
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, 2017

- 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 OF THE OZARKS

(Exact name of registrant as specified in its charter)

ARKANSAS
(State or other jurisdiction of
incorporation or organization)

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

17901 CHENAL PARKWAY, LITTLE ROCK, ARKANSAS
(Address of principal executive offices)

72223
(Zip Code)

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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
Common Stock, \$0.01 par value per share

Outstanding at October 31, 2017
128,180,834

BANK OF THE OZARKS
FORM 10-Q
September 30, 2017

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

**BANK OF THE OZARKS
CONSOLIDATED BALANCE SHEETS**

	Unaudited September 30, 2017	December 31, 2016
(Dollars in thousands, except per share amounts)		
ASSETS		
Cash and due from banks	\$ 827,837	\$ 814,255
Interest earning deposits	229,475	52,105
Cash and cash equivalents	1,057,312	866,360
Investment securities - available for sale ("AFS")	1,975,102	1,471,612
Non-purchased loans and leases	12,047,094	9,605,093
Purchased loans	3,731,536	4,958,022
Allowance for loan and lease losses	(86,784)	(76,541)
Net loans and leases	15,691,846	14,486,574
Premises and equipment, net	517,561	504,086
Foreclosed assets	28,016	43,702
Accrued interest receivable	48,947	51,919
Bank owned life insurance ("BOLI")	593,750	580,945
Intangible assets, net	712,185	720,950
Other, net	143,774	163,994
Total assets	<u>\$ 20,768,493</u>	<u>\$ 18,890,142</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand non-interest bearing	\$ 2,790,907	\$ 2,589,458
Savings and interest bearing transaction	9,412,949	8,048,355
Time	4,619,503	4,937,065
Total deposits	16,823,359	15,574,878
Repurchase agreements with customers	70,165	65,110
Other borrowings	42,404	41,903
Subordinated notes	222,802	222,516
Subordinated debentures	118,660	118,242
Accrued interest payable and other liabilities	153,293	72,622
Total liabilities	<u>17,430,683</u>	<u>16,095,271</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; \$0.01 par value; 100,000,000 and 1,000,000 shares authorized at September 30, 2017 and December 31, 2016, respectively; no shares issued or outstanding at September 30, 2017 or December 31, 2016	—	—
Common stock; \$0.01 par value; 300,000,000 shares authorized; 128,174,129 and 121,267,616 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	1,282	1,213
Additional paid-in capital	2,214,630	1,901,880
Retained earnings	1,124,454	914,434
Accumulated other comprehensive income (loss)	(5,626)	(25,920)
Total stockholders' equity before noncontrolling interest	3,334,740	2,791,607
Noncontrolling interest	3,070	3,264
Total stockholders' equity	3,337,810	2,794,871
Total liabilities and stockholders' equity	<u>\$ 20,768,493</u>	<u>\$ 18,890,142</u>

See accompanying notes to consolidated financial statements.

BANK OF THE OZARKS
CONSOLIDATED STATEMENTS OF INCOME

Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
(Dollars in thousands, except per share amounts)				
Interest income:				
Non-purchased loans and leases	\$ 159,610	\$ 109,365	\$ 429,023	\$ 294,410
Purchased loans	68,473	77,208	220,196	132,942
Investment securities:				
Taxable	7,802	3,102	15,799	7,815
Tax-exempt	5,428	4,549	18,087	11,708
Deposits with banks and federal funds sold	253	133	388	151
Total interest income	<u>241,566</u>	<u>194,357</u>	<u>683,493</u>	<u>447,026</u>
Interest expense:				
Deposits	27,077	14,535	66,933	32,598
Repurchase agreements with customers	33	22	93	64
Other borrowings	255	286	732	880
Subordinated notes	3,190	3,259	9,430	3,542
Subordinated debentures	1,289	1,105	3,707	3,237
Total interest expense	<u>31,844</u>	<u>19,207</u>	<u>80,895</u>	<u>40,321</u>
Net interest income	209,722	175,150	602,598	406,705
Provision for loan and lease losses	7,777	7,086	18,814	13,937
Net interest income after provision for loan and lease losses	<u>201,945</u>	<u>168,064</u>	<u>583,784</u>	<u>392,768</u>
Non-interest income:				
Service charges on deposit accounts	9,729	10,926	32,794	26,703
Mortgage lending income	1,620	2,616	5,105	5,957
Trust income	1,755	1,564	4,962	4,645
BOLI income	4,453	4,638	13,511	10,243
Other income from purchased loans, net	2,933	4,635	11,447	12,285
Loan service, maintenance and other fees	5,274	1,687	11,407	3,874
Gains on sales of other assets	1,363	594	3,654	2,619
Net gains on investment securities	2,429	—	2,833	—
Other	3,191	2,571	7,932	5,503
Total non-interest income	<u>32,747</u>	<u>29,231</u>	<u>93,645</u>	<u>71,829</u>
Non-interest expense:				
Salaries and employee benefits	35,331	38,069	113,777	86,351
Net occupancy and equipment	13,595	11,669	39,724	28,587
Other operating expenses	35,473	29,043	92,992	62,457
Total non-interest expense	<u>84,399</u>	<u>78,781</u>	<u>246,493</u>	<u>177,395</u>
Income before taxes	150,293	118,514	430,936	287,202
Provision for income taxes	54,246	42,470	155,153	104,967
Net income	96,047	76,044	275,783	182,235
Earnings attributable to noncontrolling interest	(40)	(14)	(56)	(42)
Net income available to common stockholders	<u>\$ 96,007</u>	<u>\$ 76,030</u>	<u>\$ 275,727</u>	<u>\$ 182,193</u>
Basic earnings per common share	<u>\$ 0.75</u>	<u>\$ 0.66</u>	<u>\$ 2.21</u>	<u>\$ 1.84</u>
Diluted earnings per common share	<u>\$ 0.75</u>	<u>\$ 0.66</u>	<u>\$ 2.21</u>	<u>\$ 1.84</u>
Dividends declared per common share	<u>\$ 0.18</u>	<u>\$ 0.16</u>	<u>\$ 0.525</u>	<u>\$ 0.465</u>

See accompanying notes to consolidated financial statements.

BANK OF THE OZARKS
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Net income	\$ 96,047	\$ 76,044	\$ 275,783	\$ 182,235
Other comprehensive income (loss):				
Unrealized gains and losses on investment securities AFS	1,454	(2,262)	34,050	8,120
Tax effect of unrealized gains and losses on investment securities AFS	(509)	791	(11,915)	(2,444)
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)	(634)	(1,471)	20,294	5,676
Total comprehensive income	<u>\$ 95,413</u>	<u>\$ 74,573</u>	<u>\$ 296,077</u>	<u>\$ 187,911</u>

See accompanying notes to consolidated financial statements.

BANK OF THE OZARKS
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Unaudited

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non- Controlling Interest	Total
(Dollars in thousands, except per share amounts)							
Balances – December 31, 2015	\$ 906	\$ 755,995	\$ 706,628	\$ 7,959	\$ (6,857)	\$ 3,163	\$ 1,467,794
Net income	—	—	182,235	—	—	—	182,235
Earnings attributable to noncontrolling interest	—	—	(42)	—	—	42	—
Total other comprehensive income	—	—	—	5,676	—	—	5,676
Common stock dividends paid, \$0.465 per share	—	—	(42,185)	—	—	—	(42,185)
Issuance of 83,670 shares of common stock for exercise of stock options	1	1,254	—	—	—	—	1,255
Issuance of 218,761 shares of unvested restricted common stock	2	(6,859)	—	—	6,857	—	—
Excess tax benefit on exercise and forfeiture of stock options and restricted common stock	—	962	—	—	—	—	962
Stock-based compensation expense	—	7,953	—	—	—	—	7,953
Forfeiture of 13,986 shares of unvested restricted common stock	—	—	—	—	—	—	—
Issuance of 12,415 shares of common stock to non-employee directors	—	—	—	—	—	—	—
Issuance of 20,983,815 shares of common stock for acquisition of Community & Southern Holdings, Inc., net of issuance costs of \$395,000	209	787,337	—	—	—	—	787,546
Issuance of 9,370,587 shares of common stock for acquisition of C1 Financial, Inc., net of issuance costs of \$82,000	93	348,222	—	—	—	—	348,315
Balances – September 30, 2016	<u>\$ 1,211</u>	<u>\$ 1,894,864</u>	<u>\$ 846,636</u>	<u>\$ 13,635</u>	<u>\$ —</u>	<u>\$ 3,205</u>	<u>\$ 2,759,551</u>
Balances – December 31, 2016	\$ 1,213	\$ 1,901,880	\$ 914,434	\$ (25,920)	\$ —	\$ 3,264	\$ 2,794,871
Cumulative effect of change in accounting principal	—	1,133	(688)	—	—	—	445
Balances – January 1, 2017, as adjusted	1,213	1,903,013	913,746	(25,920)	—	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 issue costs	66	299,657	—	—	—	—	299,723
Balances – September 30, 2017	<u>\$ 1,282</u>	<u>\$ 2,214,630</u>	<u>\$ 1,124,454</u>	<u>\$ (5,626)</u>	<u>\$ —</u>	<u>\$ 3,070</u>	<u>\$ 3,337,810</u>

See accompanying notes to consolidated financial statements.

