific loan loss allocations related to our $13.0 million of impaired purchased loans at September 30, 2019.

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

Foreclosed Assets

	September 30, 2019	December 31, 2018
	(Dollars in thousands)	
Real estate:		
Residential 1-4 family	$ 1,810	$ 823
Non-farm/non-residential	14,444	4,407
Construction/land development	16,496	10,628
Agricultural	—	164
Total real estate	32,750	16,022
Commercial and industrial	—	31
Consumer	569	118
Total foreclosed assets	$ 33,319	$ 16,171

The following table presents information concerning the geographic location of nonperforming assets, excluding purchased loans, at September 30, 2019. Nonperforming loans are reported in the physical location of the principal collateral. Foreclosed assets are reported in the physical location of the asset. Repossessions are reported at the physical location where the borrower resided or had its principal place of business at the time of repossession.

Geographic Distribution of Nonperforming Assets

	Nonperforming Loans	Foreclosed Assets and Repossessions	Total Nonperforming Assets
		(Dollars in thousands)	
Arkansas	$ 13,674	$ 7,148	$ 20,822
North Carolina	1,981	10,426	12,407
South Carolina	—	9,929	9,929
Florida	1,527	2,615	4,142
Texas	2,201	1,069	3,270
Georgia	2,171	1,085	3,256
Alabama	165	645	810
All other	5,343	402	5,745
Total	$ 27,062	$ 33,319	$ 60,381

Impaired Purchased Loans

At September 30, 2019 and December 31, 2018, we had identified purchased loans where we had determined it was probable that we would be unable to collect all amounts according to the contractual terms thereof (for purchased loans without evidence of credit deterioration at date of acquisition) or the expected performance of such loans had deteriorated from our performance expectations established in conjunction with the determination of the Day 1 Fair Values or since our most recent review of such portfolio's performance (for purchased loans with evidence of credit deterioration at date of acquisition). The following table presents a summary of such impaired purchased loans as of the dates indicated.

Impaired Purchased Loans

	September 30, 2019	December 31, 2018
	(Dollars in thousands)	
Impaired purchased loans without evidence of credit deterioration at date of acquisition (rated FV 77)	$ 9,462	$ 2,822
Impaired purchased loans with evidence of credit deterioration at date of acquisition (rated FV 88)	3,507	4,979
Total impaired purchased loans	$ 12,969	$ 7,801
Impaired purchased loans to total purchased loans	0.91%	0.38%

Allowance and Provision for Loan Losses

At September 30, 2019, our ALL was $109.0 million, including $107.4 million allocated to our non-purchased loans and $1.6 million allocated to our purchased loans, compared to $102.3 million at December 31, 2018, including $100.7 million allocated to our non-purchased loans and $1.6 million allocated to our purchased loans. Our ALL allocated to non-purchased loans as a percent of total non-purchased loans was 0.66% at September 30, 2019 and 0.67% at December 31, 2018. Excluding purchased loans, our ALL as a percentage of nonperforming loans was 397% at September 30, 2019 and 284% at December 31, 2018. Our practice is to charge off any estimated loss on nonperforming loans as soon as we are able to identify and reasonably quantify such potential loss. Accordingly, only a small portion of our ALL is needed for potential losses on nonperforming loans. The amount of ALL and provision to the ALL is based on our analysis of the adequacy of the ALL utilizing the criteria discussed in the Critical Accounting Policies section of our annual report on Form 10-K for the year ended December 31, 2018.

In recent years, we have focused on loan transactions that include various combinations of (i) marquee properties, (ii) strong and capable sponsors or borrowers, (iii) low leverage, and (iv) defensive loan structures. At the same time, our loan portfolio has expanded throughout the United States and consists of a diversified portfolio in terms of both product type and geographic location. We consider this product type and geographic diversification to be a source of strength in regard to portfolio credit quality. Additionally, we have continued to focus on originating high quality loans at low leverage. At September 30, 2019, our ratios of weighted-average loan-to-cost and weighted-average loan-to-value on construction loans with interest reserves, assuming such loans are ultimately fully funded, were approximately 48% and approximately 41%, respectively.

The provision for loan losses for the third quarter of 2019 was $7.9 million, including $5.0 million for non-purchased loans and $2.9 million for purchased loans, compared to $41.9 million for the third quarter of 2018, including $41.4 million for non-purchased loans and $0.5 million for purchased loans. The provision for loan losses for the first nine months of 2019 was $21.3 million, including $16.0 million for non-purchased loans and $5.3 million for purchased loans, compared to $57.1 million for the first nine months of 2018, including $54.8 million for non-purchased loans and $2.3 million for purchased loans. During the third quarter of 2018, we recorded net charge-offs totaling $45.5 million on two unrelated credits. As a result of these net charge-offs, we recorded $26.4 million of provision expense in the third quarter of 2018.

