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, 2018

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

For the transition period from __________ to __________.

FDIC Certificate No. 110

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

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

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

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

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)			
Smaller reporting company	☐	Emerging growth company	☐

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

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

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

Class	Outstanding at October 31, 2018
Common Stock, $0.01 par value per share	128,614,027

BANK OZK
FORM 10-Q
September 30, 2018

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BANK OZK
CONSOLIDATED BALANCE SHEETS

	Unaudited September 30, 2018	December 31, 2017
	(Dollars in thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 387,766	$ 440,388
Investment securities - available for sale (“AFS”)	2,669,877	2,593,873
Federal Home Loan Bank of Dallas and other banker's bank stocks	36,279	28,923
Non-purchased loans	14,440,623	12,733,937
Purchased loans	2,285,168	3,309,092
Allowance for loan losses	(98,200)	(94,120)
Net loans	16,627,591	15,948,909
Premises and equipment, net	538,523	519,811
Foreclosed assets	18,470	25,357
Accrued interest receivable	76,091	64,608
Bank owned life insurance (“BOLI”)	716,648	658,147
Intangible assets, net	699,606	709,040
Other, net	315,688	286,591
Total assets	$ 22,086,539	$ 21,275,647
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Deposits:		
Demand non-interest bearing	$ 2,776,549	$ 2,726,623
Savings and interest bearing transaction	9,919,192	10,051,122
Time	5,127,174	4,414,600
Total deposits	17,822,915	17,192,345
Repurchase agreements with customers	51,891	69,331
Other borrowings	1,729	22,320
Subordinated notes	223,185	222,899
Subordinated debentures	119,217	118,800
Accrued interest payable and other liabilities	210,968	186,164
Total liabilities	18,429,905	17,811,859
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock; $0.01 par value; 100,000,000 shares authorized; no shares issued or outstanding at September 30, 2018 or December 31, 2017	—	—
Common stock; $0.01 par value; 300,000,000 shares authorized; 128,609,237 and 128,287,550 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	1,286	1,283
Additional paid-in capital	2,234,383	2,221,844
Retained earnings	1,477,178	1,250,313
Accumulated other comprehensive loss	(59,251)	(12,712)
Total stockholders’ equity before noncontrolling interest	3,653,596	3,460,728
Noncontrolling interest	3,038	3,060
Total stockholders’ equity	3,656,634	3,463,788
Total liabilities and stockholders’ equity	$ 22,086,539	$ 21,275,647

See accompanying notes to consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF INCOME
Unaudited

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
	(Dollars in thousands, except per share amounts)			
Interest income:				
Non-purchased loans	$ 219,847	$ 159,610	$ 620,659	$ 429,023
Purchased loans	40,173	68,473	138,012	220,196
Investment securities:				
Taxable	12,472	7,802	35,380	15,799
Tax-exempt	3,991	5,428	12,252	18,087
Deposits with banks and federal funds sold	1,112	253	2,448	388
Total interest income	277,595	241,566	808,751	683,493
Interest expense:				
Deposits	51,785	27,077	130,009	66,933
Repurchase agreements with customers	215	33	759	93
Other borrowings	144	255	824	732
Subordinated notes	3,216	3,190	9,542	9,430
Subordinated debentures	1,621	1,289	4,567	3,707
Total interest expense	56,981	31,844	145,701	80,895
Net interest income	220,614	209,722	663,050	602,598
Provision for loan losses	41,949	7,777	57,126	18,814
Net interest income after provision for loan losses	178,665	201,945	605,924	583,784
Non-interest income:				
Service charges on deposit accounts	9,730	9,729	28,959	32,794
Mortgage lending income	24	1,620	517	5,105
Trust income	1,730	1,755	5,114	4,962
BOLI income	5,321	4,453	18,160	13,511
Other income from purchased loans, net	1,418	2,933	5,413	11,447
Loan service, maintenance and other fees	4,724	5,274	15,108	11,407
Gains (losses) on sales of other assets	(518)	1,363	1,753	3,654
Net gains on investment securities	—	2,429	17	2,833
Other	1,692	3,191	5,174	7,932
Total non-interest income	24,121	32,747	80,215	93,645
Non-interest expense:				
Salaries and employee benefits	41,477	35,331	128,641	113,777
Net occupancy and equipment	14,358	13,595	42,335	39,724
Other operating expenses	47,107	35,473	114,883	92,992
Total non-interest expense	102,942	84,399	285,859	246,493
Income before taxes	99,844	150,293	400,280	430,936
Provision for income taxes	25,665	54,246	98,227	155,153
Net income	74,179	96,047	302,053	275,783
Earnings attributable to noncontrolling interest	1	(40)	22	(56)
Net income available to common stockholders	$ 74,180	$ 96,007	$ 302,075	$ 275,727
Basic earnings per common share	$ 0.58	$ 0.75	$ 2.35	$ 2.21
Diluted earnings per common share	$ 0.58	$ 0.75	$ 2.35	$ 2.21
Dividends declared per common share	$ 0.20	$ 0.18	$ 0.585	$ 0.525

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,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Net income	$ 74,179	$ 96,047	$ 302,053	$ 275,783
Other comprehensive income (loss):				
Unrealized gains and losses on investment securities AFS	(16,276)	1,454	(61,302)	34,050
Tax effect of unrealized gains and losses on investment securities AFS	3,938	(509)	14,763	(11,915)
Reclassification of gains and losses on investment securities AFS included in net income	—	(2,429)	—	(2,833)
Tax effect of reclassification of gains and losses on investment securities AFS included in net income	—	850	—	992
Total other comprehensive income (loss)	(12,338)	(634)	(46,539)	20,294
Total comprehensive income	$ 61,841	$ 95,413	$ 255,514	$ 296,077

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 Loss	Non-Controlling Interest	Total
	(Dollars in thousands, except per share amounts)					
Balances – December 31, 2016	$ 1,213	$1,901,880	$ 914,434	$ (25,920)	$ 3,264	$2,794,871
Cumulative effect of change in accounting principles	—	1,133	2,720	(3,408)	—	445
Balances – January 1, 2017, as adjusted	1,213	1,903,013	917,154	(29,328)	3,264	2,795,316
Net income	—	—	275,783	—	—	275,783
Earnings attributable to noncontrolling interest	—	—	(56)	—	56	—
Total other comprehensive income	—	—	—	20,294	—	20,294
Common stock dividends paid, $0.525 per share	—	—	(65,019)	—	—	(65,019)
Dividend paid to noncontrolling interest	—	—	—	—	(250)	(250)
Issuance of 158,800 shares of common stock for exercise of stock options	2	2,779	—	—	—	2,781
Issuance of 238,794 shares of unvested restricted common stock	2	(2)	—	—	—	—
Stock-based compensation expense	—	9,182	—	—	—	9,182
Forfeiture of 105,562 shares of unvested restricted common stock	(1)	1	—	—	—	—
Issuance of 14,476 shares of common stock to non-employee directors	—	—	—	—	—	—
Issuance of 6,600,000 shares of common stock, net of stock issuance costs	66	299,657	—	—	—	299,723
Balances – September 30, 2017	$ 1,282	$2,214,630	$1,127,862	$ (9,034)	$ 3,070	$3,337,810
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
Forfeiture 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, 2018	Nine Months Ended September 30, 2017
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 302,053	$ 275,783
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	16,480	15,283
Amortization	10,137	10,138
Earnings attributable to noncontrolling interest	22	(56)
Provision for loan losses	57,126	18,814
Provision for losses on foreclosed and other assets	1,380	2,494
Writedown of signage due to strategic rebranding	4,915	—
Net amortization of investment securities AFS	17,087	10,532
Net gains on investment securities AFS	(17)	(2,833)
Originations of mortgage loans held for sale	—	(163,199)
Proceeds from sales of mortgage loans held for sale	8,313	175,056
Accretion of purchased loans	(35,309)	(64,126)
Gains on sales of other assets	(1,753)	(3,654)
Deferred income tax expense	25,706	11,054
Increase in cash surrender value of BOLI	(15,431)	(13,382)
BOLI death benefits in excess of cash surrender value	(2,729)	(129)
Stock-based compensation expense	10,633	9,182
Changes in assets and liabilities:		
Accrued interest receivable	(11,483)	2,972
Other assets, net	(18,718)	4,407
Accrued interest payable and other liabilities	(11,160)	317
Net cash provided by operating activities	357,252	288,653
Cash flows from investing activities:		
Proceeds from sales of investment securities AFS	5,202	239,081
Proceeds from maturities/calls/paydowns of investment securities AFS	389,755	143,303
Purchases of investment securities AFS	(556,690)	(862,356)
Net increase of non-purchased loans	(1,544,566)	(2,179,487)
Net payments received on purchased loans	851,361	1,075,153
Purchases of premises and equipment	(52,182)	(31,315)
Purchases of BOLI	(45,000)	—
Proceeds from BOLI death benefits	4,659	705
Proceeds from sales of other assets	27,926	31,230
Cash invested in unconsolidated investments and noncontrolling interest	(9,577)	(5,534)
Net cash used by investing activities	(929,112)	(1,589,220)
Cash flows from financing activities:		
Net increase in deposits	630,570	1,248,478
Net (repayments of) proceeds from other borrowings	(591)	501
Repayment of fixed-rate callable FHLB advances	(20,000)	—
Net (decrease) increase in repurchase agreements with customers	(17,440)	5,055
Proceeds from exercise of stock options	5,679	2,781
Cash dividends paid on common stock	(75,210)	(65,019)
Repurchase and cancellation of shares of common stock	(3,770)	—
Proceeds from issuance of common stock	—	299,723
Net cash provided by financing activities	519,238	1,491,519
Net (decrease) increase in cash and cash equivalents	(52,622)	190,952
Cash and cash equivalents – beginning of period	440,388	866,360
Cash and cash equivalents – end of period	$ 387,766	$ 1,057,312

See accompanying notes to consolidated financial statements.

1. Organization and Principles of Consolidation

On June 26, 2017, as the result of an internal restructuring designed to eliminate its bank holding company structure, Bank of the Ozarks, Inc., an Arkansas corporation, merged with and into its wholly-owned subsidiary, Bank of the Ozarks (the "Bank"), with the Bank continuing as the surviving corporation (the "Reorganization"). Unless the context otherwise requires, references in this Quarterly Report on Form 10-Q to "Company," "we," "us" and "our" for periods prior to June 26, 2017, refer to Bank of the Ozarks, Inc., which was the parent holding company and the registrant prior to the Reorganization, and, for periods after the Reorganization, to the Bank, in each case including its consolidated subsidiaries. On July 16, 2018, the Bank changed its corporate name from Bank of the Ozarks to Bank OZK. The name change had no effect on the rights or interest of the Bank's shareholders. Shares of the Bank's common stock are listed on the Nasdaq Global Select Market under the symbol "OZK."

The Bank is headquartered in Little Rock, Arkansas and provides a wide range of retail and commercial banking services. As of September 30, 2018 the Bank conducted operations through 252 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 (the "Trusts"). 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 a fractional ownership interest in a private aircraft and various other entities that hold loans, foreclosed assets or tax credits or engage in other activities. The consolidated financial statements include the accounts of the Bank, the investment subsidiary, the real estate subsidiary, the aircraft subsidiary and certain of those various other entities in accordance with accounting principles generally accepted in the United States ("GAAP"). Significant intercompany transactions and amounts have been eliminated in consolidation.

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

2. Basis of Presentation and Change in Accounting Policy

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, 2017.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. In the opinion of management, all adjustments considered necessary, consisting of normal recurring items, have been included for a fair statement of the accompanying consolidated financial statements. Operating results for the three months and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the full year or future periods.

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

On January 1, 2017, the Bank adopted Accounting Standards Update ("ASU") 2016-09, "Improvements to Employee Share-Based Payment Accounting." In accordance with the provisions of ASU 2016-09, the Bank elected to account for forfeitures of stock-based compensation awards as they occur. Prior to the adoption of ASU 2016-09, the Bank estimated forfeiture rates and the impact that estimated forfeitures would have on stock-based awards that were expected to vest. The Bank believes this forfeiture policy election is a more efficient method of accounting for forfeitures. The adoption of ASU 2016-09 resulted in a cumulative adjustment to increase total stockholders' equity at January 1, 2017 by approximately $0.4 million.

In February 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-02 "Reclassification of Tax Effects from Other Comprehensive Income" which permits entities to reclassify tax effects stranded in accumulated other comprehensive income (loss) as a result of the Tax Cuts and Jobs Act (the "Tax Act"). ASU 2018-02 is effective for interim and annual periods beginning after December 15, 2018; however, early adoption was permitted. The Bank adopted the provisions of ASU 2018-02 effective as of the beginning of 2017 as a cumulative effect adjustment by reclassifying $3.4 million from accumulated other comprehensive income (loss) to retained earnings. The adoption of ASU 2018-02 during 2017 allowed the Bank to align the tax effects included in accumulated other comprehensive income (loss) with the revised federal tax rates included in the Tax Act.

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 using the treasury stock method. Options to purchase 1,492,219 shares and 1,100,881 shares, respectively, of the Bank's common stock for the three months ended September 30, 2018 and 2017, and options to purchase 1,503,823 shares and 1,132,891 shares, respectively, of the Bank's common stock for the nine months ended September 30, 2018 and 2017 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,	
	2018	2017	2018	2017
	(In thousands, except per share amounts)			
Numerator:				
Distributed earnings allocated to common stockholders	$ 25,723	$ 23,085	$ 75,210	$ 65,019
Undistributed earnings allocated to common stockholders	48,457	72,922	226,865	210,708
Net income available to common stockholders	$ 74,180	$ 96,007	$ 302,075	$ 275,727
Denominator:				
Denominator for basic EPS – weighted-average common shares	128,608	128,182	128,589	124,534
Effect of dilutive securities – stock options	136	290	182	366
Denominator for diluted EPS – weighted-average common shares and assumed conversions	128,744	128,472	128,771	124,900
Basic EPS	$ 0.58	$ 0.75	$ 2.35	$ 2.21
Diluted EPS	$ 0.58	$ 0.75	$ 2.35	$ 2.21

4. Investment Securities AFS

At both September 30, 2018 and December 31, 2017, 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 taxes, reported as a separate component of stockholders' equity and included in accumulated other comprehensive income (loss).