BANK OF THE OZARKS
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Nine Months Ended September 30,	
	2017	2016
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	\$ 275,783	\$ 182,235
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,283	10,268
Amortization	10,138	6,402
Earnings attributable to noncontrolling interest	(56)	(42)
Provision for loan and lease losses	18,814	13,937
Provision for losses on foreclosed assets	2,494	2,117
Net amortization of investment securities AFS	10,532	3,446
Net gains on investment securities AFS	(2,833)	—
Originations of mortgage loans held for sale	(163,199)	(204,085)
Proceeds from sales of mortgage loans held for sale	175,056	191,923
Accretion of purchased loans	(64,126)	(40,734)
Gains on sales of other assets	(3,654)	(2,619)
Deferred income tax expense	11,054	4,102
Increase in cash surrender value of BOLI	(13,382)	(9,434)
BOLI death benefits in excess of cash surrender value	(129)	(809)
Stock-based compensation expense	9,182	7,953
Excess tax benefit on stock-based compensation	—	(962)
Changes in assets and liabilities:		
Accrued interest receivable	2,972	4,833
Other assets, net	4,407	(5,429)
Accrued interest payable and other liabilities	317	(2,862)
Net cash provided by operating activities	288,653	160,240
Cash flows from investing activities:		
Proceeds from sales of investment securities AFS	239,081	—
Proceeds from maturities/calls/paydowns of investment securities AFS	143,303	145,386
Purchases of investment securities AFS	(862,356)	(382,583)
Net increase of non-purchased loans and leases	(2,179,487)	(2,232,950)
Net payments received on purchased loans	1,075,153	751,073
Purchases of premises and equipment	(31,315)	(34,455)
Purchases of BOLI	—	(145,000)
Proceeds from BOLI death benefits	705	2,116
Proceeds from sales of other assets	31,230	22,678
Cash received from (invested in) unconsolidated investments and noncontrolling interest	(5,534)	345
Net cash received in merger and acquisition transactions	—	203,695
Net cash used by investing activities	(1,589,220)	(1,669,695)
Cash flows from financing activities:		
Net increase in deposits	1,248,478	2,586,932
Net proceeds from (repayments of) other borrowings	501	(386,130)
Net increase in repurchase agreements with customers	5,055	4,840
Proceeds from exercise of stock options	2,781	1,255
Proceeds from issuance of subordinated notes	—	222,315
Excess tax benefit on stock-based compensation	—	962
Cash dividends paid on common stock	(65,019)	(42,185)
Proceeds from issuance of common stock	299,723	—
Net cash provided by financing activities	1,491,519	2,387,989
Net increase in cash and cash equivalents	190,952	878,534
Cash and cash equivalents – beginning of period	866,360	90,988
Cash and cash equivalents – end of period	\$ 1,057,312	\$ 969,522

See accompanying notes to consolidated financial statements.

BANK OF THE OZARKS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

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, an Arkansas state banking corporation (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.

At the effective time of the merger, each share of Bank of the Ozarks, Inc.’s common stock issued and outstanding immediately prior to the merger was automatically converted to one share of common stock of the Bank having the same designations, rights, powers and preferences and the same qualifications, limitations and restrictions as those associated with each share of Bank of the Ozarks, Inc. As a result, Bank of the Ozarks, Inc. shareholders upon consummation of the merger became Bank shareholders. The Bank continues to be 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”). The Bank is no longer subject to the FRB’s regulation and supervision (except such regulations as are made applicable to the Bank by law and regulation of the FDIC).

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 (collectively, 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 owns 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.

At September 30, 2017 the Bank, which is headquartered in Little Rock, Arkansas, conducted operations through 252 offices, including offices in Arkansas, Georgia, Florida, North Carolina, Texas, Alabama, South Carolina, California and New York.

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. Prior to the Reorganization, all of Bank of the Ozarks, Inc.’s business and operations were conducted through the Bank. The Bank’s operations and business did not change as a result of the Reorganization and the accounting policies of Bank of the Ozarks, Inc. are the same for the Bank. The organization, business, accounting policies and other relevant information about the former holding company are contained in the notes to the financial statements filed as part of Bank of the Ozarks, Inc.’s annual report on Form 10-K for the year ended December 31, 2016, which was filed with the SEC on March 1, 2017. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2016. The effect of the Reorganization is reflected in all prior period financial data in this quarterly report on Form 10-Q.

The consolidated financial statements include the accounts of the Bank, the investment subsidiary, the real estate subsidiary and the aircraft subsidiary. In addition, subsidiaries in which the Bank has majority voting interest (principally defined as owning a voting or economic interest greater than 50%) or where the Bank exercises control over the operating and financial policies of the subsidiary through an operating agreement or other means are consolidated. Investments in companies in which the Bank has significant influence over voting and financing decisions (principally defined as owning a voting or economic interest of 20% to 50%) and investments in limited partnerships and limited liability companies where the Bank does not exercise control over the operating and financial policies are generally accounted for by the equity method of accounting. Investments in companies in which the Bank has limited or no influence over voting and financing decisions (principally defined as owning a voting or economic interest less than 20%) and investments in limited partnerships and limited liability companies in which the Bank’s interest is so minor such that it has virtually no influence over operating and financial policies are generally accounted for by the cost method of accounting.

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, 2017 are not necessarily indicative of the results that may be expected for the full year or future periods.

During the nine months ended September 30, 2017, the Bank revised its initial estimates regarding certain acquired assets and assumed liabilities associated with its 2016 acquisition of C1 Financial, Inc. (“C1”). As a result, goodwill recorded in the C1 acquisition increased by approximately \$0.7 million during the first quarter of 2017. No revisions to goodwill were recorded during the second or third quarters of 2017. As provided under GAAP, management has up to twelve months following the date of an acquisition to finalize the fair values of the acquired assets and assumed liabilities. 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”).

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 the number of stock-based awards that were expected to vest. The Bank believes this policy election related to forfeitures will be 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.

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 1,100,881 shares and 648,135 shares of the Bank’s common stock for the three months ended September 30, 2017 and 2016, respectively, and options to purchase 1,132,891 shares and 652,077 shares of the Bank’s common stock for the nine months ended September 30, 2017 and 2016, respectively, 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,	
	2017	2016	2017	2016
	(In thousands, except per share amounts)			
Numerator:				
Distributed earnings allocated to common stockholders	\$ 23,085	\$ 14,521	\$ 65,019	\$ 42,185
Undistributed earnings allocated to common stockholders	72,922	61,509	210,708	140,008
Net income available to common stockholders	<u>\$ 96,007</u>	<u>\$ 76,030</u>	<u>\$ 275,727</u>	<u>\$ 182,193</u>
Denominator:				
Denominator for basic EPS – weighted-average common shares	128,182	114,745	124,534	98,779
Effect of dilutive securities – stock options	290	262	366	285
Denominator for diluted EPS – weighted-average common shares and assumed conversions	<u>128,472</u>	<u>115,007</u>	<u>124,900</u>	<u>99,064</u>
Basic EPS	<u>\$ 0.75</u>	<u>\$ 0.66</u>	<u>\$ 2.21</u>	<u>\$ 1.84</u>
Diluted EPS	<u>\$ 0.75</u>	<u>\$ 0.66</u>	<u>\$ 2.21</u>	<u>\$ 1.84</u>

4. Investment Securities

At both September 30, 2017 and December 31, 2016, the Bank classified all of its investment securities portfolio as AFS. Accordingly, investment securities are stated at estimated fair value in the consolidated financial statements with unrealized gains and losses, net of related income tax, reported as a separate component of stockholders’ equity and included in accumulated other comprehensive income (loss).

The following table presents the amortized cost and estimated fair value of investment securities AFS as of the dates indicated. 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. The Bank's holdings of "other equity securities" include Federal Home Loan Bank of Dallas ("FHLB") and First National Banker's Bankshares, Inc. ("FNBB") shares which do not have readily determinable fair values and are carried at cost.

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
	(Dollars in thousands)			
September 30, 2017:				
Obligations of state and political subdivisions	\$ 686,109	\$ 5,969	\$ (8,107)	\$ 683,971
Mortgage-backed securities ⁽¹⁾	1,256,866	2,075	(8,245)	1,250,696
U.S. Government agency securities	30,479	22	(356)	30,145
CRA qualified investment fund	1,078	—	(20)	1,058
Other equity securities	9,232	—	—	9,232
Total	<u>\$ 1,983,764</u>	<u>\$ 8,066</u>	<u>\$ (16,728)</u>	<u>\$ 1,975,102</u>
December 31, 2016:				
Obligations of state and political subdivisions	\$ 946,886	\$ 7,785	\$ (35,658)	\$ 919,013
Mortgage-backed securities ⁽¹⁾	516,636	955	(12,235)	505,356
U.S. Government agency securities	30,661	7	(534)	30,134
Corporate obligations	10,086	—	(171)	9,915
CRA qualified investment fund	1,061	—	(27)	1,034
Other equity securities	6,160	—	—	6,160
Total	<u>\$ 1,511,490</u>	<u>\$ 8,747</u>	<u>\$ (48,625)</u>	<u>\$ 1,471,612</u>

(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.

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>
	(Dollars in thousands)					
September 30, 2017:						
Obligations of state and political subdivisions	\$ 319,927	\$ 7,308	\$ 97,570	\$ 799	\$ 417,497	\$ 8,107
Mortgage-backed securities ⁽¹⁾	980,266	6,681	50,271	1,564	1,030,537	8,245
U.S. Government agency securities	13,754	214	10,018	142	23,772	356
CRA qualified investment fund	1,058	20	—	—	1,058	20
Total temporarily impaired securities	<u>\$1,315,005</u>	<u>\$ 14,223</u>	<u>\$ 157,859</u>	<u>\$ 2,505</u>	<u>\$1,472,864</u>	<u>\$ 16,728</u>
December 31, 2016:						
Obligations of state and political subdivisions	\$ 641,862	\$ 35,648	\$ 4,501	\$ 10	\$ 646,363	\$ 35,658
Mortgage-backed securities ⁽¹⁾	454,519	12,230	160	5	454,679	12,235
U.S. Government agency securities	25,481	534	—	—	25,481	534
Corporate obligations	6,915	171	—	—	6,915	171
CRA qualified investment fund	1,034	27	—	—	1,034	27
Total temporarily impaired securities	<u>\$1,129,811</u>	<u>\$ 48,610</u>	<u>\$ 4,661</u>	<u>\$ 15</u>	<u>\$1,134,472</u>	<u>\$ 48,625</u>

(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, 2017 and December 31, 2016, 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. 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.

<u>Maturity or Estimated Repayment</u>	<u>September 30, 2017</u>	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
	(Dollars in thousands)	
One year or less	\$ 223,016	\$ 222,021
After one year to five years	663,855	660,738
After five years to ten years	538,494	540,051
After ten years	558,399	552,292
Total	<u>\$ 1,983,764</u>	<u>\$ 1,975,102</u>

For purposes of this maturity or repayment distribution, all investment securities AFS are shown based on their contractual maturity date or estimated date of repayment, except (i) FHLB and FNBB equity securities and the CRA qualified investment fund with no contractual maturity date are shown in the longest maturity category and (ii) U.S. Government agency securities and municipal housing authority securities backed by residential mortgages 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. 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 activities in the Bank's investment securities AFS for the periods indicated.