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

Activity Within the Allowance for Loan Losses

	Nine Months Ended September 30,	
	2019	2018
	(Dollars in thousands)	
Balance, beginning of period	$ 102,264	$ 94,120
Charge-offs of non-purchased loans:		
Real estate:		
Residential 1-4 family	(461)	(210)
Non-farm/non-residential	(3,322)	(20,502)
Construction/land development	(330)	(25,580)
Agricultural	(15)	(92)
Total real estate	(4,128)	(46,384)
Commercial and industrial	(1,505)	(1,912)
Consumer	(2,506)	(1,030)
Other	(2,544)	(2,517)
Total charge-offs of non-purchased loans	(10,683)	(51,843)
Recoveries of non-purchased loans previously charged off:		
Real estate:		
Residential 1-4 family	179	160
Non-farm/non-residential	39	151
Construction/land development	110	29
Agricultural	—	30
Total real estate	328	370
Commercial and industrial	271	87
Consumer	276	121
Other	545	595
Total recoveries of non-purchased loans previously charged off	1,420	1,173
Net charge-offs of non-purchased loans	(9,263)	(50,670)
Charge-offs of purchased loans	(7,574)	(4,140)
Recoveries of purchased loans previously charged off	2,271	1,764
Net charge-offs of purchased loans	(5,303)	(2,376)
Net charge-offs – total loans	(14,566)	(53,046)
Provision for loan losses:		
Non-purchased loans	16,000	54,750
Purchased loans	5,303	2,376
Total provision	21,303	57,126
Balance, end of period	$ 109,001	$ 98,200
ALL allocated to non-purchased loans	$ 107,401	$ 96,600
ALL allocated to purchased loans	1,600	1,600
Total ALL	$ 109,001	$ 98,200

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

Net Charge-off and ALL Ratios

	As of and for the Nine Months Ended September 30,		As of and for the Year Ended December 31,
	2019	2018	2018
Net charge-offs of non-purchased loans to average non-purchased loans [1][2]	0.08%	0.49%	0.38%
Net charge-offs of purchased loans to average purchased loans [1]	0.40	0.11	0.13
Net charge-offs of total loans to average total loans [1]	0.11	0.43	0.34
ALL for non-purchased loans to total non-purchased loans[3]	0.66	0.67	0.67
ALL for purchased loans to total purchased loans	0.11	0.07	0.08
ALL to total loans	0.61	0.59	0.60
ALL to nonperforming loans [3]	397%	293%	284%

(1) Ratios for interim periods annualized.
(2) Excludes purchased loans and net charge-offs related to purchased loans.
(3) Excludes purchased loans and ALL allocated to such loans.

Investment Securities AFS

At September 30, 2019 and December 31, 2018, we classified our investment securities portfolio as AFS. Accordingly, our investment securities are stated at estimated fair value in the consolidated financial statements with the unrealized gains and losses, net of related income tax, reported as a separate component of stockholders' equity and included in accumulated other comprehensive income (loss). The determination of the fair value of individual securities within our portfolio is based on independent, third party pricing sources as discussed in the Critical Accounting Policies section of our annual report on Form 10-K for the year ended December 31, 2018.

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, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Obligations of state and political subdivisions	$ 513,647	$ 532,621	$ 615,328	$ 606,616
Mortgage-backed securities[1]	1,859,325	1,876,702	2,248,065	2,212,546
U.S. Government agency securities	—	—	27,538	26,936
Corporate obligations	5,218	5,399	15,188	15,183
CRA qualified investment fund	—	—	1,109	1,059
Total	$ 2,378,190	$ 2,414,722	$ 2,907,228	$ 2,862,340

(1) These mortgage-backed securities were issued by U.S. Government agencies.

Our investment securities portfolio is reported at estimated fair value, which included gross unrealized gains of $38.8 million and gross unrealized losses of $2.3 million at September 30, 2019 and gross unrealized gains of $7.1 million and gross unrealized losses of $52.0 million at December 31, 2018. We believe that all unrealized losses on individual investment securities at September 30, 2019 and December 31, 2018 were the result of fluctuations in interest rates and do not reflect deterioration in the credit quality of these investments. Accordingly, we consider these unrealized losses to be temporary in nature. While we periodically evaluate our investment strategy relative to current economic and business conditions, we currently do not have the intent to sell these investment securities with unrealized losses and, more likely than not, will not be required to sell these investment securities before fair value recovers to amortized cost.

The shift from a net unrealized loss of $44.9 million at December 31, 2018 to a net unrealized gain of $36.5 million at September 30, 2019 is due to the significant decline in market rates that effect the valuation and pricing of fixed income securities.

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

Unaccreted Discounts and Unamortized Premiums

	Amortized Cost	Unaccreted Discount	Unamortized Premium	Par Value
	(Dollars in thousands)			
September 30, 2019:				
Obligations of states and political subdivisions	$ 513,647	$ 1,276	$ (19,061)	$ 495,862
Mortgage-backed securities(1)	1,859,325	279	(36,531)	1,823,073
Corporate obligations	5,218	104	—	5,322
Total	$ 2,378,190	$ 1,659	$ (55,592)	$ 2,324,257
December 31, 2018:				
Obligations of states and political subdivisions	$ 615,328	$ 1,423	$ (25,410)	$ 591,341
Mortgage-backed securities(1)	2,248,065	442	(47,488)	2,201,019
U.S. Government agency securities	27,538	—	(538)	27,000
Corporate obligations	15,188	134	—	15,322
CRA qualified investment fund	1,109	—	—	1,109
Total	$ 2,907,228	$ 1,999	$ (73,436)	$ 2,835,791

(1) These mortgage-backed securities were issued by U.S. Government agencies.