The following table presents the amortized cost and estimated fair value of investment securities AFS as of the dates indicated. The Bank's investment in the "CRA qualified investment fund" includes shares held in a mutual fund that qualifies under the Community Reinvestment Act of 1977 for community reinvestment purposes.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
September 30, 2018:				
Mortgage-backed securities(1)	$ 2,077,980	$ 239	$ (61,542)	$ 2,016,677
Obligations of state and political subdivisions	625,937	2,617	(18,244)	610,310
U.S. Government agency securities	27,602	—	(856)	26,746
Corporate obligations	15,178	—	(76)	15,102
CRA qualified investment fund	1,102	—	(60)	1,042
Total	$ 2,747,799	$ 2,856	$ (80,778)	$ 2,669,877
December 31, 2017:				
Mortgage-backed securities(1)	$ 1,918,171	$ 968	$ (20,115)	$ 1,899,024
Obligations of state and political subdivisions	661,446	6,471	(3,358)	664,559
U.S. Government agency securities	29,792	—	(559)	29,233
CRA qualified investment fund	1,084	—	(27)	1,057
Total	$ 2,610,493	$ 7,439	$ (24,059)	$ 2,593,873

(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, 2018:						
Mortgage-backed securities[1]	$1,202,634	$ (27,067)	$ 802,279	$ (34,475)	$2,004,913	$ (61,542)
Obligations of state and political subdivisions	246,138	(6,752)	228,201	(11,492)	474,339	(18,244)
U.S. Government agency securities	3,595	(88)	23,150	(768)	26,745	(856)
Corporate obligations	15,102	(76)	—	—	15,102	(76)
CRA qualified investment fund	—	—	1,042	(60)	1,042	(60)
Total temporarily impaired securities	$1,467,469	$ (33,983)	$1,054,672	$ (46,795)	$2,522,141	$ (80,778)
December 31, 2017:						
Mortgage-backed securities[1]	$1,545,138	$ (13,067)	$ 289,781	$ (7,048)	$1,834,919	$ (20,115)
Obligations of state and political subdivisions	44,261	(328)	230,137	(3,030)	274,398	(3,358)
U.S. Government agency securities	4,711	(31)	21,400	(528)	26,111	(559)
CRA qualified investment fund	—	—	1,057	(27)	1,057	(27)
Total temporarily impaired securities	$1,594,110	$ (13,426)	$ 542,375	$ (10,633)	$2,136,485	$ (24,059)

(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, 2018 and December 31, 2017, 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, 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, 2018	
Maturity or Estimated Repayment	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
One year or less	$ 435,482	$ 424,140
After one year to five years	1,223,374	1,190,416
After five years to ten years	609,260	594,356
After ten years	479,683	460,965
Total	$ 2,747,799	$ 2,669,877

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) the CRA qualified investment fund with no contractual maturity date is shown in the longest maturity category, (ii) 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 (iii) 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,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Sales proceeds	$ —	$ 149,635	$ 5,202	$ 239,081
Gross realized gains	—	2,795	17	3,635
Gross realized losses	—	(366)	—	(802)
Net gains on investment securities	$ —	$ 2,429	$ 17	$ 2,833

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,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Beginning balance	$ 104,638	$ 82,320	$ 94,120	$ 76,541
Charge-offs of non-purchased loans	(48,160)	(2,582)	(51,843)	(5,783)
Recoveries of non-purchased loans previously charged off	322	246	1,173	1,426
Net charge-offs – non-purchased loans	(47,838)	(2,336)	(50,670)	(4,357)
Charge-offs of purchased loans	(1,413)	(1,541)	(4,140)	(6,261)
Recoveries of purchased loans previously charged off	864	564	1,764	2,047
Net charge-offs – purchased loans	(549)	(977)	(2,376)	(4,214)
Net charge-offs – total loans	(48,387)	(3,313)	(53,046)	(8,571)
Provision for loan losses:				
Non-purchased loans	41,400	6,800	54,750	14,600
Purchased loans	549	977	2,376	4,214
Total provision	41,949	7,777	57,126	18,814
Ending balance	$ 98,200	$ 86,784	$ 98,200	$ 86,784
ALL allocated to non-purchased loans	$ 96,600	$ 85,184	$ 96,600	$ 85,184
ALL allocated to purchased loans	1,600	1,600	1,600	1,600
Total ALL	$ 98,200	$ 86,784	$ 98,200	$ 86,784

During the third quarter of 2018, the Bank obtained updated appraisals and incurred charge-offs totaling $45.5 million on two unrelated nonpurchased credits. While these two credits were previously classified as substandard and had combined allowance allocations of $19.1 million, neither credit was past due or otherwise deemed to be nonperforming or impaired at June 30, 2018. As a result of such charge-offs during the third quarter, the Bank recorded provision expense of $26.4 million. As of September 30, 2018, both credits, which had an aggregate balance, after the charge-offs, of $20.6 million, were on nonaccrual status and were deemed impaired.

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, 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

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
			(Dollars in thousands)		
Three months ended September 30, 2017:					
Non-purchased loans:					
Real estate:					
Residential 1-4 family	$ 12,105	$ (102)	$ 17	$ 40	$ 12,060
Non-farm/non-residential	23,704	(368)	4	1,838	25,178
Construction/land development	19,942	(20)	3	2,917	22,842
Agricultural	2,323	—	34	(1,105)	1,252
Multifamily residential	4,450	—	—	(2,001)	2,449
Commercial and industrial	2,739	(470)	40	1,413	3,722
Consumer	5,803	(110)	5	1,580	7,278
Other	9,654	(1,512)	143	2,118	10,403
Total non-purchased loans	80,720	(2,582)	246	6,800	85,184
Purchased loans	1,600	(1,541)	564	977	1,600
Total loans	$ 82,320	$ (4,123)	$ 810	$ 7,777	$ 86,784
Nine months ended September 30, 2017:					
Non-purchased loans:					
Real estate:					
Residential 1-4 family	$ 10,225	$ (272)	$ 24	$ 2,083	$ 12,060
Non-farm/non-residential	21,555	(380)	545	3,458	25,178
Construction/land development	20,673	(113)	21	2,261	22,842
Agricultural	2,787	(2)	34	(1,567)	1,252
Multifamily residential	2,447	—	—	2	2,449
Commercial and industrial	2,359	(739)	133	1,969	3,722
Consumer	1,945	(270)	141	5,462	7,278
Other	12,950	(4,007)	528	932	10,403
Total non-purchased loans	74,941	(5,783)	1,426	14,600	85,184
Purchased loans	1,600	(6,261)	2,047	4,214	1,600
Total loans	$ 76,541	$ (12,044)	$ 3,473	$ 18,814	$ 86,784

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, 2018:						
Real estate:						
Residential 1-4 family	$ 699	$ 13,261	$ 13,960	$ 5,133	$ 675,204	$ 680,337
Non-farm/non-residential	4	17,312	17,316	13,950	3,123,226	3,137,176
Construction/land development	49	27,560	27,609	11,275	6,273,043	6,284,318
Agricultural	—	1,336	1,336	914	159,798	160,712
Multifamily residential	—	4,745	4,745	99	923,506	923,605
Commercial and industrial	259	9,769	10,028	1,227	879,476	880,703
Consumer	70	18,677	18,747	288	1,683,735	1,684,023
Other	—	2,859	2,859	74	689,675	689,749
Total	$ 1,081	$ 95,519	$ 96,600	$ 32,960	$14,407,663	$14,440,623
December 31, 2017:						
Real estate:						
Residential 1-4 family	$ 520	$ 12,309	$ 12,829	$ 4,483	$ 614,998	$ 619,481
Non-farm/non-residential	116	26,739	26,855	3,000	2,926,867	2,929,867
Construction/land development	101	27,321	27,422	2,155	6,282,578	6,284,733
Agricultural	—	1,093	1,093	1,178	133,608	134,786
Multifamily residential	—	2,395	2,395	—	369,329	369,329
Commercial and industrial	222	10,226	10,448	1,448	627,847	629,295
Consumer	91	8,767	8,858	528	899,119	899,647
Other	26	2,594	2,620	176	866,623	866,799
Total	$ 1,076	$ 91,444	$ 92,520	$ 12,968	$12,720,969	$12,733,937

(1) Excludes $1.6 million of ALL allocated to the Bank's purchased loans at both September 30, 2018 and December 31, 2017.

The following table is a summary of impaired non-purchased loans as of September 30, 2018.

	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	$ 4,485	$ —	$ 4,485	$ 699
Non-farm/non-residential	79	—	79	4
Construction/land development	314	—	314	49
Agricultural	—	—	—	—
Commercial and industrial	990	—	990	259
Consumer	257	—	257	70
Other	—	—	—	—
Total impaired loans with a related ALL	6,125	—	6,125	1,081
Impaired loans for which there is not a related ALL:				
Real estate:				
Residential 1-4 family	1,062	(414)	648	—
Non-farm/non-residential	34,751	(20,880)	13,871	—
Construction/land development	36,556	(25,595)	10,961	—
Agricultural	943	(29)	914	—
Multifamily residential	232	(133)	99	—
Commercial and industrial	322	(85)	237	—
Consumer	47	(16)	31	—
Other	202	(128)	74	—
Total impaired loans without a related ALL	74,115	(47,280)	26,835	—
Total impaired non-purchased loans	$ 80,240	$ (47,280)	$ 32,960	$ 1,081

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Real estate:				
Residential 1-4 family	$ 5,053	$ 3,711	$ 4,627	$ 3,064
Non-farm/non-residential	9,143	2,960	6,132	2,834
Construction/land development	6,371	2,337	4,136	3,093
Agricultural	1,056	1,289	1,129	1,220
Multifamily residential	49	—	25	245
Commercial and industrial	1,235	1,563	1,487	1,262
Consumer	292	301	373	186
Other	52	19	78	12
Total average impaired non-purchased loans	$ 23,251	$ 12,180	$ 17,987	$ 11,916

The following table is a summary of impaired non-purchased loans as of December 31, 2017.

	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	$ 3,223	$ —	$ 3,223	$ 520
Non-farm/non-residential	996	—	996	116
Construction/land development	806	—	806	101
Agricultural	—	—	—	—
Multifamily residential	—	—	—	—
Commercial and industrial	737	—	737	222
Consumer	328	—	328	91
Other	176	—	176	26
Total impaired loans with a related ALL	6,266	—	6,266	1,076
Impaired loans for which there is not a related ALL:				
Real estate:				
Residential 1-4 family	1,935	(675)	1,260	—
Non-farm/non-residential	3,072	(1,068)	2,004	—
Construction/land development	2,349	(1,000)	1,349	—
Agricultural	1,207	(29)	1,178	—
Multifamily residential	133	(133)	—	—
Commercial and industrial	792	(81)	711	—
Consumer	261	(61)	200	—
Other	—	—	—	—
Total impaired loans without a related ALL	9,749	(3,047)	6,702	—
Total impaired non-purchased loans	$ 16,015	$ (3,047)	$ 12,968	$ 1,076

Management has determined that certain of the Bank's impaired non-purchased loans do not require any specific allowance at September 30, 2018 or at December 31, 2017 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, 2018 and 2017 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, 2018:					
Real estate:					
Residential 1-4 family[(1)]	$ 672,311	$ —	$ 2,910	$ 5,116	$ 680,337
Non-farm/non-residential	2,296,574	760,001	62,451	18,150	3,137,176
Construction/land development	5,766,411	453,790	52,544	11,573	6,284,318
Agricultural	32,625	119,561	6,449	2,077	160,712
Multifamily residential	822,867	97,261	2,383	1,094	923,605
Commercial and industrial	299,021	572,102	5,566	4,014	880,703
Consumer [(1)]	1,682,831	—	913	279	1,684,023
Other [(1)]	659,370	30,215	29	135	689,749
Total	$12,232,010	$ 2,032,930	$ 133,245	$ 42,438	$14,440,623
December 31, 2017:					
Real estate:					
Residential 1-4 family[(1)]	$ 609,271	$ —	$ 5,810	$ 4,400	$ 619,481
Non-farm/non-residential	2,312,610	523,570	56,005	37,682	2,929,867
Construction/land development	5,743,616	497,267	7,957	35,893	6,284,733
Agricultural	34,129	92,436	5,958	2,263	134,786
Multifamily residential	296,063	69,714	2,532	1,020	369,329
Commercial and industrial	222,920	397,868	5,893	2,614	629,295
Consumer [(1)]	881,070	12,233	5,580	764	899,647
Other [(1)]	857,552	8,779	54	414	866,799
Total	$10,957,231	$ 1,601,867	$ 89,789	$ 85,050	$12,733,937

(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, 2018:					
Real estate:					
Residential 1-4 family	$ 3,996	$ 3,243	$ 7,239	$ 673,098	$ 680,337
Non-farm/non-residential	878	2,251	3,129	3,134,047	3,137,176
Construction/land development	524	8,635	9,159	6,275,159	6,284,318
Agricultural	77	71	148	160,564	160,712
Multifamily residential	537	99	636	922,969	923,605
Commercial and industrial	1,503	934	2,437	878,266	880,703
Consumer	1,039	72	1,111	1,682,912	1,684,023
Other	—	75	75	689,674	689,749
Total	$ 8,554	$ 15,380	$ 23,934	$14,416,689	$14,440,623
December 31, 2017:					
Real estate:					
Residential 1-4 family	$ 5,906	$ 3,891	$ 9,797	$ 609,684	$ 619,481
Non-farm/non-residential	2,028	2,225	4,253	2,925,614	2,929,867
Construction/land development	224	1,135	1,359	6,283,374	6,284,733
Agricultural	203	249	452	134,334	134,786
Multifamily residential	—	—	—	369,329	369,329
Commercial and industrial	1,922	332	2,254	627,041	629,295
Consumer	193	339	532	899,115	899,647
Other	190	176	366	866,433	866,799
Total	$ 10,666	$ 8,347	$ 19,013	$12,714,924	$12,733,937

(1) Includes $1.4 million at September 30, 2018 and $0.5 million at December 31, 2017 of loans on nonaccrual status.
(2) All loans greater than 90 days past due were on nonaccrual status at September 30, 2018 and December 31, 2017.
(3) Includes $16.1 million and $4.1 million of loans on nonaccrual status at September 30, 2018 and December 31, 2017, 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, 2018, 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, 2018, the Bank had $5.1 million of impaired purchased loans compared to $10.0 million at December 31, 2017.

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, 2018:								
Real estate:								
Residential 1-4 family	$ 53,427	$ 193,630	$ 53,115	$33,862	$ 368	$ 38,607	$ 1,892	$ 374,901
Non-farm/non-residential	122,365	724,070	187,967	1,677	617	78,420	1,487	1,116,603
Construction/land development	53,304	136,959	17,999	744	306	4,566	11	213,889
Agricultural	96	1,767	1,190	49	—	2,122	—	5,224
Multifamily residential	14,047	52,660	2,800	508	—	1,748	—	71,763
Commercial and industrial	8,999	34,919	3,652	261	26	6,440	87	54,384
Consumer	195,859	210,961	35,627	517	270	123	—	443,357
Other	3,621	1,091	221	3	—	111	—	5,047
Total	$451,718	$1,356,057	$302,571	$37,621	$ 1,587	$132,137	$ 3,477	$2,285,168
December 31, 2017:								
Real estate:								
Residential 1-4 family	$ 70,915	$ 266,020	$118,074	$44,070	$ 481	$ 52,759	$ 2,627	$ 554,946
Non-farm/non-residential	195,075	998,475	260,495	2,039	3,795	87,069	2,061	1,549,009
Construction/land development	31,820	268,451	50,689	1,429	404	10,522	13	363,328
Agricultural	6,710	3,122	2,251	180	—	2,547	407	15,217
Multifamily residential	15,705	103,166	9,783	579	—	9,952	—	139,185
Commercial and industrial	11,321	83,177	6,777	568	68	6,905	114	108,930
Consumer	244,202	276,781	50,740	1,040	49	134	—	572,946
Other	4,095	1,211	109	5	—	111	—	5,531
Total	$579,843	$2,000,403	$498,918	$49,910	$ 4,797	$169,999	$ 5,222	$3,309,092

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.

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, 2018:					
Real estate:					
Residential 1-4 family	$ 5,229	$ 3,274	$ 8,503	$ 366,398	$ 374,901
Non-farm/non-residential	9,359	13,111	22,470	1,094,133	1,116,603
Construction/land development	335	1,476	1,811	212,078	213,889
Agriculture	—	209	209	5,015	5,224
Multifamily residential	—	—	—	71,763	71,763
Commercial and industrial	494	889	1,383	53,001	54,384
Consumer	2,349	498	2,847	440,510	443,357
Other	—	—	—	5,047	5,047
Total	$ 17,766	$ 19,457	$ 37,223	$ 2,247,945	$ 2,285,168
Purchased loans without evidence of credit deterioration at date of acquisition	$ 8,564	$ 8,581	$ 17,145	$ 2,132,409	$ 2,149,554
Purchased loans with evidence of credit deterioration at date of acquisition	9,202	10,876	20,078	115,536	135,614
Total	$ 17,766	$ 19,457	$ 37,223	$ 2,247,945	$ 2,285,168
December 31, 2017:					
Real estate:					
Residential 1-4 family	$ 8,260	$ 7,833	$ 16,093	$ 538,853	$ 554,946
Non-farm/non-residential	9,589	15,796	25,385	1,523,624	1,549,009
Construction/land development	1,594	840	2,434	360,894	363,328
Agriculture	192	461	653	14,564	15,217
Multifamily residential	76	—	76	139,109	139,185
Commercial and industrial	878	748	1,626	107,304	108,930
Consumer	3,926	933	4,859	568,087	572,946
Other	—	—	—	5,531	5,531
Total	$ 24,515	$ 26,611	$ 51,126	$ 3,257,966	$ 3,309,092
Purchased loans without evidence of credit deterioration at date of acquisition	$ 18,374	$ 12,798	$ 31,172	$ 3,102,699	$ 3,133,871
Purchased loans with evidence of credit deterioration at date of acquisition	6,141	13,813	19,954	155,267	175,221
Total	$ 24,515	$ 26,611	$ 51,126	$ 3,257,966	$ 3,309,092

6. Supplemental Data for Cash Flows

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

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
	(Dollars in thousands)	
Cash paid during the period for:		
Interest	$ 145,771	$ 84,243
Taxes	76,169	126,296
Supplemental schedule of non-cash investing and financing activities:		
Net change in unrealized gains/losses on investment securities AFS	61,302	31,216
Loans transferred to foreclosed assets	8,518	12,458
Unsettled loan purchases	25,000	80,251

7. Commitments and Contingencies

Outstanding standby letters of credit are contingent commitments issued by the Bank generally to guarantee the performance of a customer in third party arrangements. The maximum amount of future payments the Bank could be required to make under these guarantees at September 30, 2018 was $24.3 million. The Bank holds collateral to support guarantees when deemed necessary. Collateralized commitments at September 30, 2018 totaled $23.0 million.