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	(Dollars in thousands)			
Sales proceeds	<u>\$ 149,635</u>	<u>\$ —</u>	<u>\$ 239,081</u>	<u>\$ —</u>
Gross realized gains	2,795	—	3,635	—
Gross realized losses	(366)	—	(802)	—
Net gains on investment securities	<u>\$ 2,429</u>	<u>\$ —</u>	<u>\$ 2,833</u>	<u>\$ —</u>

5. Allowance for Loan and Lease Losses (“ALLL”) and Credit Quality Indicators

Allowance for Loan and Lease Losses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Beginning balance	\$ 82,320	\$ 65,133	\$ 76,541	\$ 60,854
Charge-offs of non-purchased loans and leases	(2,582)	(1,791)	(5,783)	(4,356)
Recoveries of non-purchased loans and leases previously charged off	246	418	1,426	862
Net charge-offs – non-purchased loans and leases	(2,336)	(1,373)	(4,357)	(3,494)
Charge-offs of purchased loans	(1,541)	(1,197)	(6,261)	(1,732)
Recoveries of purchased loans previously charged off	564	111	2,047	195
Net charge-offs – purchased loans	(977)	(1,086)	(4,214)	(1,537)
Net charge-offs – total loans and leases	(3,313)	(2,459)	(8,571)	(5,031)
Provision for loan and lease losses:				
Non-purchased loans and leases	6,800	5,600	14,600	12,000
Purchased loans	977	1,486	4,214	1,937
Total provision	7,777	7,086	18,814	13,937
Ending balance	\$ 86,784	\$ 69,760	\$ 86,784	\$ 69,760
ALLL allocated to non-purchased loans and leases	\$ 85,184	\$ 68,160	\$ 85,184	\$ 68,160
ALLL allocated to purchased loans	1,600	1,600	1,600	1,600
Total ALLL	\$ 86,784	\$ 69,760	\$ 86,784	\$ 69,760

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

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
			(Dollars in thousands)		
Three months ended September 30, 2017:					
Non-purchased loans and leases:					
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
Direct financing leases	7,593	(900)	9	1,035	7,737
Other	2,061	(612)	134	1,083	2,666
Total non-purchased loans and leases	80,720	(2,582)	246	6,800	85,184
Purchased loans	1,600	(1,541)	564	977	1,600
Total loans and leases	<u>\$ 82,320</u>	<u>\$ (4,123)</u>	<u>\$ 810</u>	<u>\$ 7,777</u>	<u>\$ 86,784</u>

Nine months ended September 30, 2017:					
Non-purchased loans and leases:					
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
Direct financing leases	10,684	(2,425)	25	(547)	7,737
Other	2,266	(1,582)	503	1,479	2,666
Total non-purchased loans and leases	74,941	(5,783)	1,426	14,600	85,184
Purchased loans	1,600	(6,261)	2,047	4,214	1,600
Total loans and leases	<u>\$ 76,541</u>	<u>\$ (12,044)</u>	<u>\$ 3,473</u>	<u>\$ 18,814</u>	<u>\$ 86,784</u>

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
	(Dollars in thousands)				
Three months ended September 30, 2016:					
Non-purchased loans and leases:					
Real estate:					
Residential 1-4 family	\$ 10,099	\$ (94)	\$ 6	\$ 312	\$ 10,323
Non-farm/non-residential	19,118	(236)	—	754	19,636
Construction/land development	17,496	(22)	2	2,582	20,058
Agricultural	3,755	—	—	(373)	3,382
Multifamily residential	3,661	—	—	(12)	3,649
Commercial and industrial	3,790	(45)	13	182	3,940
Consumer	712	(19)	1	870	1,564
Direct financing leases	4,092	(795)	4	842	4,143
Other	1,210	(580)	392	443	1,465
Total non-purchased loans and leases	63,933	(1,791)	418	5,600	68,160
Purchased loans	1,200	(1,197)	111	1,486	1,600
Total loans and leases	<u>\$ 65,133</u>	<u>\$ (2,988)</u>	<u>\$ 529</u>	<u>\$ 7,086</u>	<u>\$ 69,760</u>

Nine months ended September 30, 2016:

Non-purchased loans and leases:					
Real estate:					
Residential 1-4 family	\$ 8,672	\$ (350)	\$ 43	\$ 1,958	\$ 10,323
Non-farm/non-residential	16,796	(248)	—	3,088	19,636
Construction/land development	18,176	(42)	53	1,871	20,058
Agricultural	3,388	(7)	—	1	3,382
Multifamily residential	3,031	—	14	604	3,649
Commercial and industrial	2,574	(87)	52	1,401	3,940
Consumer	707	(87)	15	929	1,564
Direct financing leases	3,835	(2,263)	20	2,551	4,143
Other	2,475	(1,272)	665	(403)	1,465
Total non-purchased loans and leases	59,654	(4,356)	862	12,000	68,160
Purchased loans	1,200	(1,732)	195	1,937	1,600
Total loans and leases	<u>\$ 60,854</u>	<u>\$ (6,088)</u>	<u>\$ 1,057</u>	<u>\$ 13,937</u>	<u>\$ 69,760</u>

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

	ALLL for Non-Purchased Loans and Leases			Non-Purchased Loans and Leases		
	ALLL for Individually Evaluated Impaired Loans and Leases	ALLL for All Other Loans and Leases	Total ALLL ⁽¹⁾	Individually Evaluated Impaired Loans and Leases	All Other Loans and Leases	Total Loans and Leases
September 30, 2017:						
Real estate:						
Residential 1-4 family	\$ 565	\$ 11,495	\$ 12,060	\$ 4,498	\$ 573,016	\$ 577,514
Non-farm/non-residential	191	24,987	25,178	3,217	2,970,210	2,973,427
Construction/land development	887	21,955	22,842	2,461	5,760,796	5,763,257
Agricultural	—	1,252	1,252	1,285	131,404	132,689
Multifamily residential	—	2,449	2,449	—	439,928	439,928
Commercial and industrial	95	3,627	3,722	1,235	395,525	396,760
Consumer	86	7,192	7,278	430	712,913	713,343
Direct financing leases	44	7,693	7,737	111	138,686	138,797
Other	—	2,666	2,666	33	911,346	911,379
Total	<u>\$ 1,868</u>	<u>\$ 83,316</u>	<u>\$ 85,184</u>	<u>\$ 13,270</u>	<u>\$12,033,824</u>	<u>\$12,047,094</u>
December 31, 2016:						
Real estate:						
Residential 1-4 family	\$ 326	\$ 9,899	\$ 10,225	\$ 2,411	\$ 478,652	\$ 481,063
Non-farm/non-residential	174	21,381	21,555	2,136	2,383,516	2,385,652
Construction/land development	1,384	19,289	20,673	5,501	4,757,466	4,762,967
Agricultural	387	2,400	2,787	1,198	96,668	97,866
Multifamily residential	59	2,388	2,447	879	434,463	435,342
Commercial and industrial	463	1,896	2,359	750	227,730	228,480
Consumer	16	1,929	1,945	60	216,457	216,517
Direct financing leases	—	10,684	10,684	—	137,188	137,188
Other	41	2,225	2,266	158	859,860	860,018
Total	<u>\$ 2,850</u>	<u>\$ 72,091</u>	<u>\$ 74,941</u>	<u>\$ 13,093</u>	<u>\$ 9,592,000</u>	<u>\$ 9,605,093</u>

⁽¹⁾ Excludes \$1.6 million of ALLL allocated to the Bank's purchased loans at both September 30, 2017 and December 31, 2016.

The following table is a summary of impaired non-purchased loans and leases as of and for the three months and nine months ended September 30, 2017.

	Principal Balance	Net Charge-offs to Date	Principal Balance, Net of Charge-offs	Specific ALLL	Weighted Average Carrying Value – Three Months Ended September 30, 2017	Weighted Average Carrying Value – Nine Months Ended September 30, 2017
	(Dollars in thousands)					
Impaired loans and leases for which there is a related ALLL:						
Real estate:						
Residential 1-4 family	\$ 3,633	\$ —	\$ 3,633	\$ 565	\$ 2,826	\$ 2,145
Non-farm/non-residential	1,628	—	1,628	191	1,388	1,287
Construction/land development	2,240	—	2,240	887	2,025	2,737
Agricultural	—	—	—	—	473	744
Multifamily	—	—	—	—	—	220
Commercial and industrial	961	—	961	95	1,077	855
Consumer	425	—	425	86	294	178
Direct financing leases	111	—	111	44	70	126
Total impaired loans and leases with a related ALLL	<u>8,998</u>	<u>—</u>	<u>8,998</u>	<u>1,868</u>	<u>8,153</u>	<u>8,292</u>
Impaired loans and leases for which there is not a related ALLL:						
Real estate:						
Residential 1-4 family	1,297	(432)	865	—	885	919
Non-farm/non-residential	2,498	(909)	1,589	—	1,572	1,547
Construction/land development	318	(97)	221	—	312	356
Agricultural	1,347	(62)	1,285	—	816	476
Multifamily residential	133	(133)	—	—	—	25
Commercial and industrial	797	(523)	274	—	416	281
Consumer	14	(9)	5	—	7	8
Other	34	(1)	33	—	19	12
Total impaired loans and leases without a related ALLL	<u>6,438</u>	<u>(2,166)</u>	<u>4,272</u>	<u>—</u>	<u>4,027</u>	<u>3,624</u>
Total impaired non-purchased loans and leases	<u>\$ 15,436</u>	<u>\$ (2,166)</u>	<u>\$ 13,270</u>	<u>\$ 1,868</u>	<u>\$ 12,180</u>	<u>\$ 11,916</u>

The following table is a summary of impaired non-purchased loans and leases as of and for the year ended December 31, 2016.