During the first nine months of 2019, we had $0.7 million in gains from the sale of approximately $97 million of investment securities AFS, compared to essentially no net gains from the sale of investment securities AFS in the first nine months of 2018. During the third quarter and first nine months of 2019, we purchased no investment securities AFS, compared to purchases of approximately $210 million during the third quarter and approximately $523 million during the first nine months of 2018.

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.

At September 30, 2019, approximately 95% of our investment securities had an investment grade credit rating (i.e., the equivalent of a rating of BBB- or better) and approximately 5% 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.

Goodwill

The Bank had goodwill of $660.8 million at September 30, 2019. We review goodwill annually, or more frequently if events or changes in circumstances indicate the carrying value might be impaired. This impairment analysis compares the estimated fair value of our banking operations (the reporting unit) with the Bank's net book value. We performed our annual goodwill impairment test performed as of September 30, 2019. This impairment test included various valuation considerations, including comparable peer data, precedent transaction comparables, overall financial performance, share price of our common stock and other factors. The September 30, 2019 impairment test indicated no impairment of our goodwill. However, there can be no assurance that future evaluations of our goodwill will not result in impairment of such goodwill.

Deposits

Our lending and investment activities are funded primarily by deposits. The amount and type of deposits outstanding, as of the dates indicated, and their respective percentage of the total deposits are reflected in the following table.

Deposits

	September 30, 2019		December 31, 2018	
	(Dollars in thousands)			
Non-interest bearing	$ 2,793,369	15.1%	$ 2,748,273	15.3%
Interest bearing:				
Transaction (NOW)	2,730,018	14.8	2,359,299	13.2
Savings and money market	5,711,321	31.0	7,323,414	40.8
Time deposits less than $100	3,445,873	18.7	2,297,101	12.8
Time deposits of $100 or more	3,759,497	20.4	3,210,328	17.9
Total deposits	$ 18,440,078	100.0%	$ 17,938,415	100.0%

After increasing $538 million during the first quarter of 2019, our deposits decreased $291 million during the second quarter of 2019 and increased $254 million during the third quarter of 2019. Changes in deposits from period to period typically reflect changes in funding needs to support changes in earnings assets (primarily loans and investments). Our aggregate balance of loans and investments increased $251 million during the first quarter of 2019, decreased $211 million during the second quarter of 2019, and increased $116 million during the third quarter of 2019.

At September 30, 2019 brokered deposits totaled $2.24 billion, or 12.2% of total deposits, compared to $2.04 billion, or 11.3% of total deposits, at December 31, 2018. 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 of directors 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) our ALCO Committee ("ALCO"), which reports to the board of directors, monitor our use of brokered deposits on a regular basis, including interest rates and the total volume of such deposits in relation to our total liabilities. ALCO has typically approved the use of brokered deposits when such deposits are (i) from internally-approved and stable funding sources and (ii) less costly to us than the marginal cost of additional deposits generated from our branch network.

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

Deposits by State of Originating Office

Deposits Attributable to Offices In	September 30, 2019		December 31, 2018	
	(Dollars in thousands)			
Arkansas	$ 7,428,232	40.3%	$ 6,988,931	39.0%
Georgia	3,700,898	20.1	3,783,868	21.1
Florida	2,509,948	13.6	2,615,278	14.6
Texas	2,231,265	12.1	1,953,273	10.9
New York	1,320,594	7.2	1,396,934	7.8
North Carolina	1,073,345	5.8	996,838	5.6
Alabama	96,347	0.5	125,041	0.7
South Carolina	79,449	0.4	78,252	0.3
Total	$ 18,440,078	100.0%	$ 17,938,415	100.0%

Other Interest Bearing Liabilities

We rely on other interest bearing liabilities to supplement the funding of our lending and investing activities. Such liabilities consist of repurchase agreements with customers, other borrowings (primarily FHLB advances and federal funds purchased), subordinated notes and subordinated debentures. The following table reflects the average balance and rate paid for each category of other interest bearing liabilities for the periods indicated.

Average Balances and Rates of Other Interest Bearing Liabilities

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	Average Balance	Rate Paid	Average Balance	Rate Paid	Average Balance	Rate Paid	Average Balance	Rate Paid
	(Dollars in thousands)							
Repurchase agreements with customers	$ 9,037	0.24%	$ 97,249	0.88%	$ 14,062	0.37%	$123,587	0.82%
Other borrowings	29,422	1.21	63,909	0.90	122,254	1.64	88,101	1.25
Subordinated notes	223,516	5.71	223,135	5.72	223,419	5.71	223,042	5.72
Subordinated debentures	119,700	3.90	119,145	5.40	119,558	5.11	119,006	5.13
Total other interest bearing liabilities	$381,675	4.67%	$503,438	4.09%	$479,293	4.37%	$553,736	3.79%

The interest expense and rates for "other borrowings" and for "subordinated debentures" were affected by interest capitalized, primarily for our new corporate headquarters facility that is currently under construction. Capitalized interest included in other borrowings totaled $0.11 million for the third quarter and $0.86 million for the first nine months of 2019 and $0.20 million for the third quarter and $0.38 million for the first nine months of 2018. In the absence of this interest capitalization, the rates on other borrowings would have been 2.69% in the third quarter and 2.57% in the first nine months of 2019 and 2.12% in the third quarter and 1.83% in the first nine months of 2018. Capitalized interest included in subordinated debentures totaled $0.45 million for both the third quarter and the first nine months of 2019 and none in 2018. In the absence of this interest capitalization, the rates on subordinated debentures would have been 5.39% for the third quarter and 5.61% for the first nine months of 2019.