At September 30, 2018, the Bank had outstanding commitments totaling $11.89 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, 2018 Maturity	Amount
(Dollars in thousands)	
2018	$ 158,158
2019	1,665,869
2020	4,252,028
2021	4,114,480
2022	1,468,729
Thereafter	231,983
Total	$ 11,891,247

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.

During the fourth quarter of 2017, the Bank filed for affirmative consent with the Internal Revenue Service (the "Service") two separate advance consent applications for changes in accounting methods related to its tax methods of accounting for its loan portfolio and its loan origination fees. The Bank's application for change in accounting method for its loan origination fees has been approved by the Service. The remaining application for change in accounting method for the Bank's loan portfolio is still pending affirmative consent of the Service. Should the Service not provide affirmative consent to the remaining application or otherwise take exception to some element of the Bank's calculation and proposed tax deduction, some portion of the Bank's current income tax receivable totaling approximately $231 million would be reclassified to a deferred income tax asset, would have to be revalued using a 21% federal income tax rate, and could have an adverse effect on the Bank's financial position and results of operation.

8. Stock-Based Compensation

The Bank has a nonqualified stock option plan for certain employees and officers of the Bank. This plan provides for the granting of nonqualified options to purchase shares of common stock in the Bank. No option may be granted under this plan for less than the fair market value of the common stock, defined by the plan as the average of the highest reported asked price and the lowest reported bid price, on the date of the grant. The benefits or amounts that may be received by or allocated to any particular officer or employee of the Bank or any subsidiary under this plan are determined in the sole discretion of the Bank's board of directors or its personnel and compensation committee. All employee options outstanding at September 30, 2018 were issued with a vesting date three years after issuance and an expiration date seven years after issuance. All shares issued in connection with options exercised under the employee nonqualified stock option plan were in the form of newly issued shares. At September 30, 2018, there were 623,063 shares available for future grants under this plan.

The Bank previously had a nonqualified stock option plan for non-employee directors. No options were granted under this plan during the nine months ended September 30, 2018 or 2017. All options previously granted under this plan were exercisable immediately and expire ten years after issuance.

The following table summarizes stock option activity for both the employee and non-employee director stock option 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, 2018:				
Outstanding – January 1, 2018	1,686,756	$ 42.86		
Granted	573,143	51.07		
Exercised	(216,990)	26.17		
Forfeited	(128,072)	51.85		
Outstanding – September 30, 2018	1,914,837	46.60	4.9	$ 4,106 (1)
Fully vested and exercisable – September 30, 2018	431,120	$ 28.47	2.9	$ 4,098 (1)

(1) Based on closing price of $37.96 per share on September 28, 2018.

Intrinsic value for stock options is defined as the amount by which the current market price of the underlying stock exceeds the exercise price. For those stock options where the exercise price exceeds the current market price of the underlying stock, the intrinsic value is zero. The total intrinsic value of options exercised was $0.2 million and $2.2 million during the three months ended September 30, 2018 and 2017, respectively, and $5.5 million and $5.2 million during the nine months ended September 30, 2018 and 2017, respectively.

Options to purchase 573,143 shares were granted during the nine months ended September 30, 2018 with a weighted-average grant date fair value of $12.52. 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-Sholes option pricing model for stock options granted during the period indicated.

	Nine Months Ended September 30, 2018
Risk-free interest rate	2.42%
Expected dividend yield	1.59%
Expected stock volatility	28.5%
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 Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 110.

Stock-based compensation expense for stock options included in non-interest expense was $1.4 million and $0.6 million for the three months ended September 30, 2018 and 2017, respectively, and $4.4 million and $3.7 million for the nine months ended September 30, 2018 and 2017, respectively. Total unrecognized compensation cost related to non-vested stock option grants was $8.6 million at September 30, 2018 and is expected to be recognized over a weighted-average period of 1.9 years.

The Bank has a restricted stock and incentive plan (the "Employee Plan") that permits issuance of up to 2,400,000 shares of restricted stock, restricted stock units or performance awards. All officers and employees of the Bank are eligible to receive awards under the Employee Plan. The benefits or amounts received by or allocated to any particular officer or employee of the Bank, or subsidiary, under the Employee Plan are determined in the sole discretion of the Bank's board of directors or its personnel and compensation committee. Shares of common stock issued under the Employee Plan may be shares of original issuance or shares held in treasury that have been reacquired by the Bank. The Bank issued 202,468 shares of restricted common stock under the Employee Plan during the first nine months of 2018. At September 30, 2018 there were 897,972 shares available for future grants under this plan. The vesting period for all restricted stock awards granted under the plan shall be not less than three years from the date of grant, subject to limited exceptions.

The Bank has a Non-Employee Director Stock Plan (the "Director Plan") that provides for stock awards to eligible non-employee directors. Effective May 7, 2018, the Director Plan was amended and restated to change the annual director grant to include a one-year vesting period. Pursuant to the Director Plan, as amended and restated, each non-employee director of the Bank receives a grant for shares of restricted common stock on the day of his or her election, re-election or appointment as director of the Bank. The maximum number of shares of restricted common stock to be awarded per recipient per year is $100,000 worth of shares of restricted common stock. The Bank issued 17,634 shares, or $50,000 worth of shares per recipient rounded down to the nearest whole share (and pro rated where applicable), of restricted common stock with a one-year vesting period under the Director Plan during the nine months ended September 30, 2018. At September 30, 2018 there were 47,818 shares available for future grants under the Director Plan.

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

	Nine Months Ended September 30, 2018
Outstanding – December 31, 2017	552,415
Granted	220,102
Forfeited	(43,655)
Vested	(179,825)
Outstanding – September 30, 2018	549,037
Weighted-average grant date fair value	$ 49.54

Restricted stock awards totaling 220,102 shares with a weighted-average grant date fair value of $50.54 were granted pursuant to the Employee Plan and the Director Plan during the nine months ended September 30, 2018. 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 $1.9 million and $0.3 million for the three months ended September 30, 2018 and 2017, respectively and $6.2 million and $4.8 million for the nine months ended September 30, 2018 and 2017, respectively. Unrecognized compensation expense for non-vested restricted stock awards was $12.6 million at September 30, 2018 and is expected to be recognized over a weighted-average period of 1.8 years.

Prior to the amendment and restatement of the Director Plan on May 7, 2018, each non-employee director received a fully vested award of common stock on the day of his or her election, re-election or appointment as a director of the Bank. The Bank issued 14,476 shares of common stock and incurred $0.7 million in stock-based compensation expense during the first nine months of 2017.

9. Fair Value Measurements

The Bank measures certain of its assets and liabilities on a fair value basis using various valuation techniques and assumptions, depending on the nature of the asset or liability. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, fair value is used either on a periodic basis, typically at least quarterly, or on a non-recurring basis to evaluate certain assets and liabilities for impairment or for disclosure purposes. The Bank had no material liabilities that were accounted for at fair value at September 30, 2018 or December 31, 2017.

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, 2018:				
Investment securities AFS :				
Mortgage-backed securities[1]	$ —	$ 2,016,677	$ —	$ 2,016,677
Obligations of state and political subdivisions	—	595,004	15,306	610,310
U.S. Government agency securities	—	26,746	—	26,746
Corporate obligations	—	15,102	—	15,102
CRA qualified investment fund	1,042	—	—	1,042
Total investment securities AFS	1,042	2,653,529	15,306	2,669,877
Impaired non-purchased loans	—	—	31,879	31,879
Impaired purchased loans	—	—	5,064	5,064
Foreclosed assets	—	—	18,470	18,470
Total assets at fair value	$ 1,042	$ 2,653,529	$ 70,719	$ 2,725,290
December 31, 2017:				
Investment securities AFS :				
Mortgage-backed securities[1]	$ —	$ 1,899,024	$ —	$ 1,899,024
Obligations of state and political subdivisions	—	648,134	16,425	664,559
U.S. Government agency securities	—	29,233	—	29,233
CRA qualified investment fund	1,057	—	—	1,057
Total investment securities AFS	1,057	2,576,391	16,425	2,593,873
Impaired non-purchased loans	—	—	11,892	11,892
Impaired purchased loans	—	—	10,019	10,019
Foreclosed assets	—	—	25,357	25,357
Total assets at fair value	$ 1,057	$ 2,576,391	$ 63,693	$ 2,641,141

(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, 2018	Technique	Unobservable Inputs
	(Dollars in thousands)		
Impaired non-purchased loans	$ 31,879	Third party appraisal [1] or discounted cash flows	1. Management discount based on underlying collateral characteristics and market conditions 2. Life of loan
Impaired purchased loans	$ 5,064	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	$ 18,470	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 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 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, 2018. 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 $15.3 million at September 30, 2018 were calculated using Level 3 hierarchy inputs and assumptions as the trading market for such securities was determined to be "not active." This determination was based on the limited number of trades or, in certain cases, the existence of no reported trades for the private placement bonds. The private placement bonds are generally prepayable at par value at the option of the issuer. As a result, management believes the private placement bonds should be individually valued at the lower of (i) the matrix pricing provided by the Bank's third party pricing services for comparable unrated municipal securities or (ii) par value. At September 30, 2018, the third parties' pricing matrices valued the Bank's portfolio of private placement bonds at $15.3 million, which was approximately the same as the aggregate par value of the private placement bonds. Accordingly, at September 30, 2018, the Bank reported the private placement bonds at $15.3 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, 2018 the Bank had reduced the carrying value of its impaired non-purchased loans (all of which are included in nonaccrual loans) by $48.4 million to the estimated fair value of $31.9 million. The $48.4 million adjustment to reduce the carrying value of such impaired loans to estimated fair value consisted of $47.3 million of partial charge-offs and $1.1 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, 2018, 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, 2018, the Bank had $5.1 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, 2018, the Bank had $18.5 million of foreclosed assets.

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

	Investment Securities AFS
	(Dollars in thousands)
Balance – December 31, 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
Balance – December 31, 2016	$ 17,379
Total realized gains (losses) included in earnings	—
Total unrealized gains (losses) included in comprehensive income	184
Paydowns and maturities	(822)
Sales	—
Transfers in and/or out of Level 3	—
Balance – September 30, 2017	$ 16,741

10. Fair Value of Financial Instruments

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

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

Investment securities 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 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, 2018 or December 31, 2017.

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, 2018 Carrying Amount	September 30, 2018 Estimated Fair Value	December 31, 2017 Carrying Amount	December 31, 2017 Estimated Fair Value
		(Dollars in thousands)			
Financial assets:					
Cash and cash equivalents	Level 1	$ 387,766	$ 387,766	$ 440,388	$ 440,388
Investment securities AFS	Levels 1, 2 and 3	2,669,877	2,669,877	2,593,873	2,593,873
Loans, net of ALL	Level 3	16,627,591	16,297,334	15,948,909	15,696,876
Financial liabilities:					
Demand, savings and interest bearing transaction deposits	Level 1	$ 12,695,741	$ 12,695,741	$12,777,745	$ 12,777,745
Time deposits	Level 2	5,127,174	5,155,020	4,414,600	4,430,627
Repurchase agreements with customers	Level 1	51,891	51,891	69,331	69,331
Other borrowings	Level 2	1,729	1,720	22,320	22,344
Subordinated notes	Level 2	223,185	217,165	222,899	219,356
Subordinated debentures	Level 2	119,217	107,506	118,800	94,057

11. Repurchase Agreements With Customers

At September 30, 2018 and December 31, 2017, securities sold under agreements to repurchase ("repurchase agreements") totaled $51.9 million and $69.3 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.

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

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

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
	(Dollars in thousands)			
Beginning balance of AOCI – unrealized gains and losses on investment securities AFS	$ (46,913)	$ (8,400)	$ (12,712)	$ (25,920)
Cumulative effect of change in accounting principle	—	—	—	(3,408)
Beginning balance of AOCI, as adjusted – unrealized gains and losses on investment securities AFS	(46,913)	(8,400)	(12,712)	(29,328)
Other comprehensive income (loss):				
Unrealized gains and losses on investment securities AFS	(16,276)	1,454	(61,302)	34,050
Tax effect of unrealized gains and losses on investment securities AFS	3,938	(509)	14,763	(11,915)
Amounts reclassified from AOCI	—	(2,429)	—	(2,833)
Tax effect of amounts reclassified from AOCI	—	850	—	992
Total other comprehensive income (loss)	(12,338)	(634)	(46,539)	20,294
Ending balance of AOCI – unrealized gains and losses on investment securities AFS	$ (59,251)	$ (9,034)	$ (59,251)	$ (9,034)

13. 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,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Professional and outside services	$ 9,725	$ 10,018	$ 27,542	$ 22,171
Telecommunication services	3,373	3,321	10,056	10,398
Software and data processing	3,336	2,982	9,786	7,745
Postage and supplies	2,517	1,852	6,930	5,706
Advertising and public relations	6,977	1,907	10,084	4,355
Travel and meals	2,517	2,223	7,168	6,138
ATM expense	1,202	1,430	3,683	4,081
FDIC insurance	3,300	3,500	8,700	7,000
FDIC and state assessments	648	881	2,368	2,531
Loan collection and repossession expense	932	1,249	2,225	4,354
Writedowns of foreclosed and other assets	544	1,028	1,156	2,494
Writedown of signage due to strategic rebranding	4,915	—	4,915	—
Amortization of intangibles	3,145	3,145	9,435	9,435
Other	3,976	1,937	10,835	6,584
Total other non-interest expense	$ 47,107	$ 35,473	$ 114,883	$ 92,992

14. Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *"Revenue from Contracts with Customers."* ASU 2014-09 provides guidance that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Bank adopted the provisions of ASU 2014-09 beginning January 1, 2018. The adoption of ASU 2014-09 did not have a material effect on the Bank's financial position, results of operations, or its financial statement disclosures.

The majority of the Bank's revenue, which consists primarily of revenue generated from non-purchased and purchased loans and investment securities, is excluded from the provision of ASU 2014-09. However, revenue generated from service charges on deposit accounts falls within the scope of ASU 2014-09. Service charges on deposit accounts typically represent fees for monthly account maintenance and transaction activity. This revenue is generally recognized when the performance obligation has been achieved or transaction completed and payment is generally received when the performance obligation has been satisfied.

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 right-of-use asset and related lease liability will be initially measured at the present value of the remaining lease payments; however, if the original term of the lease is less than twelve months and the lease does not contain a purchase option that is reasonably certain to be exercised, a lessee may account for the lease as an operating lease. ASU 2016-02 is effective for interim periods and fiscal years beginning after December 15, 2018. In July 2018, the FASB issued ASU 2018-11, *"Leases (Topic 842) Targeted Impairments"* which provides additional transition options including allowing entities to not apply the new lease standard to the comparative periods presented in their financial statements in the year of adoption. While the Bank continues to evaluate the effect that ASU 2016-02 will have on its financial position, results of operations, and its financial statement disclosures, management currently expects that the adoption of ASU 2016-02 will result in approximately $55 million to $70 million of leased assets and related lease liabilities added to the Bank's balance sheet. The Bank expects to elect certain transition relief provisions provided within ASU-2016-13 whereby the Bank will 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 leases and (iii) initial direct costs for any existing leases.

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 model that is utilized in estimating the ALL with a model that requires management to estimate all contractual cash flows that are not expected to be collected over the life of the loan. This revised model is what FASB describes as the current expected credit loss ("CECL") model, and FASB believes the CECL model will result in more timely recognition of credit losses since the CECL model 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. The Bank engaged outside third parties to assist with data analysis, model development and implementation. While much of the Bank's data analysis has been completed, and it has initiated model acquisition, development and implementation, the Bank is currently unable to quantify the effect that ASU 2016-13 will have on its financial position, results of operations, and its financial statement disclosures.