	Principal Balance	Net Charge-offs to Date	Principal Balance, Net of Charge-offs (Dollars in thousands)	Specific ALLL	Weighted Average Carrying Value – Year Ended December 31, 2016
Impaired loans and leases for which there is a related ALLL:					
Real estate:					
Residential 1-4 family	\$ 1,904	\$ (216)	\$ 1,688	\$ 326	\$ 1,088
Non-farm/non-residential	1,171	(523)	648	174	186
Construction/land development	5,137	(34)	5,103	1,384	1,118
Agricultural	1,064	—	1,064	387	1,118
Multifamily	879	—	879	59	176
Commercial and industrial	809	(322)	487	463	506
Consumer	55	(4)	51	16	23
Other	153	—	153	41	31
Total impaired loans and leases with a related ALLL	11,172	(1,099)	10,073	2,850	4,246
Impaired loans and leases for which there is not a related ALLL:					
Real estate:					
Residential 1-4 family	879	(156)	723	—	896
Non-farm/non-residential	1,997	(509)	1,488	—	1,131
Construction/land development	1,208	(810)	398	—	1,998
Agricultural	366	(232)	134	—	169
Multifamily residential	133	(133)	—	—	33
Commercial and industrial	313	(50)	263	—	209
Consumer	14	(5)	9	—	11
Other	5	—	5	—	6
Total impaired loans and leases without a related ALLL	4,915	(1,895)	3,020	—	4,453
Total impaired non-purchased loans and leases	<u>\$ 16,087</u>	<u>\$ (2,994)</u>	<u>\$ 13,093</u>	<u>\$ 2,850</u>	<u>\$ 8,699</u>

Management has determined that certain of the Bank's impaired non-purchased loans and leases do not require any specific allowance at September 30, 2017 or at December 31, 2016 because (i) management's analysis of such individual loans and leases resulted in no impairment or (ii) all identified impairment on such loans and leases had previously been charged off.

Interest income on impaired non-purchased loans and leases is recognized on a cash basis when and if actually collected. Total interest income recognized on impaired non-purchased loans and leases for the three and nine months ended September 30, 2017 and 2016 was not material.

Credit Quality Indicators

Non-Purchased Loans and Leases

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

	Satisfactory	Moderate	Watch	Substandard	Total
(Dollars in thousands)					
September 30, 2017:					
Real estate:					
Residential 1-4 family ⁽¹⁾	\$ 570,007	\$ —	\$ 2,845	\$ 4,662	\$ 577,514
Non-farm/non-residential	2,434,021	440,984	60,975	37,447	2,973,427
Construction/land development	5,271,873	447,431	40,703	3,250	5,763,257
Agricultural	42,581	81,555	6,361	2,192	132,689
Multifamily residential	378,760	57,574	2,564	1,030	439,928
Commercial and industrial	103,257	285,891	5,832	1,780	396,760
Consumer ⁽¹⁾	695,026	12,088	5,803	426	713,343
Direct financing leases	137,270	396	796	335	138,797
Other ⁽¹⁾	905,443	5,451	211	274	911,379
Total	<u>\$10,538,238</u>	<u>\$ 1,331,370</u>	<u>\$ 126,090</u>	<u>\$ 51,396</u>	<u>\$12,047,094</u>
December 31, 2016:					
Real estate:					
Residential 1-4 family ⁽¹⁾	\$ 474,853	\$ —	\$ 1,938	\$ 4,272	\$ 481,063
Non-farm/non-residential	2,010,397	287,157	81,527	6,571	2,385,652
Construction/land development	4,409,108	336,004	11,402	6,453	4,762,967
Agricultural	48,835	37,712	9,158	2,161	97,866
Multifamily residential	381,845	49,607	1,971	1,919	435,342
Commercial and industrial	149,698	73,559	3,994	1,229	228,480
Consumer ⁽¹⁾	216,120	—	164	233	216,517
Direct financing leases	135,980	46	208	954	137,188
Other ⁽¹⁾	855,217	4,710	81	10	860,018
Total	<u>\$ 8,682,053</u>	<u>\$ 788,795</u>	<u>\$ 110,443</u>	<u>\$ 23,802</u>	<u>\$ 9,605,093</u>

- (1) The Bank does not risk rate its residential 1-4 family loans (including consumer construction loans and 1-4 family properties), indirect loans, 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 and leases in this category are considered to be a satisfactory credit risk and are generally considered to be collectible in full.

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

Watch – Loans and leases 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 and leases 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 and leases 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, 2017:					
Real estate:					
Residential 1-4 family	\$ 3,172	\$ 4,059	\$ 7,231	\$ 570,283	\$ 577,514
Non-farm/non-residential	845	2,425	3,270	2,970,157	2,973,427
Construction/land development	1,212	760	1,972	5,761,285	5,763,257
Agricultural	90	335	425	132,264	132,689
Multifamily residential	—	—	—	439,928	439,928
Commercial and industrial	379	175	554	396,206	396,760
Consumer	1,139	145	1,284	712,059	713,343
Direct financing leases	198	75	273	138,524	138,797
Other	—	34	34	911,345	911,379
Total	<u>\$ 7,035</u>	<u>\$ 8,008</u>	<u>\$ 15,043</u>	<u>\$ 12,032,051</u>	<u>\$ 12,047,094</u>

December 31, 2016:

Real estate:					
Residential 1-4 family	\$ 2,410	\$ 2,082	\$ 4,492	\$ 476,571	\$ 481,063
Non-farm/non-residential	1,718	1,318	3,036	2,382,616	2,385,652
Construction/land development	3,082	198	3,280	4,759,687	4,762,967
Agricultural	1,220	136	1,356	96,510	97,866
Multifamily residential	—	883	883	434,459	435,342
Commercial and industrial	522	551	1,073	227,407	228,480
Consumer	169	52	221	216,296	216,517
Direct financing leases	408	812	1,220	135,968	137,188
Other	196	6	202	859,816	860,018
Total	<u>\$ 9,725</u>	<u>\$ 6,038</u>	<u>\$ 15,763</u>	<u>\$ 9,589,330</u>	<u>\$ 9,605,093</u>

- (1) Includes \$0.3 million and \$4.6 million at September 30, 2017 and December 31, 2016, respectively, of loans and leases on nonaccrual status.
(2) All loans and leases greater than 90 days past due were on nonaccrual status at September 30, 2017 and December 31, 2016.
(3) Includes \$5.0 million and \$3.7 million of loans and leases on nonaccrual status at September 30, 2017 and December 31, 2016, respectively.

Purchased Loans

As of September 30, 2017, 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 its performance expectations established in conjunction with the determination of the Day 1 Fair Values or since its most recent review of such portfolio's performance (for purchased loans with evidence of credit deterioration at date of acquisition). At September 30, 2017, the Bank had \$9.5 million of impaired purchased loans compared to \$6.5 million at December 31, 2016.

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, 2017:								
Real estate:								
Residential 1-4 family	\$ 76,933	\$ 290,934	\$127,565	\$48,593	\$ 243	\$ 58,190	\$ 2,019	\$ 604,477
Non-farm/non-residential	217,848	1,085,080	311,661	2,183	3,617	94,535	2,575	1,717,499
Construction/land development	63,410	303,226	37,545	1,640	463	11,321	14	417,619
Agricultural	7,958	2,847	3,080	225	—	2,589	413	17,112
Multifamily residential	17,218	174,294	9,850	633	—	9,991	—	211,986
Commercial and industrial	12,912	99,669	7,799	844	2	6,975	110	128,311
Consumer	259,890	309,777	56,710	1,315	46	198	—	627,936
Other	4,622	1,729	115	19	—	111	—	6,596
Total	<u>\$660,791</u>	<u>\$2,267,556</u>	<u>\$554,325</u>	<u>\$55,452</u>	<u>\$ 4,371</u>	<u>\$183,910</u>	<u>\$ 5,131</u>	<u>\$3,731,536</u>
December 31, 2016:								
Real estate:								
Residential 1-4 family	\$ 99,447	\$ 379,883	\$162,166	\$62,507	\$ 282	\$ 72,052	\$ 1,889	\$ 778,226
Non-farm/non-residential	309,450	1,415,399	419,978	3,128	712	128,347	2,735	2,279,749
Construction/land development	104,303	351,001	63,561	2,536	33	11,404	55	532,893
Agricultural	13,169	5,154	3,825	404	—	4,058	381	26,991
Multifamily residential	11,838	231,758	54,116	714	—	10,237	—	308,663
Commercial and industrial	17,268	172,168	10,897	1,722	22	9,463	127	211,667
Consumer	319,442	414,116	75,812	2,496	194	328	86	812,474
Other	5,229	1,497	132	44	—	457	—	7,359
Total	<u>\$880,146</u>	<u>\$2,970,976</u>	<u>\$790,487</u>	<u>\$73,551</u>	<u>\$ 1,243</u>	<u>\$236,346</u>	<u>\$ 5,273</u>	<u>\$4,958,022</u>

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, 2017:					
Real estate:					
Residential 1-4 family	\$ 7,348	\$ 8,546	\$ 15,894	\$ 588,583	\$ 604,477
Non-farm/non-residential	7,438	13,412	20,850	1,696,649	1,717,499
Construction/land development	935	1,695	2,630	414,989	417,619
Agriculture	43	399	442	16,670	17,112
Multifamily residential	77	—	77	211,909	211,986
Commercial and industrial	667	1,167	1,834	126,477	128,311
Consumer	4,487	914	5,401	622,535	627,936
Other	—	—	—	6,596	6,596
Total	<u>\$ 20,995</u>	<u>\$ 26,133</u>	<u>\$ 47,128</u>	<u>\$ 3,684,408</u>	<u>\$ 3,731,536</u>
Purchased loans without evidence of credit deterioration at date of acquisition	\$ 16,085	\$ 11,138	\$ 27,223	\$ 3,515,272	\$ 3,542,495
Purchased loans with evidence of credit deterioration at date of acquisition	4,910	14,995	19,905	169,136	189,041
Total	<u>\$ 20,995</u>	<u>\$ 26,133</u>	<u>\$ 47,128</u>	<u>\$ 3,684,408</u>	<u>\$ 3,731,536</u>
December 31, 2016:					
Real estate:					
Residential 1-4 family	\$ 10,547	\$ 8,665	\$ 19,212	\$ 759,014	\$ 778,226
Non-farm/non-residential	7,471	20,528	27,999	2,251,750	2,279,749
Construction/land development	21,008	527	21,535	511,358	532,893
Agriculture	49	638	687	26,304	26,991
Multifamily residential	—	—	—	308,663	308,663
Commercial and industrial	891	1,305	2,196	209,471	211,667
Consumer	4,421	1,502	5,923	806,551	812,474
Other	—	—	—	7,359	7,359
Total	<u>\$ 44,387</u>	<u>\$ 33,165</u>	<u>\$ 77,552</u>	<u>\$ 4,880,470</u>	<u>\$ 4,958,022</u>
Purchased loans without evidence of credit deterioration at date of acquisition	\$ 38,621	\$ 8,619	\$ 47,240	\$ 4,669,163	\$ 4,716,403
Purchased loans with evidence of credit deterioration at date of acquisition	5,766	24,546	30,312	211,307	241,619
Total	<u>\$ 44,387</u>	<u>\$ 33,165</u>	<u>\$ 77,552</u>	<u>\$ 4,880,470</u>	<u>\$ 4,958,022</u>