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources

Subordinated Notes. At September 30, 2019, we had $225 million in aggregate principal amount of 5.50% Fixed-to-Floating Rate Subordinated Notes due 2026 (the "Notes"). The Notes are unsecured, subordinated debt obligations and mature on July 1, 2026. From and including the date of issuance to, but excluding July 1, 2021, the Notes bear interest at an initial rate of 5.50% per annum. From and including July 1, 2021 to, but excluding the maturity date or earlier redemption, the Notes will bear interest at a floating rate equal to three-month LIBOR as calculated on each applicable date of determination plus a spread of 442.5 basis points; provided, however, that in the event three-month LIBOR is less than zero, then three-month LIBOR shall be deemed to be zero.

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

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

Subordinated Debentures. We own eight 100%-owned finance subsidiary business trusts – Ozark Capital Statutory Trust II ("Ozark II"), Ozark Capital Statutory Trust III ("Ozark III"), Ozark Capital Statutory Trust IV ("Ozark IV"), Ozark Capital Statutory Trust V ("Ozark V"), Intervest Statutory Trust II ("Intervest II"), Intervest Statutory Trust III ("Intervest III"), Intervest Statutory Trust IV ("Intervest IV") and Intervest Statutory Trust V ("Intervest V"), (collectively, the "Trusts"). At September 30, 2019, we had the following issues of trust preferred securities and subordinated debentures owed to the Trusts.

	Subordinated Debentures Owed to Trust	Unamortized Discount at September 30, 2019	Carrying Value of Subordinated Debentures at September 30, 2019	Trust Preferred Securities of the Trusts	Contractual Interest Rate at September 30, 2019	Final Maturity Date
			(Dollars in thousands)			
Ozark II	$ 14,433	$ —	$ 14,433	$ 14,000	5.00%	September 29, 2033
Ozark III	14,434	—	14,434	14,000	5.25	September 25, 2033
Ozark IV	15,464	—	15,464	15,000	4.37	September 28, 2034
Ozark V	20,619	—	20,619	20,000	3.72	December 15, 2036
Intervest II	15,464	(300)	15,164	15,000	5.09	September 17, 2033
Intervest III	15,464	(347)	15,117	15,000	4.93	March 17, 2034
Intervest IV	15,464	(630)	14,834	15,000	4.56	September 20, 2034
Intervest V	10,310	(600)	9,710	10,000	3.77	December 15, 2036
	$ 121,652	$ (1,877)	$ 119,775	$ 118,000		

Our subordinated debentures and trust preferred securities are tied to a spread over the 90-day LIBOR. As previously discussed, LIBOR is expected to be phased out after 2021. Currently, we are unable to determine the effect that the phase out of LIBOR might have on our financial instruments tied to LIBOR.

Our subordinated debentures and 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 regulatory capital to support our expected future growth and expansion.

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

Common Stockholders' Equity and Reconciliation of Non-GAAP Financial Measures. We use non-GAAP financial measures, specifically tangible common stockholders' equity, tangible common stockholders' equity to total tangible assets, tangible book value per common share and return on average tangible common stockholders' equity as important measures of the strength of our capital and our ability to generate earnings on tangible common equity invested by our shareholders. We believe presentation of these non-GAAP financial measures provides useful supplemental information that contributes to a proper understanding of our financial results and capital levels. These non-GAAP disclosures should not be viewed as a substitute for financial results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures are included in the following tables.

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

	September 30,		December 31,
	2019	2018	2018
	(Dollars in thousands)		
Total common stockholders' equity before noncontrolling interest	$ 4,078,324	$ 3,653,596	$ 3,770,330
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(26,608)	(38,817)	(35,672)
Total intangibles	(687,397)	(699,606)	(696,461)
Total tangible common stockholders' equity	$ 3,390,927	$ 2,953,990	$ 3,073,869
Total assets	$ 23,402,679	$ 22,086,539	$ 22,388,030
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(26,608)	(38,817)	(35,672)
Total intangibles	(687,397)	(699,606)	(696,461)
Total tangible assets	$ 22,715,282	$ 21,386,933	$ 21,691,569
Ratio of total common stockholders' equity to total assets	17.43%	16.54%	16.84%
Ratio of total tangible common stockholders' equity to total tangible assets	14.93%	13.81%	14.17%