In August 2016, the FASB issued ASU 2016-15 "*Statement of Cash Flows (Topic 230)*" to clarify guidance on how certain transactions are classified within the statement of cash flows. The standard addresses a number of cash flow presentation items including a) debt prepayment and extinguishment, b) contingent consideration payments made after a business combination, c) proceeds from the settlement of insurance claims, corporate owned life insurance policies and BOLI policies, d) distributions received from equity method investees, e) classification of beneficial interest received in a securitization transaction and cash receipts from beneficial interest in securitized trade receivables and f) separately identifiable cash flows and application of the predominance principle. The Bank adopted the provisions of ASU 2016-15 beginning January 1, 2018. The adoption of ASU 2016-15 did not have a material effect on the Bank's statements of cash flows or its financial statement disclosures.

In January 2017, FASB issued ASU 2017-01 *"Business Combinations (Topic 805), Clarifying the Definition of a Business"* that changes the definition of a business when evaluating whether transactions should be accounted for as the acquisition of assets or the acquisition of a business. ASU 2017-01 requires an entity to evaluate if substantially all of the fair value of the assets acquired are concentrated in a single asset or a group of similar identifiable assets; if so, the acquired assets or group of identifiable assets is not considered a business. In addition, the guidance requires that to be considered a business, the acquired assets must include an input and a substantive process that together significantly contribute to the ability to create output. Under the new guidance, ASU 2017-01 removes the evaluation of whether a market participant could replace any of the missing elements. The Bank adopted the provisions of ASU 2017-01 beginning January 1, 2018 and will apply the provisions of ASU 2017-01 to future business combination transactions as applicable.

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 May 2017, FASB issued ASU 2017-09 "*Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting"* which clarifies the accounting for modifications related to share-based payment awards. ASU 2017-09 requires modification accounting only if the fair value, vesting conditions or the classification of the award changes due to a change in the award's terms of conditions. The Bank adopted the provisions of ASU 2017-09 beginning January 1, 2018 and will apply the provisions of ASU 2017-09 to future modifications, if any, of its share-based payment awards.

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 position or results of operations and 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 affect that ASU 2018-15 may have, if any, on its financial position or results of operations.

Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>

On June 26, 2017, as the result of an internal restructuring designed to eliminate our bank holding company structure, Bank of the Ozarks, Inc., an Arkansas corporation, merged with and into its wholly-owned subsidiary, Bank of the Ozarks (the "Bank"), an Arkansas state banking corporation, with the Bank continuing as the surviving corporation (the "Reorganization"). Unless the context otherwise requires, references in this Quarterly Report on Form 10-Q to "Company," "we," "us" and "our" for periods prior to June 26, 2017, refer to Bank of the Ozarks, Inc., which was the parent holding company and the registrant prior to the Reorganization, and, for periods after the Reorganization, to the Bank, in each case including its consolidated subsidiaries. On July 16, 2018 the Bank changed its corporate name from Bank of the Ozarks to Bank OZK.

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, mortgage lending and 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 and opening new branches; 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 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; the ability to enter into and/or close additional acquisitions; problems with, or additional expenses relating to, integrating acquisitions; the inability to realize expected cost savings and/or synergies from acquisitions; problems with managing acquisitions; the effect of the announcement of any future acquisition on customer relationships and operating results; 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; 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; failure to receive approval of our pending application for change in accounting method with the Internal Revenue Service (the "Service"); changes in legal, financial and/or regulatory requirements; recently enacted and potential legislation and regulatory actions, including changes expected to result from the Tax Cuts and Jobs Act and the Economic Growth, Regulatory Relief and Consumer Protection Act, 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; future Federal Deposit Insurance Corporation ("FDIC") special assessments or changes to regular assessments; the ability to keep pace with technological changes, including changes regarding maintaining cyber security; 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 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, including those factors identified in the disclosures under the heading "Forward-Looking Information" and "Item 1A. Risk Factors" in our most recent Annual Report on Form 10-K for the year ended December 31, 2017 or in this Quarterly Report 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 and nine months ended September 30, 2018 and 2017 and supplemental unaudited quarterly financial data for each of the most recent eight quarters beginning with the fourth quarter of 2016 through the third quarter of 2018. 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,	
	2018	2017	2018	2017
	(Dollars in thousands, except per share amounts)			
Income statement data:				
Interest income	$ 277,595	$ 241,566	$ 808,751	$ 683,493
Interest expense	56,981	31,844	145,701	80,895
Net interest income	220,614	209,722	663,050	602,598
Provision for loan losses	41,949	7,777	57,126	18,814
Non-interest income	24,121	32,747	80,215	93,645
Non-interest expense	102,942	84,399	285,859	246,493
Net income available to common stockholders	74,180	96,007	302,075	275,727
Common share and per common share data:				
Earnings – diluted	$ 0.58	$ 0.75	$ 2.35	$ 2.21
Book value	28.41	26.02	28.41	26.02
Tangible book value	22.97	20.46	22.97	20.46
Cash dividends per share	0.20	0.18	0.585	0.525
Weighted-average diluted shares outstanding (thousands)	128,744	128,472	128,771	124,900
End of period shares outstanding (thousands)	128,609	128,174	128,609	128,174
Balance sheet data at period end:				
Total assets	$ 22,086,539	$ 20,768,493	$ 22,086,539	$ 20,768,493
Total loans	16,725,791	15,778,630	16,725,791	15,778,630
Non-purchased loans	14,440,623	12,047,094	14,440,623	12,047,094
Purchased loans	2,285,168	3,731,536	2,285,168	3,731,536
Allowance for loan losses	98,200	86,784	98,200	86,784
Foreclosed assets	18,470	28,016	18,470	28,016
Investment securities	2,706,156	1,975,102	2,706,156	1,975,102
Goodwill and other intangible assets	699,606	712,185	699,606	712,185
Deposits	17,822,915	16,823,359	17,822,915	16,823,359
Repurchase agreements with customers	51,891	70,165	51,891	70,165
Other borrowings	1,729	42,404	1,729	42,404
Subordinated notes	223,185	222,802	223,185	222,802
Subordinated debentures	119,217	118,660	119,217	118,660
Unfunded balance of closed loans	11,891,247	12,519,839	11,891,247	12,519,839
Total common stockholders' equity	3,653,596	3,334,740	3,653,596	3,334,740
Loan (including purchased loans) to deposit ratio	93.84%	93.79%	93.84%	93.79%
Average balance sheet data:				
Total average assets	$ 22,148,146	$ 20,155,984	$ 21,773,882	$ 19,329,123
Total average common stockholders' equity	3,648,398	3,295,394	3,567,148	3,047,279
Average common equity to average assets	16.47%	16.35%	16.38%	15.77%
Performance ratios:				
Return on average assets(1)	1.33%	1.89%	1.85%	1.91%
Return on average common stockholders' equity(1)	8.07	11.56	11.32	12.10
Return on average tangible common stockholders' equity(1)	9.99	14.76	14.11	15.81
Net interest margin – FTE(1)	4.47	4.84	4.60	4.90
Efficiency ratio	41.87	34.38	38.28	34.90
Common stock dividend payout ratio	34.68	24.04	24.90	23.58
Asset Quality ratios:				
Net charge-offs to average non-purchased loans(1)(2)	1.32%	0.08%	0.49%	0.06%
Net charge-offs to average total loans(1)	1.14	0.09	0.43	0.08
Nonperforming loans to total loans(3)	0.23	0.11	0.23	0.11
Nonperforming assets to total assets(3)	0.23	0.20	0.23	0.20
Allowance for loan losses as a percentage of:				
Total non-purchased loans(4)	0.67%	0.71%	0.67%	0.71%
Nonperforming loans(4)	293%	642%	293%	642%
Capital ratios at period end:				
Common equity tier 1	12.15%	11.02%	12.15%	11.02%
Tier 1 risk based capital	12.15	11.02	12.15	11.02
Total risk based capital	13.93	12.83	13.93	12.83
Tier 1 leverage	13.95	13.45	13.95	13.45

(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

	12/31/16	3/31/17	6/30/17	9/30/17	12/31/17	3/31/18	6/30/18	9/30/18
				(Dollars in thousands)				
Earnings Summary:								
Net interest income	$ 194,800	$ 190,771	$ 202,105	$ 209,722	$ 214,831	$ 217,776	$ 224,661	$ 220,614
Federal tax (FTE) adjustment	3,254	3,594	3,396	3,014	2,450	1,166	1,151	1,132
Net interest income (FTE)	198,054	194,365	205,501	212,736	217,281	218,942	225,812	221,746
Provision for loan losses	(9,855)	(4,933)	(6,103)	(7,777)	(9,279)	(5,567)	(9,610)	(41,949)
Non-interest income	30,571	29,058	31,840	32,747	30,213	28,707	27,386	24,121
Non-interest expense	(78,358)	(78,268)	(83,828)	(84,399)	(86,177)	(93,810)	(89,107)	(102,942)
Pretax income (FTE)	140,412	140,222	147,410	153,307	152,038	148,272	154,481	100,976
FTE adjustment	(3,254)	(3,594)	(3,396)	(3,014)	(2,450)	(1,166)	(1,151)	(1,132)
Provision for income taxes	(49,312)	(47,417)	(53,488)	(54,246)	(3,434)	(33,973)	(38,589)	(25,665)
Noncontrolling interest	(59)	(23)	6	(40)	10	11	10	1
Net income available to common stockholders	$ 87,787	$ 89,188	$ 90,532	$ 96,007	$ 146,164	$ 113,144	$ 114,751	$ 74,180
Earnings per common share – diluted	$ 0.72	$ 0.73	$ 0.73	$ 0.75	$ 1.14	$ 0.88	$ 0.89	$ 0.58
Non-interest Income:								
Service charges on deposit accounts	$ 11,759	$ 11,301	$ 11,764	$ 9,729	$ 10,058	$ 9,525	$ 9,704	$ 9,730
Mortgage lending income	2,097	1,574	1,910	1,620	1,294	492	1	24
Trust income	1,623	1,631	1,577	1,755	1,729	1,793	1,591	1,730
BOLI income	4,564	4,464	4,594	4,453	5,166	7,580	5,259	5,321
Other income from purchased loans	4,993	3,737	4,777	2,933	2,009	1,251	2,744	1,418
Loan service, maintenance and other fees	2,962	2,706	3,427	5,274	4,289	4,743	5,641	4,724
Gains (losses) on sales of other assets	1,537	1,619	672	1,363	1,899	1,426	844	(518)
Gains on investment securities	4	—	404	2,429	1,201	17	—	—
Other	1,032	2,026	2,715	3,191	2,568	1,880	1,602	1,692
Total non-interest income	$ 30,571	$ 29,058	$ 31,840	$ 32,747	$ 30,213	$ 28,707	$ 27,386	$ 24,121
Non-interest Expense:								
Salaries and employee benefits	$ 36,481	$ 38,554	$ 39,892	$ 35,331	$ 38,417	$ 45,499	$ 41,665	$ 41,477
Net occupancy expense	13,936	13,192	12,937	13,595	13,474	14,150	13,827	14,358
Other operating expenses	27,941	26,522	30,999	35,473	34,286	34,161	33,615	47,107
Total non-interest expense	$ 78,358	$ 78,268	$ 83,828	$ 84,399	$ 86,177	$ 93,810	$ 89,107	$ 102,942
Balance Sheet Data:								
Total Assets	$18,890,142	$19,152,212	$20,064,589	$20,768,493	$21,275,647	$22,039,439	$22,220,380	$22,086,539
Non-purchased loans	9,605,093	10,216,875	11,025,203	12,047,094	12,733,937	13,674,561	14,183,533	14,440,623
Purchased loans	4,958,022	4,580,047	4,159,139	3,731,536	3,309,092	2,934,535	2,580,341	2,285,168
Investment securities	1,471,612	1,470,568	2,101,751	1,975,102	2,622,796	2,612,961	2,617,859	2,706,156
Deposits	15,574,878	15,713,427	16,241,440	16,823,359	17,192,345	17,833,672	17,897,085	17,822,915
Unfunded balance of closed loans	10,070,043	11,258,762	11,883,679	12,519,839	13,192,439	12,551,032	11,999,661	11,891,247
Common stockholders' equity	2,791,607	2,873,317	3,260,123	3,334,740	3,460,728	3,526,605	3,613,903	3,653,596
Allowance for Loan Losses:								
Balance at beginning of period	$ 69,760	$ 76,541	$ 78,224	$ 82,320	$ 86,784	$ 94,120	$ 98,097	$ 104,638
Net charge-offs	(3,074)	(3,250)	(2,007)	(3,313)	(1,943)	(1,590)	(3,069)	(48,387)
Provision for loan losses	9,855	4,933	6,103	7,777	9,279	5,567	9,610	41,949
Balance at end of period	$ 76,541	$ 78,224	$ 82,320	$ 86,784	$ 94,120	$ 98,097	$ 104,638	$ 98,200
Selected Ratios:								
Net interest margin – FTE[1]	5.02%	4.88%	4.99%	4.84%	4.72%	4.69%	4.66%	4.47%
Efficiency ratio	34.27	35.03	35.32	34.38	34.82	37.88	35.19	41.87
Net charge-offs to average non-purchased loans[1][2]	0.08	0.05	0.03	0.08	0.08	0.04	0.05	1.32
Net charge-offs to average total loans[1]	0.09	0.09	0.05	0.09	0.05	0.04	0.07	1.14
Nonperforming loans to total loans[3]	0.15	0.11	0.11	0.11	0.10	0.09	0.10	0.23
Nonperforming assets to total assets[3]	0.31	0.25	0.23	0.20	0.18	0.16	0.15	0.23
Allowance for loan losses to total non-purchased loans[4]	0.78	0.75	0.73	0.71	0.73	0.71	0.73	0.67
Loans past due 30 days or more, including past due non-accrual loans, to total loans[3]	0.16	0.16	0.15	0.12	0.15	0.14	0.12	0.17

(1) Ratios annualized based on actual days.
(2) Excludes purchased loans and net charge-offs related to such loans.
(3) Excludes purchased loans, except for their inclusion in total assets.
(4) Excludes 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, 2018. 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 report and in our Annual Report on Form 10-K for the year ended December 31, 2017. 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, (iii) fair value of assets acquired and liabilities assumed pursuant to business combination transactions and (iv) 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, (iii) the fair value of the assets acquired and liabilities assumed pursuant to business combination transactions and (iv) 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, 2017. 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, 2017.

ANALYSIS OF RESULTS OF OPERATIONS

General

Net income available to our common stockholders was $74.2 million for the third quarter of 2018, a 22.7% decrease from $96.0 million for the third quarter of 2017. Net income available to our common stockholders was $302.1 million for the first nine months of 2018, a 9.6% increase from $275.7 million for the first nine months of 2017. Diluted earnings per common share were $0.58 for the third quarter of 2018, a 22.7% decrease from $0.75 for the third quarter of 2017. Diluted earnings per common share were $2.35 for the first nine months of 2018, a 6.3% increase from $2.21 for the first nine months of 2017.

On July 16, 2018, we changed our name to Bank OZK, changed our ticker symbol to “OZK,” and adopted a new logo and signage, all as part of a strategic rebranding. As a result of this name change and strategic rebranding, we incurred pretax expenses of $10.8 million during the third quarter and $11.4 million for the first nine months of 2018.

During the third quarter of 2018, we incurred combined charge-offs of $45.5 million on two credits. These two unrelated projects are in South Carolina and North Carolina, have been in our portfolio since 2007 and 2008, and were previously classified as substandard; however, neither credit was past due or otherwise deemed to be nonperforming or impaired at June 30, 2018. The combined balance of these credits, after the charge-offs, was $20.6 million at September 30, 2018.

Our annualized return on average assets was 1.33% for the third quarter and 1.85% for the first nine months of 2018 compared to 1.89% for the third quarter and 1.91% for the first nine months of 2017. Our annualized return on average common stockholders' equity was 8.07% for the third quarter and 11.32% for the first nine months of 2017 compared to 11.56% for the third quarter and 12.10% for the first nine months of 2017. Our annualized return on average tangible common stockholders' equity was 9.99% for the third quarter and 14.11% for the first nine months of 2018 compared to 14.76% for the third quarter and 15.81% for the first nine months of 2017. 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 $22.09 billion at September 30, 2018 compared to $21.28 billion at December 31, 2017. Non-purchased loans were $14.44 billion at September 30, 2018 compared to $12.73 billion at December 31, 2017. Purchased loans were $2.29 billion at September 30, 2018 compared to $3.31 billion at December 31, 2017. Total loans were $16.73 billion at September 30, 2018 compared to $16.04 billion at December 31, 2017. Deposits were $17.82 billion at September 30, 2018 compared to $17.19 billion at December 31, 2017.