6. Supplemental Data for Cash Flows

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

	Nine Months Ended September 30,	
	2017	2016
	(Dollars in thousands)	
Cash paid during the period for:		
Interest	\$ 84,243	\$ 36,571
Taxes	126,296	97,232
Supplemental schedule of non-cash investing and financing activities:		
Net change in unrealized gains/losses on investment securities AFS	31,216	8,120
Loans transferred to foreclosed assets	12,458	17,093
Loans advanced for sales of foreclosed assets	—	271
Unsettled AFS investment security purchases	—	38,349
Unsettled loan purchases	80,251	—
Common stock issued in merger and acquisition transactions, net of shares redeemed for certain loans	—	1,135,861

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, 2017 was \$24.1 million. The Bank holds collateral to support guarantees when deemed necessary. Collateralized commitments at September 30, 2017 totaled \$20.3 million.

At September 30, 2017, the Bank had outstanding commitments totaling \$12.52 billion to extend credit, consisting primarily of loans closed but not yet funded. The following table shows, as of the date indicated, the contractual maturities of such outstanding commitments.

Maturity	Contractual Maturities at September 30, 2017	
	(Dollars in thousands)	
	Amount	
2017	\$	173,503
2018		1,544,977
2019		3,697,314
2020		5,157,759
2021		1,684,230
Thereafter		262,056
Total	\$	12,519,839

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 is 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, 2017 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.

In addition, the Bank has a non-employee director stock plan (the “Director Plan”) that provides for awards of common stock to eligible non-employee directors. The Director Plan grants to each director who is not otherwise an employee of the Bank, or any subsidiary, shares of common stock on the day of his or her election or appointment as director of the Bank. The number of shares of common stock to be awarded is the equivalent of \$50,000 worth of shares of common stock based on the average of the highest reported asked price and lowest reported bid price on the grant date. The common stock awarded under this plan is fully vested on the grant date. The Bank issued 14,476 shares and 12,415 shares of common stock under the Director Plan during the nine months ended September 30, 2017 and 2016, respectively.

Prior to the adoption of the Director Plan, the Bank had a nonqualified stock option plan for non-employee directors. No options were granted under this plan during the nine months ended September 30, 2017 or 2016. 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, 2017:				
Outstanding – January 1, 2017	1,635,484	\$ 37.10		
Granted	603,614	52.08		
Exercised	(158,800)	17.51		
Forfeited	(224,893)	48.49		
Outstanding – September 30, 2017	<u>1,855,405</u>	<u>42.27</u>	<u>5.0</u>	<u>\$ 15,428</u> ⁽¹⁾
Fully vested and exercisable – September 30, 2017	<u>370,825</u>	<u>\$ 20.24</u>	<u>3.2</u>	<u>\$ 10,312</u> ⁽¹⁾

(1) Based on closing price of \$48.05 per share on September 29, 2017.

Intrinsic value for stock options is defined as the amount by which the current market price of the underlying stock exceeds the exercise price. For those stock options where the exercise price exceeds the current market price of the underlying stock, the intrinsic value is zero. The total intrinsic value of options exercised during the three months ended September 30, 2017 and 2016 was \$2.2 million and \$0.6 million, respectively. The total intrinsic value of options exercised during the nine months ended September 30, 2017 and 2016 was \$5.2 million and \$2.1 million, respectively.

Stock-based compensation expense for stock options included in non-interest expense was \$0.6 million and \$1.1 million for the three months ended September 30, 2017 and 2016, respectively, and \$3.7 million and \$3.0 million for the nine months ended September 30, 2017 and 2016, respectively. Total unrecognized compensation cost related to non-vested stock option grants was \$9.4 million at September 30, 2017 and is expected to be recognized over a weighted-average period of 1.9 years.

The Bank has a restricted stock and incentive plan whereby all officers and employees of the Bank or any subsidiary are eligible to receive awards of restricted stock, restricted stock units or performance awards. 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 is 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 plan may be shares of original issuance or shares held in treasury that have been reacquired by the Bank. 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 following table summarizes non-vested restricted stock activity for the period indicated.

	Nine Months Ended September 30, 2017
Outstanding – December 31, 2016	430,497
Granted	238,794
Forfeited	(105,562)
Vested	—
Outstanding – September 30, 2017	<u>563,729</u>
Weighted-average grant date fair value	<u>\$ 44.26</u>

The fair value of the restricted stock awards is amortized to compensation expense over the three-year 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 \$0.3 million and \$1.8 million for the three months ended September 30, 2017 and 2016, respectively and \$4.8 million and \$4.5 million for the nine months ended September 30, 2017 and 2016, respectively. Unrecognized compensation expense for non-vested restricted stock awards was \$12.2 million at September 30, 2017 and is expected to be recognized over a weighted-average period of 1.9 years.

9. Issuance of Common Stock

On May 31, 2017, the Bank’s former holding company completed the issuance and sale of 6,600,000 shares of its common stock which, net of stock issuance costs of \$247,000, generated net proceeds of approximately \$299.7 million. The Bank expects to use the proceeds from this offering to support its organic growth, including growth in non-purchased loans and leases, for potential future acquisitions and for general corporate purposes.

10. 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 annually or on a non-recurring basis to evaluate certain assets and liabilities for impairment or for disclosure purposes. The Bank had no liabilities that were accounted for at fair value at September 30, 2017 or December 31, 2016.

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, 2017:				
Recurring:				
Investment securities AFS ⁽¹⁾ :				
Obligations of state and political subdivisions	\$ —	\$ 667,230	\$ 16,741	\$ 683,971
Mortgage-backed securities ⁽²⁾	—	1,250,696	—	1,250,696
U.S. Government agency securities	—	30,145	—	30,145
CRA qualified investment fund	1,058	—	—	1,058
Total investment securities AFS	1,058	1,948,071	16,741	1,965,870
Non-Recurring:				
Impaired non-purchased loans and leases	—	—	11,402	11,402
Impaired purchased loans	—	—	9,502	9,502
Foreclosed assets	—	—	28,016	28,016
Total assets at fair value	<u>\$ 1,058</u>	<u>\$ 1,948,071</u>	<u>\$ 65,661</u>	<u>\$ 2,014,790</u>
December 31, 2016:				
Recurring:				
Investment securities AFS ⁽¹⁾ :				
Obligations of state and political subdivisions	\$ —	\$ 901,634	\$ 17,379	\$ 919,013
Mortgage-backed securities ⁽²⁾	—	505,356	—	505,356
U.S. Government agency securities	—	30,134	—	30,134
Corporate obligations	—	9,915	—	9,915
CRA qualified investment fund	1,034	—	—	1,034
Total investment securities AFS	1,034	1,447,039	17,379	1,465,452
Non-Recurring:				
Impaired non-purchased loans and leases	—	—	10,243	10,243
Impaired purchased loans	—	—	6,516	6,516
Foreclosed assets	—	—	43,702	43,702
Total assets at fair value	<u>\$ 1,034</u>	<u>\$ 1,447,039</u>	<u>\$ 77,840</u>	<u>\$ 1,525,913</u>

(1) Does not include \$9.2 million at September 30, 2017 and \$6.2 million at December 31, 2016 of FHLB and FNBB equity securities that do not have readily determinable fair values and are carried at cost.

(2) 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, 2017	Technique	Unobservable Inputs
(Dollars in thousands)			
Impaired non-purchased loans and leases	\$ 11,402	Third party appraisal ⁽¹⁾ or discounted cash flows	<ol style="list-style-type: none"> 1. Management discount based on underlying collateral characteristics and market conditions 2. Life of loan
Impaired purchased loans	\$ 9,502	Third party appraisal ⁽¹⁾ and/or discounted cash flows	<ol style="list-style-type: none"> 1. Management discount based on underlying collateral characteristics and market conditions 2. Life of loan
Foreclosed assets	\$ 28,016	Third party appraisal, ⁽¹⁾ broker price opinions and/or discounted cash flows	<ol style="list-style-type: none"> 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 – The Bank utilizes independent third parties as its principal pricing sources for determining fair value of investment securities which are measured on a recurring basis. As a result, the Bank receives estimates of fair value from at least two independent pricing sources for the majority of its individual securities within its investment portfolio. For investment securities traded in an active market, fair values are based on quoted market prices if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities, broker quotes, comprehensive interest rate tables and pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs. All fair value estimates of the Bank's investment securities are reviewed on a quarterly basis.

The Bank has determined that certain of its investment securities had a limited to non-existent trading market at September 30, 2017. 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 \$16.7 million at September 30, 2017 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, 2017, the third parties' pricing matrices valued the Bank's portfolio of private placement bonds at \$16.7 million, which was approximately the same as the aggregate par value of the private placement bonds. Accordingly, at September 30, 2017, the Bank reported the private placement bonds at \$16.7 million.

Impaired non-purchased loans and leases – Fair values are measured on a nonrecurring basis and are based on the underlying collateral value of the impaired loan or lease, net of holding and selling costs, or the estimated discounted cash flows for such loan or lease. At September 30, 2017 the Bank had reduced the carrying value of its impaired non-purchased loans and leases (all of which are included in nonaccrual loans and leases) by \$4.0 million to the estimated fair value of \$11.4 million. The \$4.0 million adjustment to reduce the carrying value of such impaired loans and leases to estimated fair value consisted of \$2.2 million of partial charge-offs and \$1.8 million of specific allowance allocations for loan and lease losses.

Impaired purchased loans – Impaired purchased loans are measured at fair value on a non-recurring basis. As of September 30, 2017, 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, 2017, the Bank had \$9.5 million of impaired purchased loans.