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

	September 30,		December 31,
	2019	2018	2018
	(In thousands, except per share amounts)		
Total common stockholders' equity before noncontrolling interest	$ 4,078,324	$ 3,653,596	$ 3,770,330
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(26,608)	(38,817)	(35,672)
Total intangibles	(687,397)	(699,606)	(696,461)
Total tangible common stockholders' equity	$ 3,390,927	$ 2,953,990	$ 3,073,869
Shares of common stock outstanding	128,946	128,609	128,611
Book value per common share	$ 31.63	$ 28.41	$ 29.32
Tangible book value per common share	$ 26.30	$ 22.97	$ 23.90

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(Dollars in thousands)			
Net income available to common stockholders	$ 103,891	$ 74,180	$ 325,100	$ 302,075
Average common stockholders' equity before noncontrolling interest	$ 4,032,066	$ 3,648,398	$ 3,925,321	$ 3,567,148
Less average intangible assets:				
Goodwill	(660,789)	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(28,275)	(40,743)	(31,290)	(43,886)
Total average intangibles	(689,064)	(701,532)	(692,079)	(704,675)
Average tangible common stockholders' equity	$ 3,343,002	$ 2,946,866	$ 3,233,242	$ 2,862,473
Return on average common stockholders' equity [(1)]	10.22%	8.07%	11.07%	11.32%
Return on average tangible common stockholders' equity [(1)]	12.33%	9.99%	13.44%	14.11%

(1) Ratios annualized based on actual days.

Common Stock Dividend Policy. During 2019 we paid cash dividends per common share of $0.22 in the first quarter, $0.23 in the second quarter and $0.24 in the third quarter. During 2018 we paid cash dividends per common share of $0.19 in the first quarter, $0.195 in the second quarter and $0.20 in the third quarter. On October 1, 2019, our board of directors approved a cash dividend of $0.25 per common share that was paid on October 18, 2019. The determination of future dividends on our common stock will depend on conditions existing at that time and approval of our board of directors. In addition, our ability to pay dividends to our shareholders is subject to the restrictions set forth in Arkansas law, by our federal regulator, and by certain covenants contained in the indentures governing the trust preferred securities, the subordinated debentures and the Notes.

Capital Compliance

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

In recent years, the FDIC and other federal banking regulators revised the risk-based capital requirements applicable to insured depository institutions, including us, to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision ("Basel III") and certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Basel III Rules"). The Basel III Rules became effective for us on January 1, 2015 (subject to a phase-in period for certain provisions). The Basel III Rules require the maintenance of minimum amounts and ratios of common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets, and of tier 1 capital to adjusted quarterly average assets.

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

Tier 1 capital includes common equity tier 1 capital and certain additional tier 1 items as provided under the Basel III Rules. Our tier 1 capital consists of common equity tier 1 capital and, prior to the third quarter of 2016, $118 million of trust preferred securities issued by the Trusts. The Basel III Rules include certain provisions that require trust preferred securities to be phased out of, or no longer be considered, qualifying tier 1 capital for certain institutions depending on the size of the institution as measured by total assets. Pursuant to the Basel III Rules, our trust preferred securities are no longer included in tier 1 capital as of September 30, 2016, but continue to be included in total capital.

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.

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

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. The capital conservation buffer began phasing in January 1, 2016 at 0.625% of risk-weighted assets, and increased each year until fully implemented at 2.5% on January 1, 2019. As of January 1, 2019, the fully phased-in Basel III Rules require us to maintain (i) a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 7.0%, (ii) a minimum ratio of tier 1 capital to risk-weighted assets of at least 6.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 8.5%, (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 10.5%, and (iv) a minimum leverage ratio of 4.0%. Additionally, in order to be considered well-capitalized under the Basel III Rules, we must maintain (i) a ratio of common equity tier 1 capital to risk-weighted assets of at least 6.5%, (ii) a ratio of tier 1 capital to risk-weighted assets of at least 8.0%, (iii) a ratio of total capital to risk-weighted assets of at least 10.0%, and (iv) a leverage ratio of at least 5.0%.

The following table presents actual and required capital ratios at September 30, 2019 and December 31, 2018 under the Basel III Rules. The minimum required capital amounts presented include the minimum required capital levels based on the current phase-in provisions of the Basel III Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Rules were fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Rules. At September 30, 2019 and December 31, 2018, capital levels exceed all minimum capital requirements under the Basel III Rules on a fully phased-in basis.

Regulatory Capital Ratios

	Actual		Minimum Capital Required – Basel III Phase-In Schedule		Minimum Capital Required – Basel III Fully Phased-In		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
	(Dollars in thousands)							
September 30, 2019:								
Common equity tier 1 to risk-weighted assets	$3,344,606	13.28%	$1,762,320	7.00%	$1,762,320	7.00%	$1,636,440	6.50%
Tier 1 capital to risk-weighted assets	3,344,606	13.28	2,139,960	8.50	2,139,960	8.50	2,014,080	8.00
Total capital to risk-weighted assets	3,796,616	15.08	2,643,780	10.50	2,643,480	10.50	2,517,600	10.00
Tier 1 leverage to average assets	3,344,613	15.17	881,966	4.00	881,966	4.00	1,102,457	5.00
December 31, 2018:								
Common equity tier 1 to risk-weighted assets	$3,091,128	12.56%	$1,569,242	6.375%	$1,723,089	7.00%	$1,600,011	6.50%
Tier 1 capital to risk-weighted assets	3,091,128	12.56	1,938,475	7.875	2,092,322	8.50	1,969,245	8.00
Total capital to risk-weighted assets	3,536,393	14.37	2,430,786	9.875	2,584,633	10.50	2,461,556	10.00
Tier 1 leverage to average assets	3,091,128	14.25	867,549	4.00	867,549	4.00	1,084,436	5.00