Common stockholders' equity was $3.65 billion at September 30, 2018 compared to $3.46 billion at December 31, 2017. Tangible common stockholders' equity was $2.95 billion at September 30, 2018 compared to $2.75 billion at December 31, 2017. Book value per common share was $28.41 at September 30, 2018 compared to $26.98 at December 31, 2017. Tangible book value per common share was $22.97 at September 30, 2018 compared to $21.45 at December 31, 2017. 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 a significant source of our revenue and represents the amount by which interest income on interest earning assets exceeds the interest expense paid on interest bearing liabilities. The volume of interest earning assets and the related funding sources, the overall mix of these assets and liabilities, and the rates paid on each affect net interest income.

Net interest income and net interest margin are analyzed in this discussion 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% for the third quarter and first nine months of 2018 and by one minus the statutory federal income tax rate of 35% for the third quarter and first nine months of 2017. The FTE adjustments to net interest income were $1.1 million for the three months and $3.4 million for the nine months ended September 30, 2018, compared to $3.0 million for the three months and $10.0 million for the nine months ended September 30, 2017.

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. Effective January 1, 2018, the Tax Cuts and Jobs Act ("Tax Act") reduced the statutory federal income tax rate to 21%. As a result, the FTE adjustment for tax-exempt interest income was reduced in the third quarter and first nine months of 2018 compared to the same periods in 2017.

Net interest income for the third quarter of 2018 increased 4.2% to $221.7 million compared to $212.7 million for the third quarter of 2017. Net interest income for the first nine months of 2018 increased 8.8% to $666.5 million compared to $612.6 million for the first nine months of 2017. The increases in net interest income for the third quarter and first nine months of 2018 compared to the same periods in 2017 were primarily due to the increases in average earning assets, which increased 12.9% to $19.69 billion for the third quarter of 2018 compared to $17.44 billion for the third quarter of 2017, and increased 15.8% to $19.35 billion for the first nine months of 2018 compared to $16.72 billion for the first nine months of 2017, partially offset by decreases in our net interest margin.

Our net interest margin for the third quarter of 2018 decreased 37 basis points ("bps") to 4.47% compared to 4.84% for the third quarter in 2017. This decrease was due to a 55 bps increase in the rate paid on interest bearing liabilities, partially offset by a six bps increase in the yield on interest earning assets. Our net interest margin for the first nine months of 2018 decreased 30 bps to 4.60% compared to 4.90% for the first nine months of 2017. This decrease was primarily due to a 47 bps increase in the rate paid on interest bearing liabilities, partially offset by a six bps increase in the yield on interest earning assets. Our net interest margin for both the third quarter and first nine months of 2018 compared to the same periods in 2017 was also affected by changes in the composition of our earning assets.

The yield on interest earning assets was 5.62% for the third quarter and 5.61% for the first nine months of 2018 compared to 5.56% for the third quarter and 5.55% for the first nine months of 2017. The yield on our non-purchased loans increased 44 bps to 6.07% for the third quarter and increased 58 bps to 6.03% for the first nine months of 2018 compared to 5.63% for the third quarter and 5.45% for the first nine months of 2017. This increase was primarily due to increases in London Interbank Offered Rates ("LIBOR") and the federal funds target rate. At September 30, 2018, approximately 77% of our non-purchased loans were variable interest rate loans and generally reprice with movements in LIBOR or the Wall Street Journal Prime Rate. The yield on our purchased loan portfolio decreased 27 bps to 6.54% for the third quarter and decreased eight bps to 6.62% for the first nine months of 2018 compared to 6.81% for the third quarter and 6.70% for the first nine months of 2017. 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, 2018, approximately 43% of our purchased loan portfolio contained variable interest rates. The yield on our aggregate investment securities portfolio decreased 43 bps to 2.62% for the third quarter and decreased 85 bps to 2.59% for the first nine months of 2018 compared to 3.05% for the third quarter and 3.44% for the first nine months of 2017. This decrease in yield on our aggregate investment securities portfolio was primarily the result of (i) the change in mix from tax-exempt securities to taxable securities and (ii) the lower tax equivalent yield as a result of the Tax Act. During 2017 and the first nine months of 2018, we took steps to add on-balance sheet liquidity and to position our investment securities portfolio for a rising interest rate environment and lower tax rates, including efforts to maintain or reduce average maturities, modified duration, and the portion of our portfolio invested in tax-exempt securities. These efforts have been and are expected to continue to be dilutive to both our yield on investment securities and our net interest margin.

The overall increase in rates on average interest bearing liabilities, which increased 55 bps for the third quarter and 47 bps for the first nine months of 2018 compared to the same periods in 2017, was primarily due to an increase in rates on interest bearing deposits, which increased 57 bps for the third quarter and 50 bps for the first nine months of 2018 compared to the same periods in 2017. The increase in rates on our interest bearing deposits, the largest component of our interest bearing liabilities, were primarily due to recent increases in the federal funds target rate and increased competition for deposits. To the extent that deposit competition continues or we have future increases in the federal funds target rate, we would expect to experience further increases in the cost of our deposits in future periods.

Our other borrowing sources include (i) repurchase agreements with customers ("repos"), (ii) other borrowings, comprised primarily of Federal Home Loan Bank of Dallas ("FHLB") advances and, to a lesser extent, federal funds purchased, (iii) subordinated notes and (iv) subordinated debentures. The rates on our repos increased for both the third quarter and first nine months of 2018 compared to the same periods in 2017 primarily due to recent increases in the federal funds target rate. The decrease in rates on our other borrowings for both the third quarter and first nine months of 2018 compared to the same periods in 2017 was due to increased utilization, in 2018, of lower cost short-term FHLB advances and, to a lesser extent, an increase in capitalized interest associated with the ongoing construction during 2018 of our new corporate facilities. Other borrowings in the third quarter and first nine months of 2017 consisted primarily of higher cost fixed rate callable FHLB advances. 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, increased primarily due to increases in LIBOR on the applicable reset dates.

The increase in average earning assets for the third quarter and first nine months of 2018 compared to the same periods in 2017 was primarily due to an increase in the average balances of non-purchased loans and investment securities, partially offset by a decrease in the average balance of purchased loans. Average non-purchased loans increased $3.11 billion, or 27.7%, to $14.36 billion for the third quarter and $3.22 billion, or 30.6%, to $13.76 billion for the first nine months of 2018 compared to the same periods in 2017. The increase in the average balance of our non-purchased loans was due primarily to growth in loan fundings, partially offset by the continued elevated levels of paydowns. Average investment securities increased $548 million, or 26.1%, to $2.65 billion for the third quarter and $927 million, or 54.6%, to $2.62 billion for the first nine months of 2018 compared to the same periods in 2017. The increase in the average balance of investment securities was primarily due to adding on-balance sheet liquidity and positioning our portfolio for a rising interest rate environment and lower tax rates. The average balance of our purchased loans decreased $1.55 billion, or 38.9%, to $2.44 billion for the third quarter and $1.60 billion, or 36.5%, to $2.79 billion for the first nine months of 2018 compared to the same periods in 2017. This decrease was due to continued paydown and payoff activity in this 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 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 includes accretion of the net present value of expected future cash flows using the effective yield method over the term of the loans and include late fees. Interest expense and rates on our other borrowing sources are presented net of interest capitalized on construction projects and include the amortization of debt issuance costs, if any. Interest expense on subordinated notes includes amortization of debt issuance costs. The interest expense on the subordinated debentures assumed through an acquisition includes the amortization of any purchase accounting adjustments.

Average Consolidated Balance Sheets and Net Interest Analysis – FTE

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2018			2017			2018			2017		
	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	$ 240,665	$ 1,112	1.83%	$ 102,972	$ 253	0.98%	$ 179,429	$ 2,448	1.82%	$ 89,930	$ 388	0.58%
Investment securities:												
Taxable	2,117,498	12,472	2.34	1,397,768	7,802	2.21	2,078,710	35,380	2.28	936,059	15,799	2.26
Tax-exempt – FTE	532,503	5,051	3.76	703,873	8,351	4.71	544,728	15,509	3.81	760,401	27,827	4.89
Non-purchased loans – FTE	14,363,015	219,919	6.07	11,248,314	159,701	5.63	13,760,166	620,851	6.03	10,536,436	429,287	5.45
Purchased loans	2,436,888	40,173	6.54	3,988,881	68,473	6.81	2,789,226	138,012	6.62	4,392,955	220,196	6.70
Total earning assets – FTE	19,690,569	278,727	5.62	17,441,808	244,580	5.56	19,352,259	812,200	5.61	16,715,781	693,497	5.55
Non-interest earning assets	2,457,577			2,714,176			2,421,623			2,613,342		
Total assets	$ 22,148,146			$ 20,155,984			$ 21,773,882			$ 19,329,123		
LIABILITIES AND STOCKHOLDERS' EQUITY												
Interest bearing liabilities:												
Deposits:												
Savings and interest bearing transaction	$ 10,231,569	$ 33,753	1.31%	$ 8,972,419	$ 16,074	0.71%	$ 10,113,882	$ 85,571	1.13%	$ 8,310,430	$ 35,445	0.57%
Time deposits of $100 or more	3,306,014	13,288	1.59	3,164,875	8,135	1.02	3,175,855	33,096	1.39	3,205,799	23,003	0.96
Other time deposits	1,580,886	4,744	1.19	1,518,430	2,868	0.75	1,492,575	11,342	1.02	1,596,332	8,485	0.71
Total interest bearing deposits	15,118,469	51,785	1.36	13,655,724	27,077	0.79	14,782,312	130,009	1.18	13,112,561	66,933	0.68
Repurchase agreements with customers	97,249	215	0.88	73,026	33	0.18	123,587	759	0.82	76,481	93	0.16
Other borrowings	63,909	144	0.90	42,433	255	2.39	88,101	824	1.25	42,312	732	2.31
Subordinated notes	223,135	3,216	5.72	222,749	3,190	5.68	223,042	9,542	5.72	222,658	9,430	5.66
Subordinated debentures	119,145	1,621	5.40	118,582	1,289	4.31	119,006	4,567	5.13	118,445	3,707	4.18
Total interest bearing liabilities	15,621,907	56,981	1.45	14,112,514	31,844	0.90	15,336,048	145,701	1.27	13,572,457	80,895	0.80
Non-interest bearing liabilities:												
Non-interest bearing deposits	2,685,802			2,662,265			2,689,818			2,627,214		
Other non-interest bearing liabilities	189,003			82,764			177,824			79,056		
Total liabilities	18,496,712			16,857,543			18,203,690			16,278,727		
Common stockholders' equity	3,648,398			3,295,394			3,567,148			3,047,279		
Noncontrolling interest	3,036			3,047			3,044			3,117		
Total liabilities and stockholders' equity	$ 22,148,146			$ 20,155,984			$ 21,773,882			$ 19,329,123		
Net interest income – FTE		$ 221,746			$ 212,736			$ 666,499			$ 612,602	
Net interest margin – FTE			4.47%			4.84%			4.60%			4.90%

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, 2018 Over Three Months Ended September 30, 2017			Nine Months Ended September 30, 2018 Over Nine Months Ended September 30, 2017		
	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	$ 636	$ 223	$ 859	$ 1,221	$ 839	$ 2,060
Investment securities:						
Taxable	4,239	431	4,670	19,448	133	19,581
Tax-exempt – FTE	(1,626)	(1,674)	(3,300)	(6,141)	(6,177)	(12,318)
Non-purchased loans – FTE	47,691	12,527	60,218	145,453	46,111	191,564
Purchased loans	(25,586)	(2,714)	(28,300)	(79,354)	(2,830)	(82,184)
Total interest income – FTE	25,354	8,793	34,147	80,627	38,076	118,703
Interest expense:						
Savings and interest bearing transaction	4,154	13,525	17,679	15,258	34,868	50,126
Time deposits of $100 or more	567	4,586	5,153	(312)	10,405	10,093
Other time deposits	187	1,689	1,876	(788)	3,645	2,857
Repurchase agreements with customers	53	129	182	290	376	666
Other borrowings	48	(159)	(111)	428	(336)	92
Subordinated notes	6	20	26	16	96	112
Subordinated debentures	8	324	332	21	839	860
Total interest expense	5,023	20,114	25,137	14,913	49,893	64,806
Increase in net interest income – FTE	$ 20,331	$ (11,321)	$ 9,010	$ 65,714	$ (11,817)	$ 53,897

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 gains (losses) on investment securities and on sales of other assets. Non-interest income for the third quarter of 2018 decreased 26.3% to $24.1 million compared to $32.7 million for the third quarter of 2017. Non-interest income for the first nine months of 2018 decreased 14.3% to $80.2 million compared to $93.6 million for the first nine months of 2017.

Service charges on deposit accounts were $9.7 million for both the third quarter of 2018 and the third quarter of 2017. Service charges on deposit accounts decreased 11.7% to $29.0 million for the first nine months of 2018 compared to $32.8 million for the first nine months of 2017. Effective July 1, 2017, we became subject to the provisions of the Durbin Amendment, which are applicable to financial institutions whose total assets exceed $10 billion and which limit the amount of interchange fees that may be charged for debit and prepaid card transactions. As a result, service charges on deposit accounts decreased for the first nine months of 2018 compared to the same period in 2017.

As a result of our decision in December 2017 to exit the secondary market mortgage lending business and wind down that business during the first half of 2018, mortgage lending income decreased 98.5% to essentially none for the third quarter of 2018 compared to $1.6 million for the third quarter of 2017. Mortgage lending income decreased 89.9% to $0.5 million for the first nine months of 2018 compared to $5.1 million for the first nine months of 2017.

BOLI income increased 19.5% to $5.3 million for the third quarter of 2018 compared to $4.5 million for the third quarter of 2017. BOLI income increased 34.4% to $18.2 million for the first nine months of 2018 compared to $13.5 million for the first nine months of 2017. These increases were attributable, in part, to the purchase of $45 million of BOLI during the first and second quarters of 2018. Additionally, our BOLI income for the first nine months of 2018 included $2.7 million of tax-exempt BOLI death benefits (recognized during the first quarter of 2018) compared to $0.1 million of such benefits for the first nine months of 2017.

Other income from purchased loans decreased 51.7% to $1.4 million for the third quarter of 2018 compared to $2.9 million for the third quarter of 2017 and decreased 52.7% to $5.4 million for the first nine months of 2018 compared to $11.4 million for the first nine months of 2017. 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, which includes fees that are not considered yield adjustments, decreased 10.4% to $4.7 million for the third quarter of 2018 compared to $5.3 million for the third quarter of 2017 and increased 32.4% to $15.1 million during the first nine months of 2018 compared to $11.4 million during the first nine months of 2017. The decrease in loan service, maintenance and other fees for the third quarter of 2018 compared to the third quarter of 2017 was due to lower loan commitments and extension fees as well as lower unused line fees. The increase in loan service, maintenance and other fees for the first nine months of 2018 compared to the same period in 2017 was primarily due to our continued efforts to include provisions for such fees in many of our larger non-purchased loan transactions.

Net gains (losses) on sales of other assets were a net loss of $0.5 million for the third quarter and a net gain of $1.8 million for the first nine months of 2018 compared to net gains of $1.4 million for the third quarter and $3.7 million for the first nine months of 2017. Net gains (losses) on sales of other assets for the third quarter and first nine months of 2018 included a charge of $1.26 million related to the sale of our corporate aircraft.

There were no gains on investment securities for the third quarter and essentially none for the first nine months of 2018 compared to gains of $2.4 million for the third quarter and $2.8 million for the first nine months of 2017.

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

Non-Interest Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Service charges on deposit accounts	$ 9,730	$ 9,729	$ 28,959	$ 32,794
Mortgage lending income	24	1,620	517	5,105
Trust income	1,730	1,755	5,114	4,962
BOLI income	5,321	4,453	18,160	13,511
Other income from purchased loans, net	1,418	2,933	5,413	11,447
Loan service, maintenance and other fees	4,724	5,274	15,108	11,407
Net gains (losses) on sales of other assets	(518)	1,363	1,753	3,654
Net gains on investment securities	—	2,429	17	2,833
Other	1,692	3,191	5,174	7,932
Total non-interest income	$ 24,121	$ 32,747	$ 80,215	$ 93,645

Non-Interest Expense

Our non-interest expense consists of salaries and employee benefits, net occupancy and equipment and other operating expenses. Non-interest expense increased 22.0% to $102.9 million for the third quarter of 2018 compared to $84.4 million for the third quarter of 2017. Non-interest expense increased 16.0% to $285.9 million for the first nine months of 2018 compared to $246.5 million for the first nine months of 2017. Included in non-interest expense for the third quarter and first nine months of 2018 was $10.8 million and $11.4 million, respectively, related to our name change and strategic rebranding initiatives. During the fourth quarter of 2018, we expect to incur additional expenses ranging between $1 million and $3 million for marketing, advertising, rebranding and other expenses related to our name change and strategic rebranding initiatives. Additionally, our non-interest expenses have increased as we continue to expand and enhance 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.