Foreclosed assets – Repossessed personal properties and real estate acquired through or in lieu of foreclosure are measured on a non-recurring basis and are initially recorded at the lesser of current principal investment or 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. In estimating such Day 1 Fair Values, management considered a number of factors including, among others, appraised value, estimated selling price, estimated holding periods and net present value of cash flows expected to be received. Valuations of these assets are periodically reviewed by management with the carrying value of such assets adjusted to the then estimated fair value net of estimated selling costs, if lower, until disposition. Fair values of foreclosed and repossessed assets are generally based on third party appraisals, broker price opinions or other valuations of the property.

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, 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	<u>\$ 16,741</u>
Balance – December 31, 2015	\$ 18,504
Total realized gains (losses) included in earnings	—
Total unrealized gains (losses) included in comprehensive income	(47)
Paydowns and maturities	(701)
Sales	—
Transfers in and/or out of Level 3	—
Balance – September 30, 2016	<u>\$ 17,756</u>

11. Fair Value of Financial Instruments

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

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

Investment securities – The Bank utilizes independent third parties as its principal pricing sources for determining fair value of investment securities which are measured on a recurring basis. As a result, the Bank receives estimates of fair value from at least two independent pricing sources for the majority of its individual securities within its investment portfolio. For investment securities traded in an active market, fair values are based on quoted market prices if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities, broker quotes, comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs. All fair value estimates of the Bank's investment securities are reviewed on a quarterly basis. The Bank's investments in FHLB and FNBB equity securities totaling \$9.2 million at September 30, 2017 and \$6.2 million at December 31, 2016 do not have readily determinable fair values and are carried at cost.

Loans and leases – The fair value of loans and leases, including purchased loans, is estimated by discounting the contractual cash flows to be received in future periods using the current rate at which similar loans or leases would be made to borrowers or lessees 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 commercial loan 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, and were not material at September 30, 2017 or December 31, 2016.

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. 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 and because management does not intend to sell these financial instruments, the estimated fair values may differ materially from the values which the respective financial instruments could be sold individually or in the aggregate.

	Fair Value Hierarchy	September 30, 2017		December 31, 2016	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(Dollars in thousands)					
Financial assets:					
Cash and cash equivalents	Level 1	\$ 1,057,312	\$ 1,057,312	\$ 866,360	\$ 866,360
Investment securities AFS	Levels 1, 2 and 3	1,975,102	1,975,102	1,471,612	1,471,612
Loans and leases, net of ALLL	Level 3	15,691,846	15,443,158	14,486,574	14,221,113
Financial liabilities:					
Demand, savings and interest bearing transaction deposits	Level 1	\$ 12,203,856	\$ 12,203,856	\$ 10,637,813	\$ 10,637,813
Time deposits	Level 2	4,619,503	4,644,601	4,937,065	4,965,279
Repurchase agreements with customers	Level 1	70,165	70,165	65,110	65,110
Other borrowings	Level 2	42,404	42,555	41,903	42,696
Subordinated notes	Level 2	222,802	221,066	222,516	223,133
Subordinated debentures	Level 2	118,660	90,087	118,242	84,478

12. Repurchase Agreements With Customers

At September 30, 2017 and December 31, 2016, securities sold under agreements to repurchase (“repurchase agreements”) totaled \$70.2 million and \$65.1 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.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Beginning balance of AOCI – unrealized gains and losses on investment securities AFS	\$ (4,992)	\$ 15,106	\$ (25,920)	\$ 7,959
Other comprehensive income (loss):				
Unrealized gains and losses on investment securities AFS	1,454	(2,262)	34,050	8,120
Tax effect of unrealized gains and losses on investment securities AFS	(509)	791	(11,915)	(2,444)
Amounts reclassified from AOCI	(2,429)	—	(2,833)	—
Tax effect of amounts reclassified from AOCI	850	—	992	—
Total other comprehensive income (loss)	(634)	(1,471)	20,294	5,676
Ending balance of AOCI – unrealized gains and losses on investment securities AFS	<u>\$ (5,626)</u>	<u>\$ 13,635</u>	<u>\$ (5,626)</u>	<u>\$ 13,635</u>

Amounts reclassified from AOCI are included in net gains on investment securities and the tax effect of amounts reclassified from AOCI are included in provision for income taxes in the consolidated statements of income. The amounts reclassified from AOCI relate entirely to unrealized gains/losses on investment securities AFS that were sold during the periods indicated.

14. 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,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Professional and outside services	\$ 10,018	\$ 6,509	\$ 22,171	\$ 14,072
Postage and supplies	1,852	1,709	5,706	3,840
Advertising and public relations	1,907	1,941	4,355	4,543
Telecommunication services	3,321	1,883	10,398	5,339
Software and data processing	2,982	1,633	7,745	3,226
ATM expense	1,430	1,821	4,081	3,530
Travel and meals	2,223	2,778	6,138	5,850
FDIC insurance	3,500	1,725	7,000	4,125
FDIC and state assessments	881	392	2,531	1,071
Loan collection and repossession expense	1,249	1,524	4,354	3,244
Writedowns of foreclosed and other assets	1,028	859	2,494	2,117
Amortization of intangibles	3,145	2,596	9,435	5,879
Other	1,937	3,673	6,584	5,621
Total other non-interest expense	<u>\$ 35,473</u>	<u>\$ 29,043</u>	<u>\$ 92,992</u>	<u>\$ 62,457</u>

15. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“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 majority of our revenue is comprised of interest income related to financial assets and, to a lesser extent, non-interest income. Since interest income derived from financial assets is excluded from the scope of ASU 2014-09, the Bank does not anticipate that the adoption of ASU 2014-09 will have a significant impact on its financial position, results of operations, and financial statement disclosures. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of this standard to annual and interim periods beginning after December 15, 2017; however, early adoption is permitted for annual and interim reporting periods beginning after December 15, 2016. The Bank will adopt ASU 2014-09 during the first quarter of 2018 and, if significant, anticipates a cumulative effect adjustment to opening retained earnings.

In January 2016, FASB issued ASU 2016-01, “*Recognition and Measurement of Financial Assets and Financial Liabilities.*” ASU 2016-01 revises the accounting for the classification and measurement of investments in equity securities and revises the presentation of certain fair value changes for financial liabilities measured at fair value. For equity securities, the guidance in ASU 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income. For financial liabilities that are measured at fair value in accordance with the fair value option, the guidance requires presenting, in other comprehensive income, the change in fair value that relates to a change in instrument-specific credit risk. ASU 2016-01 also eliminates the disclosure assumptions used to estimate fair value for financial instruments measured at amortized cost and requires disclosure of an exit price notion in determining the fair value of financial instruments measured at amortized cost. ASU 2016-01 is effective for interim and annual periods beginning after December 15, 2017. The Bank does not anticipate that the adoption of ASU 2016-01 will have a significant impact on its financial position, results of operations, and its financial statement disclosures.

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. 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, the adoption of ASU 2016-02 is expected to result in leased assets and related lease liabilities to be included on its balance sheet, along with the related leasehold amortization and interest expense included in its statement of income.

In March 2016, FASB issued ASU 2016-09 “*Improvements to Employee Share-Based Payment Accounting.*” ASU 2016-09 requires entities to record all of the tax effects related to share-based payments at settlement (or expiration) through the income statement. In addition, all tax-related cash flows, such as excess tax benefits, should be reported as operating activities rather than financing activity in the statement of cash flows. Also, entities are allowed to make a policy election related to forfeitures to either estimate the number of awards expected to vest or account for forfeitures when they occur. The Bank adopted ASU 2016-09 beginning January 1, 2017, including the provision to account for forfeitures as they occur, and recorded a cumulative adjustment to increase stockholders’ equity at January 1, 2017 by approximately \$0.4 million.

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 allowance for loan and lease losses 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 continues to evaluate the effect that ASU 2016-13 will have on its financial position, results of operations, and its financial statement disclosures and has engaged an outside third party to assist with data analysis, model development, and implementation of ASU 2016-13.

In August 2016, FASB issued ASU 2016-15 “*Statement of Cash Flows (Topic 230)*” which FASB believes clarifies 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. ASU 2016-15 is effective for interim and annual periods beginning after December 15, 2017 with early adoption permitted. Since ASU 2016-15 applies to the classification of cash flows, no impact is anticipated on the Bank’s financial position or results of operations. The Bank does not anticipate that the adoption of ASU 2016-05 will have a significant impact on its statement of cash flows and 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. The ASU removes the evaluation of whether a market participant could replace any of the missing elements. ASU 2017-01 is effective for interim and annual periods beginning after December 15, 2017. The Bank will evaluate the effect, if any, that ASU 2017-01 may have on any future acquisitions.

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 2 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 is evaluating the effect that ASU 2017-04 may have, if any, on its financial position, results of operations and its financial statement disclosures.

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, results of operations and its financial statement disclosures.

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. ASU 2017-09 is effective prospectively for interim and annual periods beginning after December 15, 2017. The Bank will evaluate the impact that ASU 2017-09 may have, if any, on future modifications related to share-based payment awards.

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

Effective June 26, 2017, Bank of the Ozarks ("Company" or the "Bank") became the successor reporting company to Bank of the Ozarks, Inc. pursuant to an internal corporate reorganization to eliminate the holding company structure ("Reorganization"). Unless the context otherwise requires, references in this 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 Bank of the Ozarks, in each case including its consolidated subsidiaries.