Liquidity

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

The objective of managing liquidity risk is to ensure the cash flow requirements resulting from depositor, borrower and other creditor demands are met, as well as our operating cash needs, and the cost of funding such requirements and needs is reasonable. We maintain an asset/liability and interest rate risk policy and a liquidity and funds management policy, including a contingency funding plan that, among other things, include policies and procedures for managing liquidity risk. Generally we rely on deposits, repayments of loans, and cash flows from our investment securities as our primary sources of funds. Our principal deposit sources include consumer, commercial and public funds customers in our markets. We have used these funds, together with other primary funding

sources, including wholesale deposit sources such as brokered deposits, FHLB advances and federal funds purchased, to make loans, acquire investment securities and other assets and to fund continuing operations.

Deposit levels may be affected by a number of factors including rates paid by competitors, general interest rate levels, returns available to customers on alternative investments, general economic and market conditions and other factors. Loan 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. Accordingly, we may be required from time to time to rely on secondary sources of liquidity to meet growth in loans and deposit withdrawal demands or otherwise fund operations. Such secondary sources include, among others, secured and unsecured federal funds lines of credit from correspondent banks, FRB borrowings and/or accessing the capital markets.

At September 30, 2019, we had $11.43 billion in unfunded balances of loans already closed, the vast majority of which is attributable to construction and development loans for which construction has commenced. In most cases the borrower's equity and all other required subordinated elements of the capital structure must be fully funded before we advance funds. Typically we are the last to advance funds and the first to be repaid. In many cases we do not advance funds on loans for many months after closing because the borrower's equity and other funding sources must fund first. This conservative practice for handling construction loans has led to the large unfunded balance of closed loans. As a result, we maintain a detailed 36-month forward funding forecast projecting all loan fundings and loan pay downs and pay offs. Our ability to project monthly net loan funding and portfolio growth with a substantial degree of accuracy is an important part of our liquidity management process.

At September 30, 2019, we had substantial unused borrowing availability. This availability was primarily comprised of the following four options: (1) $3.27 billion of available blanket borrowing capacity with the FHLB, (2) $1.80 billion of investment securities available to pledge for federal funds or other borrowings, (3) $545 million of available unsecured federal funds borrowing lines and (4) up to $121 million of available borrowing capacity from borrowing programs of the FRB.

We anticipate we will continue to rely primarily on deposits, repayments of loans and cash flows from our investment securities portfolio to provide liquidity, as well as other funding sources as appropriate. Additionally, where necessary, the sources of borrowed funds described above and/or accessing the capital markets will be used to augment our primary funding sources.

Sources and Uses of Funds. Operating activities provided net cash of $332 million for the first nine months of 2019 and $357 million for the first nine months of 2018. Net cash provided by operating activities is comprised primarily of net income, adjusted for non-cash items and for changes in various operating assets and liabilities.

Investing activities used net cash of $201 million in the first nine months of 2019 and $929 million in the first nine months of 2018. The decrease in net cash used by investing activities was primarily the result of lower growth in our non-purchased loan portfolio and an increase in net cash generated from the activity in our investment securities portfolio, partially offset by lower repayment volumes in our purchased loan portfolio during the first nine months of 2019 compared to the same period in 2018.

Financing activities provided $609 million in the first nine months of 2019 and $519 million in the first nine months of 2018. The increase in cash provided by financing activities was primarily the result of an increase in other borrowings, partially offset by lower deposit growth.

Off-Balance Sheet Commitments. We are party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments primarily include commitments to extend credit (most of which are in the form of unfunded balances of loans already closed) and standby letters of credit. See Note 9 to the consolidated financial statements for more information about our outstanding commitments and contingencies as of September 30, 2019.

Growth and Expansion

De Novo Growth. In the first quarter of 2019, we (i) opened loan production offices in Alpharetta, Georgia for our Indirect RV & Marine lending team and in Greenville, North Carolina for our Community Banking agricultural lending team and (ii) opened a retail banking office in Ft. Worth, Texas. In the second quarter of 2019, we (i) opened a loan production office in Irvine, California for our Indirect RV & Marine lending team and (ii) closed a retail banking office in Magnolia, Arkansas. In the third quarter of 2019, we (i) replaced an existing leased facility with a bank-owned facility in Winston-Salem, North Carolina, (ii) opened a loan production office in Jacksonville Beach, Florida, (iii) opened a retail banking office in Dallas, Texas, and (iv) closed two retail banking offices, including one in Clarksville, Arkansas and one in Mobile, Alabama. On October 21, 2019, we converted a loan production office in East Point, Georgia to a retail banking office. In 2020, among other things, we expect to complete construction on our new corporate headquarters in Little Rock, Arkansas.