Salaries and employee benefits increased 17.4% to $41.5 million in the third quarter of 2018 compared to $35.3 million in the third quarter of 2017. Salaries and employee benefits increased 13.1% to $128.6 million in the first nine months of 2018 compared to $113.8 million in the first nine months of 2017. The increase in salaries and employee benefits for the third quarter and first nine months of 2018 compared to the same periods in 2017 was due to employees added as we have continued to focus on expanding and enhancing our infrastructure as discussed above. We had 2,509 full-time equivalent employees at September 30, 2018 compared to 2,411 full-time equivalent employees at September 30, 2017.

Our aggregate other operating expenses increased 32.8% to $47.1 million for the third quarter of 2018 compared to $35.5 million for the third quarter of 2017. Our aggregate other operating expenses increased 23.5% to $114.9 million for the first nine months of 2018 compared to $93.0 million for the first nine months of 2017. These increases were primarily due to our name change and strategic rebranding initiatives and the continued focus on expanding and enhancing our infrastructure as previously discussed.

Our efficiency ratio (non-interest expense divided by the sum of net interest income – FTE and non-interest income) was 41.9% for the third quarter and 38.3% for the first nine months of 2018 compared to 34.4% for the third quarter and 34.9% for the first nine months of 2017.

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

Non-Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Salaries and employee benefits	$ 41,477	$ 35,331	$ 128,641	$ 113,777
Net occupancy and equipment	14,358	13,595	42,335	39,724
Other operating expenses:				
Professional and outside services	9,725	10,018	27,542	22,171
Telecommunication services	3,373	3,321	10,056	10,398
Software and data processing	3,336	2,982	9,786	7,745
Postage and supplies	2,517	1,852	6,930	5,706
Advertising and public relations	6,977	1,907	10,084	4,355
ATM expense	1,202	1,430	3,683	4,081
Travel and meals	2,517	2,223	7,168	6,138
FDIC insurance	3,300	3,500	8,700	7,000
FDIC and state assessments	648	881	2,368	2,531
Loan collection and repossession expense	932	1,249	2,225	4,354
Writedowns of foreclosed and other assets	544	1,028	1,156	2,494
Writedown of signage due to strategic rebranding	4,915	—	4,915	—
Amortization of intangibles	3,145	3,145	9,435	9,435
Other	3,976	1,937	10,835	6,584
Total non-interest expense	$ 102,942	$ 84,399	$ 285,859	$ 246,493

Income Taxes

The provision for income taxes was $25.7 million for the third quarter of 2018 and $98.2 million for the first nine months of 2018 compared to $54.2 million for the third quarter of 2017 and $155.2 million for the first nine months of 2017. The effective income tax rate was 25.7% for the third quarter and 24.5% for the first nine months of 2018 compared to 36.1% for the third quarter of 2017 and 36.0% for the first nine months of 2017. The decrease in the effective tax rate for the third quarter and first nine months of 2018 compared to the third quarter and first nine months of 2017 is primarily due to a reduction in the federal tax rate from 35% for 2017 to 21% for 2018 as a result of the Tax Act. The effective tax rates for each of these periods were also affected by adjustments to the state income tax apportionment factors based on changes in lending volumes in higher income tax rate states and municipalities, changes in certain non-deductible executive compensation expenses and various other factors related to non-taxable income and non-deductible expenses.

During the fourth quarter of 2017, we filed for affirmative consent with the Service two separate advance consent applications for changes in accounting methods related to our tax methods of accounting for our loan portfolio and our loan origination fees. Our application for change in accounting method for our loan origination fees has been approved by the Service. The remaining application for change in accounting method for our loan portfolio is still pending affirmative consent of the Service. Should the Service not provide affirmative consent to the remaining application or otherwise take exception to some element of our calculation and proposed tax deduction, some portion of our current income tax receivable totaling approximately $231 million would be reclassified to a deferred income tax asset, would have to be revalued using a 21% federal income tax rate, and could have an adverse effect on our financial position and results of operation.

ANALYSIS OF FINANCIAL CONDITION

Loan Portfolio

At September 30, 2018, our total loan portfolio was $16.73 billion compared to $16.04 billion at December 31, 2017. 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 $12.97 billion at September 30, 2018 compared to $12.96 billion at December 31, 2017. 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, 2018		December 31, 2017	
	(Dollars in thousands)			
Real estate:				
Residential 1-4 family	$ 1,055,238	6.3%	$ 1,174,427	7.3%
Non-farm/non-residential	4,253,779	25.4	4,478,876	27.9
Construction/land development	6,498,207	38.9	6,648,061	41.4
Agricultural	165,936	1.0	150,003	0.9
Multifamily residential	995,368	6.0	508,514	3.2
Total real estate	12,968,528	77.6	12,959,881	80.8
Commercial and industrial	935,087	5.6	738,225	4.6
Consumer	2,127,380	12.7	1,472,593	9.2
Other	694,796	4.1	872,330	5.4
Total loans	$ 16,725,791	100.0%	$ 16,043,029	100.0%

Included in our consumer loans at September 30, 2018 and December 31, 2017 are loans totaling approximately $1.97 billion and $1.23 billion, respectively, which were originated to finance the acquisition of RV and marine collateral.

Included in “other” loans at September 30, 2018 and December 31, 2017 are loans totaling approximately $617 million and $830 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, 2018, based on the metropolitan statistical area ("MSA") and other geographic areas in which the principal collateral is located, are reflected in the following table. Data for individual states and MSAs is separately presented when aggregate real estate loans in that state or MSA exceed $10.0 million.

Geographic Distribution of Total Real Estate Loans

	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	$ 4,329	$ 580,232	$ 2,444,610	$ —	$ 64,007	$3,093,178
All other New York(1)	584	12,701	2,175	—	—	15,460
Total New York	4,913	592,933	2,446,785	—	64,007	3,108,638
Florida:						
Miami–Fort Lauderdale–West Palm Beach, FL MSA	62,748	217,303	920,970	386	6,726	1,208,133
Tampa–St. Petersburg–Clearwater, FL MSA	62,585	180,936	104,054	220	10,130	357,925
Orlando–Kissimmee–Sanford, FL MSA	6,611	45,064	130,180	—	136,057	317,912
North Port–Sarasota–Bradenton, FL MSA	36,317	53,544	7,402	—	616	97,879
Cape Coral–Fort Myers, FL MSA	13,639	43,488	34,781	—	306	92,214
Crestview–Fort Walton Beach–Destin, FL MSA	6,599	37,108	200	94	—	44,001
Jacksonville, FL MSA	2,080	20,782	11,575	—	—	34,437
Naples–Immokalee–Marco Island, FL MSA	1,021	6,206	24,194	—	—	31,421
Ocala, FL MSA	2,750	21,834	53	—	—	24,637
Punta Gorda, FL MSA	7,957	7,998	2,429	—	—	18,384
Lakeland–Winter Haven, FL MSA	195	15,219	2,345	—	47	17,806
Deltona–Daytona Beach–Ormond Beach, FL MSA	267	11,183	1,655	—	—	13,105
Sebastian–Vero Beach, FL MSA	14	10,358	—	—	1,413	11,785
Gainesville, FL MSA	30	—	10,986	—	—	11,016
All other Florida(1)	8,002	101,853	3,829	527	633	114,844
Total Florida	210,815	772,876	1,254,653	1,227	155,928	2,395,499
Texas:						
Dallas–Fort Worth–Arlington, TX MSA	60,424	205,579	335,062	1,744	159,944	762,753
Austin–Round Rock, TX MSA	12,744	37,335	126,282	—	22,550	198,911
Houston–The Woodlands–Sugar Land, TX MSA	13,899	44,855	99,078	—	29,320	187,152
College Station–Bryan, TX MSA	—	—	49,895	—	—	49,895
Texarkana, TX–AR MSA	8,556	4,694	580	166	1,171	15,167
San Antonio–New Braunfels, TX MSA	1,257	3,947	5,024	—	410	10,638
All other Texas(1)	884	44,118	4,555	3,100	—	52,657
Total Texas	97,764	340,528	620,476	5,010	213,395	1,277,173
Georgia:						
Atlanta–Sandy Springs–Roswell, GA MSA	167,755	429,726	210,767	3,993	25,070	837,311
Dalton, GA MSA	9,136	13,492	1,182	1,013	1,037	25,860
Athens–Clarke County, GA MSA	3,159	20,719	880	103	—	24,861
Gainesville, GA MSA	3,381	13,595	6,359	113	697	24,145
Macon, GA MSA	3,929	7,248	285	—	4,882	16,344
Brunswick, GA MSA	7,172	3,418	244	—	—	10,834
All other Georgia(1)	54,434	111,697	27,683	8,950	17,063	219,827
Total Georgia	248,966	599,895	247,400	14,172	48,749	1,159,182

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	142,830	257,592	54,483	15,346	16,961	487,212
Hot Springs, AR MSA	40,853	64,903	6,738	1,042	2,036	115,572
Fayetteville–Springdale–Rogers, AR–MO MSA	21,179	39,111	16,320	26,090	8,416	111,116
Fort Smith, AR–OK MSA	27,408	52,045	6,417	2,767	12,236	100,873
Western Arkansas[2]	16,033	28,793	5,623	6,071	1,914	58,434
Southern Arkansas[3]	20,619	15,764	1,809	15,064	628	53,884
Northern Arkansas[4]	23,680	9,552	2,317	11,899	289	47,737
Jonesboro, AR MSA	2,835	5,620	1,594	—	247	10,296
All other Arkansas[1]	17,834	22,239	2,603	46,754	3,252	92,682
Total Arkansas	313,271	495,619	97,904	125,033	45,979	1,077,806
North Carolina/South Carolina:						
Charlotte–Concord–Gastonia, NC–SC MSA	42,283	101,259	122,775	1,893	31,417	299,627
Charleston–North Charleston, SC MSA	698	1,030	76,296	—	40,442	118,466
Winston–Salem, NC MSA	37,591	29,075	3,678	—	1,476	71,820
Greensboro–High Point, NC MSA	14,525	27,255	23,243	1,182	1,237	67,442
North Carolina Foothills[5]	34,318	25,819	1,176	2,322	1,110	64,745
Wilmington, NC MSA	3,369	32,948	5,705	396	—	42,418
Columbia, SC MSA	334	28,794	952	—	589	30,669
Myrtle Beach–Conway–North Myrtle Beach, SC–NC MSA	1,904	2,660	15,570	—	23	20,157
Raleigh, NC MSA	220	1,478	13,883	—	15	15,596
Spartanburg, SC MSA	1,393	10,528	425	—	—	12,346
Hilton Head Island–Bluffton–Beaufort, SC MSA	2,744	7,923	787	—	—	11,454
Greenville–Anderson–Mauldin, SC MSA	4,508	2,352	3,614	—	—	10,474
All other North Carolina[1]	9,265	14,347	45,511	—	4,863	73,986
All other South Carolina[1]	539	2,678	524	—	153	3,894
Total North Carolina / South Carolina	153,691	288,146	314,139	5,793	81,325	843,094
California:						
Los Angeles–Long Beach–Anaheim, CA MSA	726	85,287	203,000	—	—	289,013
Sacramento–Roseville–Arden–Arcade, CA MSA	—	128,028	46,976	—	—	175,004
San Jose–Sunnyvale–Santa Clara, CA MSA	—	52,775	57,713	—	—	110,488
San Francisco–Oakland–Hayward, CA MSA	—	—	99,751	—	—	99,751
Riverside–San Bernardino–Ontario, CA MSA	—	—	14,399	—	—	14,399
San Diego–Carlsbad, CA MSA	—	—	13,486	—	—	13,486
Total California	726	266,090	435,325	—	—	702,141
Illinois:						
Chicago–Naperville–Elgin, IL–IN–WI MSA	—	260,989	246,087	—	65,554	572,630
All other Illinois[1]	—	3,566	—	—	—	3,566
Total Illinois	—	264,555	246,087	—	65,554	576,196
Colorado:						
Denver–Aurora–Lakewood, CO MSA	4	120,690	139,588	—	119,825	380,107
All other Colorado[1]	1,057	2,175	3,522	—	—	6,754
Total Colorado	1,061	122,865	143,110	—	119,825	386,861
Seattle–Tacoma–Bellevue, WA MSA	—	—	132,068	—	113,766	245,834
Urban Honolulu, HI MSA	—	—	163,090	—	—	163,090

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)			
Tennessee:						
Nashville–Davidson–Murfreesboro–Franklin, TN MSA	—	101,205	27,480	—	2,438	131,123
All other Tennessee[1]	1,268	6,429	213	68	—	7,978
Total Tennessee	1,268	107,634	27,693	68	2,438	139,101
Phoenix–Mesa–Scottsdale, AZ MSA	—	1,001	91,347	—	—	92,348
Portland–Vancouver–Hillsboro, OR–WA MSA	—	39,902	38,281	—	12,713	90,896
Utah:						
Salt Lake City, UT MSA	—	1,127	—	—	38,752	39,879
All other Utah[1]	1,683	3,038	34,667	—	—	39,388
Total Utah	1,683	4,165	34,667	—	38,752	79,267
Washington, DC / Virginia / Maryland:						
Washington–Arlington–Alexandria, DC–VA–MD–WV MSA	221	11,843	40,567	—	—	52,631
All other Virginia[1]	370	10,511	2,696	—	70	13,647
All other Maryland[1]	—	1,295	—	—	8,966	10,261
Total Washington, DC / Virginia / Maryland	591	23,649	43,263	—	9,036	76,539
Providence–Warwick, RI–MA MSA	—	74,570	—	—	—	74,570
Boston, MA MSA	—	—	74,187	—	—	74,187
Alabama:						
Mobile, AL MSA	5,459	18,420	850	—	676	25,405
Birmingham–Hoover, AL MSA	82	—	22,081	—	—	22,163
All other Alabama[1]	13,364	5,682	5,861	438	—	25,345
Total Alabama	18,905	24,102	28,792	438	676	72,913
Pennsylvania:						
Philadelphia–Camden–Wilmington, PA–NJ–DE–MD MSA	—	57,014	2,978	—	—	59,992
All other Pennsylvania[1]	—	11,905	—	—	—	11,905
Total Pennsylvania	—	68,919	2,978	—	—	71,897
Ohio:						
Cincinnati, OH–KY–IN MSA	—	23,436	—	—	—	23,436
Columbus, OH MSA	—	13,785	—	—	—	13,785
All other Ohio[1]	—	11,338	—	—	—	11,338
Total Ohio	—	48,559	—	—	—	48,559
Oklahoma	774	11,278	5,132	9,735	1,812	28,731
Bridgeport, CT MSA	—	13,964	13,836	—	—	27,800
Minnesota:						
Minneapolis–St. Paul–Bloomington, MN–WI MSA	—	23,656	—	—	—	23,656
All other Minnesota[1]	—	1,054	—	—	—	1,054
Total Minnesota	—	24,710	—	—	—	24,710

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	—	—	—	—	21,413	21,413
All other Wisconsin[1]	—	2,165	—	—	—	2,165
Total Wisconsin	—	2,165	—	—	21,413	23,578
Trenton City, NJ MSA	—	—	21,099	—	—	21,099
Mississippi	35	12,170	270	4,305	—	16,780
Missouri	346	11,051	4,028	155	—	15,580
Kentucky	174	10,127	1,028	—	—	11,329
All other states[6]	255	32,306	10,569	—	—	43,130
Total Real Estate Loans	$1,055,238	$4,253,779	$ 6,498,207	$ 165,936	$ 995,368	$12,968,528

(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, 2018		December 31, 2017	
	(Dollars in thousands)			
Office, including medical offices	$ 977,017	23.0%	$ 686,396	15.3%
Hotels and motels	909,939	21.4	1,236,012	27.6
Retail, including shopping centers and strip centers	438,864	10.3	540,450	12.1
Mixed use properties	374,892	8.8	355,279	7.9
Churches and schools	284,847	6.7	230,180	5.1
Manufacturing and industrial facilities	283,727	6.7	427,710	9.6
Nursing homes and assisted living centers	221,933	5.2	232,292	5.2
Restaurants and bars	161,400	3.8	147,322	3.3
Gasoline stations and convenience stores	98,799	2.3	101,704	2.3
Office warehouse, warehouse and mini-storage	48,066	1.1	44,592	1.0
Hospitals, surgery centers and other medical	44,733	1.1	46,887	1.0
Golf courses, entertainment and recreational facilities	25,545	0.6	32,257	0.7
Other non-farm/non-residential[1]	384,017	9.0	397,795	8.9
Total	$ 4,253,779	100.0%	$ 4,478,876	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, 2018		December 31, 2017	
	(Dollars in thousands)			
Unimproved land	$ 233,877	3.6%	$ 214,574	3.2%
Land development and lots:				
1-4 family residential and multifamily	379,095	5.8	423,413	6.4
Non-residential	578,933	8.9	712,479	10.7
Construction:				
1-4 family residential:				
Owner occupied	14,913	0.2	21,715	0.3
Non-owner occupied:				
Pre-sold	2,143,115	33.0	1,800,985	27.1
Speculative	124,179	1.9	163,470	2.5
Multifamily	1,568,292	24.1	1,487,432	22.4
Industrial, commercial and other	1,455,803	22.5	1,823,993	27.4
Total	$ 6,498,207	100.0%	$ 6,648,061	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 vast majority of cases, we require that all of the borrower's equity and all other required subordinated elements of the capital structure be fully funded prior to any significant loan advance. 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, 2018 and 2017, 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, 2018, we had $10.2 million of construction and development loans with interest reserves that were nonperforming. At December 31, 2017, we had no construction and development loans with interest reserves that were nonperforming.