FORWARD-LOOKING INFORMATION

This quarterly report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), other public filings made by us and other oral and written statements or reports by us and our management include certain forward-looking statements that are intended to be covered by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management's expectations as well as certain assumptions and estimates made by, and information available to, management at the time. Those statements are not guarantees of future results or performance and are subject to certain known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Forward-looking statements include, without limitation, statements about economic, real estate market, competitive, employment, credit market and interest rate conditions, including expectations for further changes in monetary and interest rate policy by the Board of Governors of the Federal Reserve System ("FRB"); our plans, goals, beliefs, expectations, thoughts, estimates and outlook for the future with respect to our revenue growth; net income and earnings per common share; net interest margin; net interest income; non-interest income, including service charges on deposit accounts, mortgage lending and trust income, bank owned life insurance 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 and leases; nonperforming assets; net charge-offs and net charge-off ratios; provision and allowance for loan and lease losses; past due loans and leases; current or future litigation; interest rate sensitivity, including the effects of possible interest rate changes; future growth and expansion opportunities, including plans for making additional acquisitions; problems with obtaining regulatory approval of or integrating or managing acquisitions; the effect of the announcement of any future acquisition on customer relationships and operating results; plans for opening new offices or relocating or closing existing offices; opportunities and goals for future market share growth; expected capital expenditures; loan, lease 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," "believe," "could," "estimate," "expect," "goal," "hope," "intend," "look," "may," "plan," "project," "seek," "target," "trend," "will," "would," and similar 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 and leases, 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; competitive factors and pricing pressures, including their effect on our net interest margin; general economic, unemployment, credit market and real estate market conditions, and the effect of such conditions on the creditworthiness of borrowers and lessees, collateral values, the value of investment securities and asset recovery values; changes in legal and regulatory requirements; recently enacted and potential legislation and regulatory actions, and the costs and expenses to comply with new and/or existing legislation and regulatory actions, including legislation and regulatory actions intended to stabilize economic conditions and credit markets, strengthen the capital of financial institutions, increase regulation of the financial services industry and protect homeowners or consumers; changes in U.S. Government monetary and fiscal policy; possible further downgrade of U.S. Treasury securities; future FDIC special assessments or changes to regular assessment; 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 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, 2016 and under "Part II, Item 1A. Risk Factors" 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, 2017 and 2016 and supplemental unaudited quarterly financial data for each of the most recent eight quarters beginning with the fourth quarter of 2015 through the third quarter of 2017. These tables are qualified in their entirety by our consolidated financial statements and related notes presented elsewhere 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. On June 26, 2017, we completed an internal restructuring that eliminated our bank holding company. As a result, the prior period regulatory capital ratios have been adjusted to reflect this internal restructuring as if the restructuring had occurred as of the earliest period presented.

Selected Consolidated Financial Data – Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
(Dollars in thousands, except per share amounts)				
<u>Income statement data:</u>				
Interest income	\$ 241,566	\$ 194,357	\$ 683,493	\$ 447,026
Interest expense	31,844	19,207	80,895	40,321
Net interest income	209,722	175,150	602,598	406,705
Provision for loan and lease losses	7,777	7,086	18,814	13,937
Non-interest income	32,747	29,231	93,645	71,829
Non-interest expense	84,399	78,781	246,493	177,395
Net income available to common stockholders	96,007	76,030	275,727	182,193
<u>Common share and per common share data:</u>				
Earnings – diluted	\$ 0.75	\$ 0.66	\$ 2.21	\$ 1.84
Book value	26.02	22.75	26.02	22.75
Tangible book value	20.46	16.79	20.46	16.79
Dividends	0.180	0.160	0.525	0.465
Weighted-average diluted shares outstanding (thousands)	128,472	115,007	124,900	99,064
End of period shares outstanding (thousands)	128,174	121,134	128,174	121,134
<u>Balance sheet data at period end:</u>				
Total assets	\$ 20,768,493	\$ 18,451,783	\$ 20,768,493	\$ 18,451,783
Non-purchased loans and leases	12,047,094	8,759,766	12,047,094	8,759,766
Purchased loans	3,731,536	5,399,831	3,731,536	5,399,831
Allowance for loan and lease losses	86,784	69,760	86,784	69,760
Foreclosed assets	28,016	44,250	28,016	44,250
Investment securities	1,975,102	1,341,894	1,975,102	1,341,894
Goodwill	660,789	657,806	660,789	657,806
Other intangibles - net of amortization	51,396	64,347	51,396	64,347
Deposits	16,823,359	15,123,804	16,823,359	15,123,804
Repurchase agreements with customers	70,165	70,640	70,165	70,640
Other borrowings	42,404	41,978	42,404	41,978
Subordinated notes	222,802	222,420	222,802	222,420
Subordinated debentures	118,660	118,102	118,660	118,102
Total common stockholders' equity	3,334,740	2,756,346	3,334,740	2,756,346
Loan and lease (including purchased loans) to deposit ratio	93.79%	93.62%	93.79%	93.62%
<u>Average balance sheet data:</u>				
Total average assets	\$ 20,155,984	\$ 16,849,797	\$ 19,329,123	\$ 12,957,631
Total average common stockholders' equity	3,295,394	2,483,181	3,047,279	1,833,933
Average common equity to average assets	16.35%	14.74%	15.77%	14.15%
<u>Performance ratios:</u>				
Return on average assets ⁽¹⁾	1.89%	1.80%	1.91%	1.88%
Return on average common stockholders' equity ⁽¹⁾	11.56	12.18	12.10	13.27
Return on average tangible common stockholders' equity ⁽¹⁾	14.76	16.01	15.81	15.88
Net interest margin – FTE ⁽¹⁾	4.84	4.90	4.90	4.88
Efficiency ratio	34.38	38.07	34.90	36.57
Common stock dividend payout ratio	24.04	19.10	23.58	23.15

Selected Consolidated Financial Data – Unaudited (Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars in thousands, except per share amounts)			
<u>Asset quality ratios:</u>				
Net charge-offs to average non-purchased loans and leases ⁽¹⁾⁽²⁾	0.08%	0.06%	0.06%	0.06%
Net charge-offs to average total loans and leases ⁽¹⁾	0.09	0.07	0.08	0.06
Nonperforming loans and leases to total loans and leases ⁽³⁾	0.11	0.08	0.11	0.08
Nonperforming assets to total assets ⁽³⁾	0.20	0.28	0.20	0.28
<u>Allowance for loan and lease losses as a percentage of:</u>				
Total non-purchased loans and leases ⁽⁴⁾	0.71%	0.78%	0.71%	0.78%
Nonperforming loans and leases ⁽⁴⁾	642%	918%	642%	918%
<u>Capital ratios at period end:</u>				
Common equity tier 1	11.02%	10.15%	11.02%	10.15%
Tier 1 capital	11.02	10.15	11.02	10.15
Total capital	12.83	12.23	12.83	12.23
Tier 1 leverage	13.45	12.53	13.45	12.53

- (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

	12/31/15	3/31/16	6/30/16	9/30/16	12/31/16	3/31/17	6/30/17	9/30/17
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(Dollars in thousands, except per share amounts)

Earnings Summary:

Net interest income	\$ 106,518	\$ 112,517	\$ 119,038	\$ 175,150	\$ 194,800	\$ 190,771	\$ 202,105	\$ 209,722
Federal tax (FTE) adjustment	2,092	1,911	2,067	2,533	3,254	3,594	3,396	3,014
Net interest income (FTE)	108,610	114,428	121,105	177,683	198,054	194,365	205,501	212,736
Provision for loan and lease losses	(5,211)	(2,017)	(4,834)	(7,086)	(9,855)	(4,933)	(6,103)	(7,777)
Non-interest income	30,540	19,865	22,733	29,231	30,571	29,058	31,840	32,747
Non-interest expense	(51,646)	(47,686)	(50,928)	(78,781)	(78,358)	(78,268)	(83,828)	(84,399)
Pretax income (FTE)	82,293	84,590	88,076	121,047	140,412	140,222	147,410	153,307
FTE adjustment	(2,092)	(1,911)	(2,067)	(2,533)	(3,254)	(3,594)	(3,396)	(3,014)
Provision for income taxes	(28,740)	(30,984)	(31,514)	(42,470)	(49,312)	(47,417)	(53,488)	(54,246)
Noncontrolling interest	(6)	(7)	(21)	(14)	(59)	(23)	6	(40)
Net income available to common stockholders	\$ 51,455	\$ 51,688	\$ 54,474	\$ 76,030	\$ 87,787	\$ 89,188	\$ 90,532	\$ 96,007
Earnings per common share – diluted	\$ 0.57	\$ 0.57	\$ 0.60	\$ 0.66	\$ 0.72	\$ 0.73	\$ 0.73	\$ 0.75

Non-interest Income:

Service charges on deposit accounts	\$ 7,558	\$ 7,657	\$ 8,119	\$ 10,926	\$ 11,759	\$ 11,301	\$ 11,764	\$ 9,729
Mortgage lending income	1,713	1,284	2,057	2,616	2,097	1,574	1,910	1,620
Trust income	1,508	1,507	1,574	1,564	1,623	1,631	1,577	1,755
BOLI income	2,412	2,861	2,745	4,638	4,564	4,464	4,594	4,453
Other income from purchased loans	4,790	3,052	4,599	4,635	4,993	3,737	4,777	2,933
Loan service, maintenance and other fees	908	949	1,238	1,687	2,962	2,706	3,427	5,274
Gains on investment securities	2,863	—	—	—	4	—	404	2,429
Gains on sales of other assets	7,463	1,027	998	594	1,537	1,619	672	1,363
Other	2,233	2,477	2,641	4,258	3,994	4,732	6,142	3,191
Total non-interest income	\$ 31,448	\$ 20,814	\$ 23,971	\$ 30,918	\$ 33,533	\$ 31,764	\$ 35,267	\$ 32,747

Non-interest Expense:

Salaries and employee benefits	\$ 21,504	\$ 23,362	\$ 24,921	\$ 38,069	\$ 36,481	\$ 38,554	\$ 39,892	\$ 35,331
Net occupancy expense	8,537	8,531	8,388	11,669	13,936	13,192	12,937	13,595
Other operating expenses	19,879	14,067	16,062	26,447	24,783	23,377	27,854	32,328
Amortization of intangibles	1,726	1,726	1,557	2,596	3,158	3,145	3,145	3,145
Total non-interest expense	\$ 51,646	\$ 47,686	\$ 50,928	\$ 78,781	\$ 78,358	\$ 78,268	\$ 83,828	\$ 84,399

Balance Sheet Data:

Total Assets	\$9,879,459	\$11,427,419	\$12,279,579	\$18,451,783	\$18,890,142	\$19,152,212	\$20,064,589	\$20,768,493
Non-purchased loans and leases	6,528,634	7,591,339	8,214,900	8,759,766	9,605,093	10,216,875	11,025,203	12,047,094
Purchased loans	1,806,037	1,678,351	1,515,104	5,399,831	4,958,022	4,580,047	4,159,139	3,731,536
Deposits	7,971,468	9,626,825	10,195,072	15,123,804	15,574,878	15,713,427	16,241,440	16,823,359
Common stockholders' equity	1,464,631	1,508,080	1,556,921	2,756,346	2,791,607	2,873,317	3,260,123	3,334,740