We intend to continue our growth and *de novo* branching strategy in future years through the opening of additional branches and loan production offices as our needs and resources permit. Additionally, as we have done in recent quarters, we may relocate offices and we may close certain offices and consolidate the business of such offices into other nearby 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 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.

During the first nine months of 2019, we spent approximately $78 million on capital expenditures for premises and equipment. Our capital expenditures for the full year 2019 are expected to be in the range of $120 million to $140 million, including progress payments on construction projects expected to be completed in 2019 and 2020, furniture and equipment costs and acquisition of sites for future development. Actual expenditures may vary significantly from those expected, depending on the number and cost of additional offices acquired or constructed and sites acquired for future development, progress or delays encountered on ongoing and new construction projects, delays in or inability to obtain required approvals, potential premises and equipment expenditures associated with acquisitions, if any, and other factors.

Future Growth Strategy. We expect to continue growing through our *de novo* branching strategy. Future *de novo* branches are expected to be focused in states where we currently have banking offices and in larger markets and MSAs across the U.S. where we currently do not have offices and believe we can generate significant growth from one to three strategically located offices in each such market. When we resume making acquisitions, we expect to seek acquisitions that are immediately accretive to book value and tangible book value, and are accretive to diluted earnings per share in the first 12 months following acquisition.

RECENTLY ISSUED ACCOUNTING STANDARDS

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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 to analyze our interest rate risk and interest rate sensitivity.

This earnings simulation modeling process projects a baseline net interest income (assuming no change 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) prepayment expectations and 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 cap and floor rates on various assets and liabilities, (6) expected changes in administered rates on interest bearing transaction, savings, money market and time deposit accounts and the expected impact of competition on the pricing or repricing of such accounts, (7) the timing and amount of cash flows expected to be received on investment securities and purchased loans, (8) the need, if any, for additional capital and/or debt to support continued growth and (9) other relevant factors. Inclusion of these factors in the model is intended to more accurately project our expected changes in net interest income resulting from interest rate changes. We typically model our change in net interest income assuming interest rates go up 100 bps, up 200 bps, up 300 bps, up 400 bps, up 500 bps, down 100 bps, down 200 bps, down 300 bps, down 400 bps and down 500 bps. Based on current conditions, we believe that modeling our change in net interest income assuming interest rates go down 300 bps, down 400 bps and down 500 bps is not meaningful. For purposes of this model, we have assumed that the change in interest rates phases in over a 12-month period. While we believe this model provides a reasonably accurate projection of our interest rate risk, the model includes a number of assumptions and predictions which may or may not be correct and may impact the model results. These assumptions and predictions include inputs to compute baseline net interest income, growth rates, expected loan prepayments, expected changes in administered rates on interest bearing deposit accounts, competition and a variety of other factors that are difficult to accurately predict. Accordingly, there can be no assurance the earnings simulation model will accurately reflect future results.

The following table presents the earnings simulation model's projected impact of a change in interest rates on our projected baseline net interest income for the 12-month period commencing October 1, 2019. This change in interest rates assumes parallel shifts in the yield curve and does not take into account changes in the slope of the yield curve or the impact of any possible future acquisitions.

Shift in Interest Rates (in bps)	% Change in Projected Baseline Net Interest Income
+500	14.3%
+400	11.4
+300	8.5
+200	5.3
+100	2.4
-100	(2.0)
-200	(2.3)
-300	Not meaningful
-400	Not meaningful
-500	Not meaningful

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

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 and Chief Accounting 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.

Our management, including our Chairman and Chief Executive Officer and our Chief Financial Officer and Chief Accounting Officer, has evaluated any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarterly period covered by this report and has concluded that there were no changes during the quarterly period covered by this report 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 4:18-cv-793-JM. On November 19, 2018, a second purported class action complaint based upon similar allegations of violations of federal securities laws was filed against Bank OZK in the United States District Court for the Southern District of New York, captioned Ryan A. Wood v. Bank OZK et al, case number 1:18-cv-10800. Under applicable federal law, the federal district court in the Colbert case named Strathclyde Pension Fund as the lead class plaintiff. Upon motion of the defendants, the court in the Wood case transferred that suit to the Eastern District of Arkansas, and on February 21, 2019, the plaintiff in the Wood case voluntarily dismissed that complaint, without prejudice. The Colbert complaint, as amended on June 21, 2019, alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, by the Bank, its CEO, George Gleason, and its CFO, Greg McKinney, for making allegedly false and misleading statements and allegedly failing to disclose material facts relating to the risk of loss regarding two commercial real estate loans. The amended complaint alleges essentially that the Bank lacked adequate internal controls to assess credit risk; as a result, such loans, which were classified as substandard, posed an increased risk of loss and were reasonably likely to lead to charge-offs, which actually occurred in the third quarter of 2018; and consequently, defendants' public statements during the class period about the Bank's business, operations, and prospects were materially misleading and/or lacked a reasonable basis. The amended complaint identified the respective proposed class period as encompassing persons who purchased the Bank's common stock between February 19, 2016 and October 18, 2018. The Bank and the individual defendants believe that the plaintiffs' allegations set forth in the amended complaint are without merit, and the Bank and the individual defendants have moved to dismiss the case and intend to vigorously defend against the alleged claims.