During the third quarter and first nine months of 2018, we recognized approximately $63.2 million and $196.5 million, respectively, of interest income on construction and development loans from the advance of interest reserves compared to approximately $44.5 million and $116.6 million, respectively, during the comparable periods in 2017. We advanced construction period interest on construction and development loans totaling approximately $65.8 million and $191.2 million, respectively, in the third quarter and first nine months of 2018 compared to approximately $39.6 million and $119.0 million, respectively, during the comparable periods in 2017.

The maximum committed balance of all construction and development loans which provide for the use of interest reserves at September 30, 2018 was approximately $16.2 billion, of which $6.0 billion was outstanding at September 30, 2018 and $10.2 billion remained to be advanced. The weighted average loan-to-cost on such loans, assuming such loans are ultimately fully advanced, will be approximately 50%, which means that the weighted average cash equity contributed on such loans, assuming such loans are ultimately fully advanced, will be approximately 50%. The weighted average 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 43%.

The following table reflects total loans as of September 30, 2018 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	$ 822,885	$537,978	$488,261	$ 799,360	$2,031,919	$ 4,680,403
Floating rate (not at a floor or ceiling rate)	10,251,654	104,938	111,882	184,770	46,422	10,699,666
Floating rate (at floor rate) (1)	641,359	131,958	134,022	206,428	97,902	1,211,669
Floating rate (at ceiling rate)	134,008	5	6	34	—	134,053
Total	$11,849,906	$774,879	$734,171	$1,190,592	$2,176,243	$16,725,791
Percentage of total	70.8%	4.6%	4.4%	7.1%	13.1%	100.0%
Cumulative percentage of total	70.8%	75.4%	79.8%	86.9%	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 if the interest rate index and margin on such loans continue to result 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.

Most of our floating rate loans are tied to three major benchmark interest rates, the 1-month LIBOR, 3-month LIBOR and Wall Street Journal Prime interest rate. The following table is a summary of our floating rate loan portfolio and contractual interest rate indices at September 30, 2018.

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	$ 409,551	$ 7,858,968	$ —	$ 8,268,519
3-month LIBOR	68,081	504,401	—	572,482
Wall Street Journal Prime	452,786	1,622,915	134,053	2,209,754
Other contractual interest rate indices	281,251	713,382	—	994,633
Total	$ 1,211,669	$ 10,699,666	$ 134,053	$ 12,045,388

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, 2018	December 31, 2017
	(Dollars in thousands)	
Loans without evidence of credit deterioration at date of acquisition:		
Unpaid principal balance	$ 2,180,695	$ 3,181,293
Valuation discount	(31,141)	(47,422)
Carrying value	2,149,554	3,133,871
Loans with evidence of credit deterioration at date of acquisition:		
Unpaid principal balance	168,841	221,143
Valuation discount	(33,227)	(45,922)
Carrying value	135,614	175,221
Total carrying value	$ 2,285,168	$ 3,309,092

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,	
	2018	2017
	(Dollars in thousands)	
Balance – beginning of period	$ 175,221	$ 241,619
Accretion	19,324	32,075
Transfers to foreclosed assets	(1,519)	(2,646)
Payments received	(56,965)	(80,113)
Charge-offs	(457)	(748)
Other activity, net	10	(1,146)
Balance – end of period	$ 135,614	$ 189,041

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,	
	2018	2017
	(Dollars in thousands)	
Accretable difference – beginning of period	$ 45,182	$ 65,152
Transfers to foreclosed assets	(114)	(295)
Purchased loans paid off	—	(352)
Cash flow revisions as a result of renewals and/or modifications	12,331	16,263
Accretion	(19,324)	(32,075)
Accretable difference – end of period	$ 38,075	$ 48,693

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) certain troubled and restructured loans for which a concession has been granted by us to the borrower because of a deterioration in the financial position of the borrower and (4) real estate or other assets that have been acquired in partial or full satisfaction of loan obligations or upon foreclosure. 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, 2018	December 31, 2017
	(Dollars in thousands)	
Nonaccrual loans(1)	$ 32,960	$ 12,899
Accruing loans 90 days or more past due(1)	—	—
TDRs(1)	—	—
Total nonperforming loans(1)	32,960	12,899
Foreclosed assets(2)	18,470	25,357
Total nonperforming assets(1)	$ 51,430	$ 38,256
Nonperforming loans to total loans(1)	0.23%	0.10%
Nonperforming assets to total assets(1)	0.23	0.18

(1) Excludes purchased loans except for their inclusion in total assets.
(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 market value net of estimated selling costs, if lower, until disposition.

The increase in nonaccrual loans at September 30, 2018 compared to December 31, 2017 is primarily the result of our charging off two unrelated non-purchased credits during the third quarter of 2018. These two credits were previously classified as substandard; however, neither credit was past due or otherwise deemed to be nonperforming or impaired at June 30, 2018. As a result of such charge-offs, we placed the aggregate remaining balance of $20.6 million of such credits on nonaccrual status during the third quarter of 2018 and have deemed such credits as both nonperforming and impaired at September 30, 2018.

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 the underlying collateral on all collateral dependent impaired loans and, if needed, due to changes in market or property conditions, the underlying collateral is reassessed and the estimated fair value is revised. The determination of collateral value includes any adjustments considered necessary related to estimated holding periods and estimated selling costs.

At September 30, 2018, we had reduced the carrying value of our non-purchased loans deemed impaired (all of which were included in nonaccrual loans) by $48.4 million to the estimated fair value of such loans of $31.9 million. The adjustment to reduce the carrying value of such impaired loans to estimated fair value consisted of $47.3 million of partial charge-offs and $1.1 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 $5.1 million of impaired purchased loans at September 30, 2018.

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

Foreclosed Assets

	September 30, 2018	December 31, 2017
	(Dollars in thousands)	
Real estate:		
Residential 1-4 family	$ 1,609	$ 1,378
Non-farm/non-residential	5,002	8,040
Construction/land development	11,132	15,493
Agricultural	164	—
Total real estate	17,907	24,911
Commercial and industrial	37	35
Consumer	526	411
Total foreclosed assets	$ 18,470	$ 25,357

The following table presents information concerning the geographic location of nonperforming assets, excluding purchased loans, at September 30, 2018. Nonperforming loans are reported in the physical location of the principal collateral. Foreclosed assets are reported in the physical location of the asset. Repossessions are reported at the physical location where the borrower resided or had its principal place of business at the time of repossession.

Geographic Distribution of Nonperforming Assets

	Nonperforming Loans	Foreclosed Assets and Repossessions	Total Nonperforming Assets
		(Dollars in thousands)	
Arkansas	$ 9,016	$ 7,780	$ 16,796
North Carolina	10,273	764	11,037
South Carolina	10,480	—	10,480
Florida	701	4,055	4,756
Georgia	1,030	3,538	4,568
Texas	1,082	2,173	3,255
Alabama	111	—	111
All Other	267	160	427
Total	$ 32,960	$ 18,470	$ 51,430

Impaired Purchased Loans

At September 30, 2018 and December 31, 2017, 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, 2018	December 31, 2017
	(Dollars in thousands)	
Impaired purchased loans without evidence of credit deterioration at date of acquisition (rated FV 77)	$ 1,587	$ 4,797
Impaired purchased loans with evidence of credit deterioration at date of acquisition (rated FV 88)	3,477	5,222
Total impaired purchased loans	$ 5,064	$ 10,019
Impaired purchased loans to total purchased loans	0.22%	0.30%

Allowance and Provision for Loan Losses

At September 30, 2018, our ALL was $98.2 million, including $96.6 million allocated to our non-purchased loans and $1.6 million allocated to our purchased loans, compared to $94.1 million at December 31, 2017, including $92.5 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 0.67% and 0.73% at September 30, 2018 and December 31, 2017, respectively. Excluding purchased loans, our ALL as a percentage of nonperforming loans was 293% at September 30, 2018 compared to 717% at December 31, 2017. 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, 2017.

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 structure. At the same time, our loan portfolio has expanded throughout the United States and consists of a very 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, 2018, 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 50% and approximately 43%, respectively.

The provision for loan losses for the third quarter of 2018 was $41.9 million, including $41.4 million for non-purchased loans and $0.5 million for purchased loans, compared to $7.8 million for the third quarter of 2017, including $6.8 million for non-purchased loans and $1.0 million for purchased loans. The provision for loan losses for the first nine months of 2018 was $57.1 million, including $54.8 million for non-purchased loans and $2.3 million for purchased loans, compared to $18.8 million for the first nine months of 2017, including $14.6 million for non-purchased loans and $4.2 million for purchased loans. The increase in our provision for loan losses in the third quarter and first nine months of 2018 compared to the same periods in 2017 was primarily attributable to two credits which we charged off during the third quarter of 2018. These two unrelated credits located in South and North Carolina were previously classified as substandard in previous periods but were performing credits until the third quarter of 2018. The South Carolina credit was originated in 2007 and is secured by a regional mall which has suffered from declining property performance and increasing interest rates. The North Carolina credit was originated in 2008 and is secured by a multi-phase land, residential lot and residential home project in North Carolina, and has suffered from a lack of sales of newly built homes and lots owned by our borrower. As a result, this credit became past due during the third quarter of 2018. During the third quarter of 2018, we obtained updated appraisals on both projects. These updated appraisals and assumptions therein reflected the recent poor performance of each project and resulted in appraised values substantially lower than appraisals obtained in the past two years. As a result of the South Carolina property's declining debt service coverage ratio, the North Carolina credit becoming past due and the substantial collateral shortfall from the most recent appraisals, we recorded combined net charge-offs totaling $45.5 million for these two credits. Because these two credits were previously substandard, we had previous allowance allocations totaling $19.1 million for both credits. Accordingly, we recorded $26.4 million of provision expense during the third quarter of 2018.

In addition to the $26.4 million of provision for these two credits, we also recorded $6.3 million of provision during the third quarter of 2018 as a result of the recalibration of our historical charge-off experience, which historical charge-offs were significantly affected by these two credits. While we believe our ALL at September 30, 2018 and related provision for the third quarter and first nine months of 2018 were appropriate, changing economic and other conditions may require future adjustments to the ALL or the amount of provision thereto.

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, 2018	Nine Months Ended September 30, 2017
	(Dollars in thousands)	
Balance, beginning of period	$ 94,120	$ 76,541
Charge-offs of non-purchased loans:		
Real estate:		
Residential 1-4 family	(210)	(272)
Non-farm/non-residential	(20,502)	(380)
Construction/land development	(25,580)	(113)
Agricultural	(92)	(2)
Total real estate	(46,384)	(767)
Commercial and industrial	(1,912)	(739)
Consumer	(1,030)	(270)
Other	(2,517)	(4,007)
Total charge-offs of non-purchased loans	(51,843)	(5,783)
Recoveries of non-purchased loans previously charged off:		
Real estate:		
Residential 1-4 family	160	24
Non-farm/non-residential	151	545
Construction/land development	29	21
Agricultural	30	34
Total real estate	370	624
Commercial and industrial	87	133
Consumer	121	141
Other	595	528
Total recoveries of non-purchased loans previously charged off	1,173	1,426
Net charge-offs of non-purchased loans	(50,670)	(4,357)
Charge-offs of purchased loans	(4,140)	(6,261)
Recoveries of purchased loans previously charged off	1,764	2,047
Net charge-offs of purchased loans	(2,376)	(4,214)
Net charge-offs – total loans	(53,046)	(8,571)
Provision for loan losses:		
Non-purchased loans	54,750	14,600
Purchased loans	2,376	4,214
Total provision	57,126	18,814
Balance, end of period	$ 98,200	$ 86,784
ALL allocated to non-purchased loans	$ 96,600	$ 85,184
ALL allocated to purchased loans	1,600	1,600
Total ALL	$ 98,200	$ 86,784

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,
	2018	2017	2017
	(Dollars in thousands)		
Net charge-offs of non-purchased loans to average non-purchased loans(1)(2)	0.49%	0.06%	0.06%
Net charge-offs of purchased loans to average purchased loans(1)	0.11%	0.13%	0.09%
Net charge-offs of total loans to average total loans(1)	0.43%	0.08%	0.07%
ALL for non-purchased loans to total non-purchased loans(3)	0.67%	0.71%	0.73%
ALL for purchased loans to total purchased loans	0.07%	0.04%	0.05%
ALL to total loans	0.59%	0.55%	0.59%
ALL to nonperforming loans(3)	293%	642%	717%

(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, 2018 and December 31, 2017, 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 following table presents the amortized cost and estimated fair value of investment securities AFS as of the dates indicated. The Bank’s investment in the “CRA qualified investment fund” includes shares held in a mutual fund that qualify under the Community Reinvestment Act of 1977 for community reinvestment purposes.

Investment Securities AFS

	September 30, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Mortgage-backed securities(1)	$ 2,077,980	$ 2,016,677	$ 1,918,171	$ 1,899,024
Obligations of state and political subdivisions	625,937	610,310	661,446	664,559
U.S. Government agency securities	27,602	26,746	29,792	29,233
Corporate obligations	15,178	15,102	—	—
CRA qualified investment fund	1,102	1,042	1,084	1,057
Total	$ 2,747,799	$ 2,669,877	$ 2,610,493	$ 2,593,873

(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 $2.9 million and gross unrealized losses of $80.8 million at September 30, 2018 and gross unrealized gains of $7.4 million and gross unrealized losses of $24.0 million at December 31, 2017. We believe that all unrealized losses on individual investment securities at September 30, 2018 and December 31, 2017 are the result of fluctuations in interest rates and do not reflect deterioration in the credit quality of these investments. Accordingly, we consider these unrealized losses to be temporary in nature. While we periodically evaluate our investment strategy relative to current economic and business conditions, we currently do not have the intent to sell these investment securities with unrealized losses and, more likely than not, will not be required to sell these investment securities before fair value recovers to amortized cost.