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

On August 14, 2019, a shareholder derivative complaint was filed in the United States District Court for the Eastern District of Arkansas, case number 4:19-cv-567-KGB, by Barbara Bonessi as plaintiff, against the Bank, as nominal defendant, the current members of the board of directors, and certain current and former officers and directors of the Bank. The complaint alleges that the current members of the board of directors breached their fiduciary duties, failed to prevent other officers and directors from trading in the Bank's stock, and allegedly mismanaged and wasted corporate assets in the context of the same factual circumstances recited in the actions noted in the two preceding paragraphs. The complaint also asserts claims of unjust enrichment against certain current and former officers and directors, and it also asserts violations by the Bank's current board members and certain current and former officers of Sections 10(b), 20(a) and 14(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, in the context of the same factual circumstances recited in the actions noted in the two preceding paragraphs. The Bank intends to vigorously oppose the ability of the plaintiff to proceed in a derivative capacity. All defendants have moved to dismiss the action, and the individual defendants intend to vigorously defend against the claims against them.

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

Item 1A. Risk Factors

There are no material changes from the risk factors set forth under Part 1, Item 1A of the Bank's annual report on Form 10-K for the year ended December 31, 2018 filed with the FDIC on February 27, 2019.

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

During the third quarter of 2019, the Bank issued an aggregate of 10,800 shares of common stock in connection with the exercise of stock options issued to certain participants under the Amended and Restated Stock Option Plan for employees and the Non-Employee Director 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 2019, the Bank repurchased shares of its common stock in connection with its equity incentive plan awards, as indicated in the following table.

Period	Total Number of Shares Purchased[(1)]	Average Price Paid Per Share[(1)]	Total Number of Shares Purchased as Part of a Publicly Announced Program	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program
July 1 - 31, 2019	974	$ 28.67	—	—
August 1 - 31, 2019	—	—	—	—
September 1 - 30, 2019	—	—	—	—
Total	974	$ 28.67	—	—

(1) 4,854 shares of our common stock issued to certain of our officers under our Amended and Restated Restricted Stock and Incentive Plan vested in July 2019 and were no longer subject to the vesting restriction or substantial risk of forfeiture. We withheld 974 of such shares to satisfy federal and state tax withholding requirements related to the vesting of these shares.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

SIGNATURE

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

Bank OZK

DATE: November 7, 2019

By: /s/ Greg McKinney
Name: Greg McKinney
Title: Chief Financial Officer and Chief Accounting Officer
(Principal Financial Officer and Authorized Officer)

Bank OZK

Exhibit Index

Exhibit Number	
2.1	Agreement and Plan of Merger, dated April 10, 2017, by and between Bank of the Ozarks, Inc. and Bank of the Ozarks (previously filed as Exhibit 2.1 to the Bank's Current Report on Form 8-K filed with the FDIC on June 26, 2017, and incorporated herein by reference).
3.1	Amended and Restated Articles of Incorporation of Bank of the Ozarks (previously filed as Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on June 26, 2017, and incorporated herein by reference).
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation of Bank of the Ozarks (previously filed as Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on July 16, 2018, and incorporated herein by reference).
3.3	Second Amended and Restated Bylaws of Bank OZK (previously filed as Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on August 10, 2018, and incorporated herein by reference).
4.1	Instruments defining the rights of security holders, including indentures. The Bank hereby agrees to furnish to the FDIC upon request copies of instruments defining the rights of holders of long-term debt of the Bank and its consolidated subsidiaries; no issuance of debt exceeds ten percent of the assets of the Bank and its subsidiaries on a consolidated basis.
4.2	Form of Common Stock Certificate (previously filed as Exhibit 4.2 to the Bank's Current Report on Form 8-K filed with the FDIC on July 16, 2018, and incorporated herein by reference).
11.1	Earnings Per Share Computation (included in Note 3 to the Consolidated Financial Statements).
31.1	Certification of Chairman and Chief Executive Officer, pursuant to Section 302 of the Sarbanes Oxley Act of 2002, filed herewith.
31.2	Certification of Chief Financial Officer and Chief Accounting Officer, pursuant to Section 302 of the Sarbanes Oxley Act of 2002, filed herewith.
32.1	Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.
32.2	Certification of Chief Financial Officer and Chief Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.

Exhibit 31.1

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

I, George Gleason, certify that:

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

Date: November 7, 2019

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

Exhibit 31.2

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

I, Greg McKinney, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bank OZK;

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

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

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

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

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

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

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

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ Greg McKinney
Greg McKinney
Chief Financial Officer and
Chief Accounting Officer

Exhibit 32.1

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

In connection with the accompanying Quarterly Report of Bank OZK (the Bank) on Form 10-Q for the period ended September 30, 2019, 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 7, 2019

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

Exhibit 32.2

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

In connection with the accompanying Quarterly Report of Bank OZK (the Bank) on Form 10-Q for the period ended September 30, 2019, as filed with the Federal Deposit Insurance Corporation on the date hereof (the Report), I, Greg McKinney, Chief Financial Officer and Chief Accounting 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 7, 2019

/s/ Greg McKinney
Greg McKinney
Chief Financial Officer and
Chief Accounting Officer