The following table presents 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, 2018:				
Mortgage-backed securities[1]	$ 2,077,980	$ 480	$ (50,058)	$ 2,028,402
Obligations of states and political subdivisions	625,937	1,444	(26,540)	600,841
U.S. Government agency securities	27,602	—	(602)	27,000
Corporate obligations	15,178	144	—	15,322
CRA qualified investment fund	1,102	—	—	1,102
Total	$ 2,747,799	$ 2,068	$ (77,200)	$ 2,672,667
December 31, 2017:				
Mortgage-backed securities[1]	$ 1,918,171	$ 81	$ (58,290)	$ 1,859,962
Obligations of states and political subdivisions	661,446	1,536	(29,990)	632,992
U.S. Government agency securities	29,792	1	(793)	29,000
CRA qualified investment fund	1,084	—	—	1,084
Total	$ 2,610,493	$ 1,618	$ (89,073)	$ 2,523,038

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

During the third quarter and first nine months of 2018, we had essentially no net gains from the sale of investment securities. During the third quarter and first nine months of 2017, respectively, we had net gains of $2.4 million and $2.8 million from the sale of $150 million and $236 million of investment securities. We purchased $237 million in investment securities during the third quarter and $557 million during the first nine months of 2018 compared to $107 million during the third quarter and $862 million during the first nine months of 2017.

We invest in securities we believe offer good relative value at the time of purchase, and we will, from time to time, reposition our investment securities portfolio. In making decisions to sell or purchase securities, we consider credit quality, call features, maturity dates, relative yields, corporate tax rates, current market factors, interest rate risk and interest rate environment, current and projected liquidity needs and other relevant factors. During 2017 and the first nine months of 2018, we took steps to add on-balance sheet liquidity and to reposition our investment securities portfolio for a rising interest rate environment and lower tax rates, including efforts to maintain or reduce average maturities, modified duration, and the portion of our portfolio invested in tax-exempt securities.

At September 30, 2018, approximately 96% of our investment securities had an investment grade credit rating (i.e., the equivalent of a rating of BBB- or better) and approximately 4% of our investment securities were not rated. For those securities that were not rated, we have performed our own evaluation of the security and/or the underlying issuer and believe that such security or its issuer has credit characteristics equivalent to those which would warrant an investment grade credit rating.

Goodwill

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. The fair value of our banking operations is based on valuation techniques that market participants would use in the acquisition of such banking practices and include estimated discounted cash flows, the quoted price of our common stock including an estimated control premium, average price-to-earnings and price-to-book multiples of our competition and other factors. Our impairment analysis of goodwill conducted as of September 30, 2018 indicated no impairment. As a result of changing circumstances and the potential for volatility in fair value estimates, management expects to update its goodwill impairment analysis in the fourth quarter of 2018. 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, 2018		December 31, 2017	
	(Dollars in thousands)			
Non-interest bearing	$ 2,776,549	15.6%	$ 2,726,623	15.9%
Interest bearing:				
Transaction (NOW)	2,839,413	15.9	4,303,108	25.0
Savings and money market	7,079,779	39.7	5,748,014	33.4
Time deposits less than $100	3,286,575	18.5	1,460,851	8.5
Time deposits of $100 or more	1,840,599	10.3	2,953,749	17.2
Total deposits	$ 17,822,915	100.0%	$ 17,192,345	100.0%

At September 30, 2018 brokered deposits totaled $1.37 billion, or 7.7% of total deposits, compared to $1.16 billion, or 6.8% of total deposits, at December 31, 2017. 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 the Bank 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, 2018		December 31, 2017	
	(Dollars in thousands)			
Arkansas	$ 6,399,261	35.9%	$ 5,280,075	30.7%
Georgia	3,777,242	21.2	4,088,723	23.8
Florida	2,684,765	15.1	2,757,852	16.0
Texas	2,035,231	11.4	2,158,392	12.6
New York	1,671,235	9.4	1,765,957	10.3
North Carolina	1,034,316	5.8	927,635	5.4
Alabama	127,408	0.7	111,907	0.7
South Carolina	93,457	0.5	101,804	0.5
Total	$ 17,822,915	100.0%	$ 17,192,345	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, to a lesser extent, 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,			
	2018		2017		2018		2017	
	Average Balance	Rate Paid	Average Balance	Rate Paid	Average Balance	Rate Paid	Average Balance	Rate Paid
	(Dollars in thousands)							
Repurchase agreements with customers	$ 97,249	0.88%	$ 73,026	0.18%	$123,587	0.82%	$ 76,481	0.16%
Other borrowings	63,909	0.90	42,433	2.39	88,101	1.25	42,312	2.31
Subordinated notes	223,135	5.72	222,749	5.68	223,042	5.72	222,658	5.66
Subordinated debentures	119,145	5.40	118,582	4.31	119,006	5.13	118,445	4.18
Total other interest bearing liabilities	$503,438	4.09%	$456,790	4.14%	$553,736	3.79%	$459,896	4.07%

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources

Subordinated Notes. At September 30, 2018, 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.

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”), (the “Trusts”). At September 30, 2018, 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, 2018	Carrying Value of Subordinated Debentures at September 30, 2018	Trust Preferred Securities of the Trusts	Contractual Interest Rate at September 30, 2018	Final Maturity Date
			(Dollars in thousands)			
Ozark II	$ 14,433	$ —	$ 14,433	$ 14,000	5.30%	September 29, 2033
Ozark III	14,434	—	14,434	14,000	5.29	September 25, 2033
Ozark IV	15,464	—	15,464	15,000	4.53	September 28, 2034
Ozark V	20,619	—	20,619	20,000	3.93	December 15, 2036
Intervest II	15,464	(389)	15,075	15,000	5.28	September 17, 2033
Intervest III	15,464	(450)	15,014	15,000	5.12	March 17, 2034
Intervest IV	15,464	(818)	14,646	15,000	4.74	September 20, 2034
Intervest V	10,310	(778)	9,532	10,000	3.98	December 15, 2036
	$ 121,652	$ (2,435)	$ 119,217	$ 118,000		

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

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

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

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

	September 30, 2018	September 30, 2017	December 31, 2017
	(Dollars in thousands)		
Total common stockholders' equity before noncontrolling interest	$ 3,653,596	$ 3,334,740	$ 3,460,728
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(38,817)	(51,396)	(48,251)
Total intangibles	(699,606)	(712,185)	(709,040)
Total tangible common stockholders' equity	$ 2,953,990	$ 2,622,555	$ 2,751,688
Total assets	$ 22,086,539	$ 20,768,493	$ 21,275,647
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(38,817)	(51,396)	(48,251)
Total intangibles	(699,606)	(712,185)	(709,040)
Total tangible assets	$ 21,386,933	$ 20,056,308	$ 20,566,607
Ratio of total common stockholders' equity to total assets	16.54%	16.06%	16.27%
Ratio of total tangible common stockholders' equity to total tangible assets	13.81%	13.08%	13.38%

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

	September 30, 2018	September 30, 2017	December 31, 2017
	(In thousands, except per share amounts)		
Total common stockholders' equity before noncontrolling interest	$ 3,653,596	$ 3,334,740	$ 3,460,728
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(38,817)	(51,396)	(48,251)
Total intangibles	(699,606)	(712,185)	(709,040)
Total tangible common stockholders' equity	$ 2,953,990	$ 2,622,555	$ 2,751,688
Shares of common stock outstanding	128,609	128,174	128,288
Book value per common share	$ 28.41	$ 26.02	$ 26.98
Tangible book value per common share	$ 22.97	$ 20.46	$ 21.45

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

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
	(Dollars in thousands)			
Net income available to common stockholders	$ 74,180	$ 96,007	$ 302,075	$ 275,727
Average common stockholders' equity before noncontrolling interest	$ 3,648,398	$ 3,295,394	$ 3,567,148	$ 3,047,279
Less average intangible assets:				
Goodwill	(660,789)	(660,789)	(660,789)	(659,871)
Core deposit and other intangible assets, net of accumulated amortization	(40,743)	(53,128)	(43,886)	(56,311)
Total average intangibles	(701,532)	(713,917)	(704,675)	(716,182)
Average tangible common stockholders' equity	$ 2,946,866	$ 2,581,477	$ 2,862,473	$ 2,331,097
Return on average common stockholders' equity(1)	8.07%	11.56%	11.32%	12.10%
Return on average tangible common stockholders' equity(1)	9.99%	14.76%	14.11%	15.81%

(1) Ratios annualized based on actual days.

Common Stock Dividend Policy. During 2018 we paid quarterly 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. During 2017 we paid quarterly cash dividends per common share of $0.17 in the first quarter, $0.175 in the second quarter, $0.18 in the third quarter and $0.185 in the fourth quarter. On October 1, 2018, our board of directors approved a cash dividend of $0.21 per common share that was paid on October 19, 2018. 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 subordinated 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 subordinated notes.

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

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 increases each year until fully implemented at 2.5% on January 1, 2019. When fully phased in on January 1, 2019, the Basel III Rules will require us to maintain (i) a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 7.0% upon full implementation, (ii) a minimum ratio of tier 1 capital to risk-weighted assets of at least 6.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 8.5% upon full implementation, (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% upon full implementation, 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, 2018 and December 31, 2017 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 are 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, 2018 and December 31, 2017, 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, 2018:								
Common equity tier 1 to risk-weighted assets	$2,998,413	12.15%	$1,573,765	6.375%	$1,728,056	7.00%	$1,604,623	6.50%
Tier 1 capital to risk-weighted assets	2,998,413	12.15	1,944,063	7.875	2,098,354	8.50	1,974,921	8.00
Total capital to risk-weighted assets	3,439,613	13.93	2,437,793	9.875	2,592,084	10.50	2,468,651	10.00
Tier 1 leverage to average assets	2,998,413	13.95	859,978	4.00	859,978	4.00	1,074,972	5.00
December 31, 2017:								
Common equity tier 1 to risk-weighted assets	$2,753,656	11.06%	$1,431,833	5.75%	$1,743,101	7.00%	$1,618,594	6.50%
Tier 1 capital to risk-weighted assets	2,753,656	11.06	1,805,355	7.25	2,116,623	8.50	1,992,116	8.00
Total capital to risk-weighted assets	3,190,776	12.81	2,303,384	9.25	2,614,652	10.50	2,490,145	10.00
Tier 1 leverage to average assets	2,753,656	13.83	796,595	4.00	796,595	4.00	995,743	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 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 wholesale deposit sources, secured and unsecured federal funds lines of credit from correspondent banks, FRB borrowing programs and/or accessing the capital markets.

At September 30, 2018, we had $11.89 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 with a substantial degree of accuracy is an important part of our liquidity management process.

At September 30, 2018, we had substantial unused borrowing availability. This availability was primarily comprised of the following four options: (1) $3.58 billion of available blanket borrowing capacity with the FHLB, (2) $1.96 billion of investment securities available to pledge for federal funds or other borrowings, (3) $230 million of available unsecured federal funds borrowing lines and (4) up to $243 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.

At September 30, 2018, our investment portfolio totaled $2.67 billion and was comprised of a substantial volume of highly liquid, short duration U.S. Government agency mortgage-backed pass through securities. These securities provide substantial on-balance sheet liquidity and carry a 20% risk-weighting for regulatory capital purposes.

Sources and Uses of Funds. Operating activities provided net cash of $357 million for the first nine months of 2018 and $289 million for the first nine months of 2017. 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 $929 million in the first nine months of 2018 and $1.59 billion in the first nine months of 2017. The decrease in net cash used by investing activities was primarily the result of a decrease in the growth of our non-purchased loan portfolio during the first nine months of 2018 compared to the same period in 2017.

Financing activities provided $519 million in the first nine months of 2018 and $1.49 billion in the first nine months of 2017. The decrease in cash provided by financing activities is primarily the result of a decrease in deposits needed to fund growth of non-purchased loans during the first nine months of 2018 compared to the same period in 2017.

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 7 to the Consolidated Financial Statements for more information about our outstanding commitments and contingencies as of September 30, 2018.

Growth and Expansion

De Novo Growth. In the first quarter of 2018, we relocated our Real Estate Specialties Group (“RESG”) team in Dallas, Texas to a nearby, larger facility and opened a loan production office in Raleigh, North Carolina. During the second quarter of 2018, we (i) closed a loan production office in Little Rock, Arkansas that was vacated by our former leasing operations and (ii) closed RESG loan production offices in Houston and Austin, Texas and consolidated the business handled by those two offices into our Dallas, Texas RESG office. During the third quarter of 2018, we opened a loan production office in Tyler, Texas for our agriculture lending team. On October 5, 2018, we closed a retail banking office in Clearwater, Florida.

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

During the first nine months of 2018, we spent approximately $52 million on capital expenditures for premises and equipment. Our capital expenditures for the full year 2018 are expected to be in the range of $60 million to $70 million, including progress payments on our new corporate headquarters facility and other construction projects expected to be completed in future periods, furniture and equipment costs, replacement signage related to our name change and strategic rebranding initiatives 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. With respect to our *de novo* branching strategy, future *de novo* branches are expected to be focused in states where we currently have banking offices and in larger markets and MSAs across the U.S. where we currently do not have retail banking 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.

Recent Regulatory Developments

On May 24, 2018, the President signed into law the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "EGRRCPA"), which amended certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") and other statutory and regulatory requirements. The EGRRCPA provides limited regulatory relief to certain financial institutions while maintaining the authority of federal banking regulators to ensure the safety and soundness of institutions under their supervision.

Together with the interagency statement regarding the impact of the EGRRCPA released on July 6, 2018 by the FDIC and the other federal banking regulators, the EGRRCPA (i) immediately exempts banks with less than $100 billion in total consolidated assets, such as the Bank, from the Dodd-Frank company-run stress testing requirement (commonly referred to as DFAST) and (ii) allows banking organizations to calculate their capital requirements for "high volatility commercial real estate" ("HVCRE") using the EGRRCPA's definition of HVCRE, which has broader exemptions and is narrower in scope than the definition of HVCRE currently used in the federal banking regulators' capital rules. The Bank expects to continue evaluating the impact of the EGRRCPA as it is further implemented by the regulators.

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 14 to the Consolidated Financial Statements for a discussion of certain recently issued and recently adopted accounting pronouncements.

Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>

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

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 and estimates changes to that baseline net interest income resulting from changes in interest rate levels. We rely primarily on the results of this model in evaluating our interest rate risk. This model incorporates a number of additional factors including: (1) the expected exercise of call features on various assets and liabilities, (2) the expected rates at which various rate sensitive assets and rate sensitive liabilities will reprice, (3) the expected growth in various interest earning assets and interest bearing liabilities and the expected interest rates on new assets and liabilities, (4) the expected relative movements in different interest rate indexes which are used as the basis for pricing or repricing various assets and liabilities, (5) existing and expected contractual cap and floor rates on various assets and liabilities, (6) expected changes in administered rates on interest bearing transaction, savings, money market and time deposit accounts and the expected impact of competition on the pricing or repricing of such accounts, (7) the timing and amount of cash flows expected to be received on purchased loans, (8) the need 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, 2018. 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	11.7%
+400	9.4
+300	7.1
+200	4.8
+100	2.4
-100	(2.3)
-200	(4.8)
-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

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, 2017 filed with the FDIC on February 27, 2018.

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

During the third quarter of 2018, the Bank issued 6,100 shares of common stock in connection with the exercise of stock options issued to certain participants under the Amended and Restated 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 2018, the Bank issued 5,511 shares of restricted common stock to certain non-employee directors and officers and employees pursuant to the Bank's Non-Employee Director Stock Plan or its Restricted Stock and Incentive Plan. We did not receive any cash consideration in connection with these restricted stock grants. These grants were exempt from registration pursuant to Section (3)(a)(2) of the Securities Act of 1933 because the grants involved securities issued by a bank.

During the third quarter of 2018, no shares of common stock were repurchased by the Bank in connection with its equity incentive plan awards.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

SIGNATURE

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

Bank OZK

DATE: November 8, 2018

/s/ Greg McKinney
Greg McKinney
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 among Bank of the Ozarks, Inc., Bank of the Ozarks, Community & Southern Holdings, Inc. and Community & Southern Bank, dated as of October 19, 2015 (previously filed as Exhibit 2.1 to the Bank's Quarterly Report on Form 10-Q filed with the FDIC on August 8, 2017, and incorporated herein by reference).
2.2	Agreement and Plan of Merger among Bank of the Ozarks, Inc., Bank of the Ozarks, C1 Financial, Inc. and C1 Bank, dated as of November 9, 2015 (previously filed as Exhibit 2.2 to the Bank's Quarterly Report on Form 10-Q filed with the FDIC on August 8, 2017, and incorporated herein by reference).
2.3	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 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 8, 2018

/s/ George Gleason
George Gleason

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 8, 2018

/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, 2018, as filed with the Federal Deposit Insurance Corporation on the date hereof (the Report), I, George Gleason, Chairman and Chief Executive Officer of the Bank, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

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

November 8, 2018

/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, 2018, 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 8, 2018

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