Allowance for Loan and Lease Losses:

Balance at beginning of period	\$ 59,017	\$ 60,854	\$ 61,760	\$ 65,133	\$ 69,760	\$ 76,541	\$ 78,224	\$ 82,320
Net charge-offs	(3,374)	(1,111)	(1,461)	(2,459)	(3,074)	(3,250)	(2,007)	(3,313)
Provision for loan and lease losses	5,211	2,017	4,834	7,086	9,855	4,933	6,103	7,777
Balance at end of period	\$ 60,854	\$ 61,760	\$ 65,133	\$ 69,760	\$ 76,541	\$ 78,224	\$ 82,320	\$ 86,784

Selected Ratios:

Net interest margin – FTE ⁽¹⁾	4.98%	4.92%	4.82%	4.90%	5.02%	4.88%	4.99%	4.84%
Efficiency ratio	37.12	35.51	35.41	38.07	34.27	35.03	35.32	34.38
Net charge-offs to average non-purchased loans and leases ⁽¹⁾⁽²⁾	0.22	0.06	0.05	0.06	0.08	0.05	0.03	0.08
Net charge-offs to average total loans and leases ⁽¹⁾	0.17	0.05	0.06	0.07	0.09	0.09	0.05	0.09
Nonperforming loans and leases to total loans and leases ⁽³⁾	0.20	0.15	0.09	0.08	0.15	0.11	0.11	0.11
Nonperforming assets to total assets ⁽³⁾	0.37	0.29	0.25	0.28	0.31	0.25	0.23	0.20
Allowance for loan and lease losses to total non-purchased loans and leases ⁽⁴⁾	0.91	0.80	0.78	0.78	0.78	0.75	0.73	0.71
Loans and leases past due 30 days or more, including past due non-accrual loans and leases, to total loans and leases ⁽³⁾	0.28	0.23	0.22	0.17	0.16	0.16	0.15	0.12

(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, 2017. 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 elsewhere in this report and our Annual Report on Form 10-K for the year ended December 31, 2016. Annualized results for these interim periods may not be indicative of results for the full year or future periods.

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, an Arkansas state banking corporation (the “Bank”), with the Bank continuing as the surviving corporation (the “Reorganization”). At the effective time of the merger, each share of Bank of the Ozarks, Inc.’s common stock issued and outstanding immediately prior to the merger was automatically converted to one share of common stock of the Bank having the same designations, rights, powers and preferences and the same qualifications, limitations and restrictions as those associated with each share of Bank of the Ozarks, Inc. As a result, Bank of the Ozarks, Inc. shareholders upon consummation of the merger became Bank shareholders. The primary purpose of the Reorganization was to create a more efficient corporate structure. The business operations, directors and executive officers of the Bank did not change as a result of the Reorganization. The Bank continues to be 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”), our primary federal regulator is the Federal Deposit Insurance Corporation (“FDIC”). We are no longer subject to the FRB’s regulation and supervision (except such regulations as are made applicable to the Bank by law and regulation of the FDIC).

On May 31, 2017, we completed the issuance and sale of 6,600,000 shares of our common stock which, net of stock issuance costs of \$247,000, generated net proceeds of approximately \$299.7 million. We expect to use the proceeds from this offering to support our organic growth, including growth in non-purchased loans and leases, for potential future acquisitions and for general corporate purposes.

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, leases 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, mortgage lending income, trust income, bank owned life insurance (“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 and lease losses and our provision for income taxes.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements. Our determination of (i) the provisions to and the adequacy of the allowance for loan and lease losses (“ALLL”), (ii) the fair value of our investment securities portfolio, (iii) the fair value of foreclosed assets and (iv) the fair value of assets acquired and liabilities assumed pursuant to business combination transactions 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 ALLL, (ii) the fair value of our investment securities portfolio, (iii) the fair value of foreclosed assets and (iv) the fair value of the assets acquired and liabilities assumed pursuant to business combination transactions 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, 2016. 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, 2016.

ANALYSIS OF RESULTS OF OPERATIONS

General

Net income available to our common stockholders was \$96.0 million for the third quarter of 2017, a 26.3% increase from \$76.0 million for the third quarter of 2016. Net income available to our common stockholders was \$275.7 million for the first nine months of 2017, a 51.3% increase from \$182.2 million for the first nine months of 2016. Diluted earnings per common share were \$0.75 for the third quarter of 2017, a 13.6% increase from \$0.66 for the third quarter of 2016. Diluted earnings per common share were \$2.21 for the first nine months of 2017, a 20.1% increase from \$1.84 for the first nine months of 2016.

Our annualized return on average assets was 1.89% for the third quarter and 1.91% for the first nine months of 2017 compared to 1.80% for the third quarter and 1.88% for the first nine months of 2016. Our annualized return on average common stockholders' equity was 11.56% for the third quarter and 12.10% for the first nine months of 2017 compared to 12.18% for the third quarter and 13.27% for the first nine months of 2016. Our annualized return on average tangible common stockholders' equity was 14.76% for the third quarter and 15.81% for the first nine months of 2017 compared to 16.01% for the third quarter and 15.88% for the first nine months of 2016. 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 \$20.77 billion at September 30, 2017 compared to \$18.89 billion at December 31, 2016. Non-purchased loans and leases were \$12.05 billion at September 30, 2017 compared to \$9.61 billion at December 31, 2016. Purchased loans were \$3.73 billion at September 30, 2017 compared to \$4.96 billion at December 31, 2016. Total loans and leases were \$15.78 billion at September 30, 2017 compared to \$14.56 billion at December 31, 2016. Deposits were \$16.82 billion at September 30, 2017 compared to \$15.57 billion at December 31, 2016.

Common stockholders' equity was \$3.33 billion at September 30, 2017 compared to \$2.79 billion at December 31, 2016. Tangible common stockholders' equity was \$2.62 billion at September 30, 2017 compared to \$2.07 billion at December 31, 2016. Book value per common share was \$26.02 at September 30, 2017 compared to \$23.02 at December 31, 2016. Tangible book value per common share was \$20.46 at September 30, 2017 compared to \$17.08 at December 31, 2016. 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 earnings and represents the amount by which interest income on 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 and the following tables on a fully taxable equivalent ("FTE") basis. The adjustment to convert certain income to a FTE basis consists of dividing federal tax-exempt income by one minus our statutory federal income tax rate of 35%. The FTE adjustments to net interest income were \$3.0 million and \$2.5 million for the three months ended September 30, 2017 and 2016, respectively, and \$10.0 million and \$6.5 million for the nine months ended September 30, 2017 and 2016, respectively. No adjustments have been made in this analysis for income exempt from state income taxes or for interest expense deductions disallowed under the provisions of the Internal Revenue Code as a result of investment in certain tax-exempt securities.

Net interest income for the third quarter of 2017 increased 19.7% to \$212.7 million compared to \$177.7 million for the third quarter of 2016. Net interest income for the first nine months of 2017 increased 48.3% to \$612.6 million compared to \$413.2 million for the first nine months of 2016. The increases in net interest income for the third quarter and first nine months of 2017 compared to the same periods in 2016 were primarily due to the increases in average earning assets, which increased 20.9% to \$17.44 billion for the third quarter of 2017 compared to \$14.43 billion for the third quarter of 2016, and increased 47.6% to \$16.72 billion for the first nine months of 2017 compared to \$11.32 billion for the first nine months of 2016.

The increase in average earning assets for the third quarter of 2017 compared to the same period in 2016 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. The increase in average earning assets for the first nine months of 2017 compared to the same period in 2016 was primarily due to increases in the average balances of non-purchased loans and leases, investment securities and purchased loans. Average non-purchased loans and leases increased \$2.75 billion, or 32.3%, to \$11.25 billion for the third quarter of 2017 and increased \$2.77 billion, or 35.6%, to \$10.54 billion for the first nine months of 2017 compared to the same periods in 2016. The increases in the average balance of our non-purchased loans and leases were due primarily to continued strong growth in loan originations and fundings. Average investment securities increased \$923.7 million, or 78.4%, to \$2.10 billion for the third quarter of 2017 and increased \$864.9 million, or 104.0%, to \$1.70 billion for the first nine months of 2017 compared to the same periods in 2016. The increases in the average balance of investment securities were primarily due to the purchase of approximately \$840 million of investment securities during the second and third quarters of 2017 and, to a lesser extent, the investment securities acquired in our acquisition of Community & Southern Holdings, Inc. ("C&S") in July 2016. The average balance of our purchased loans decreased \$706.3 million, or 15.0%, for the third quarter of 2017 and increased \$1.70 billion, or 62.9%, for the first nine months of 2017 compared to the same periods in 2016. On July 20, 2016 we acquired C&S and on July 21, 2016, we acquired C1 Financial, Inc. ("C1"). These two acquisitions contributed to the increase in the average balance of purchased loans for the first nine months of 2017 compared to the same period in 2016. However, the paydown and payoff activity, subsequent to acquisition, in these two portfolios more than offset the effect of the acquired loans on the average outstanding balance, resulting in the decrease in the average balance of purchased loans for the third quarter of 2017 compared to the same period in 2016.

Our net interest margin for the third quarter of 2017 decreased six basis points (“bps”) to 4.84% compared to 4.90% for the third quarter in 2016. This decrease was primarily due to a 26 bps increase in the rate paid on interest bearing liabilities, partially offset by a 13 bps increase in the yield on interest earning assets. Our net interest margin for the first nine months of 2017 increased two bps to 4.90% compared to 4.88% for the first nine months of 2016. This increase was primarily due to a 20 bps increase in the yield on interest earning assets, mostly offset by a 22 bps increase in the rate paid on interest bearing liabilities.

The yield on interest earning assets was 5.56% for the third quarter and 5.55% for the first nine months of 2017 compared to 5.43% for the third quarter and 5.35% for the first nine months of 2016. The yield on our non-purchased loans and leases increased 51 bps for the third quarter and 39 bps for the first nine months of 2017 compared to the same periods in 2016. This increase was primarily due to (i) recent increases in London Interbank Offered Rates (“LIBOR”) and the federal funds target rate and (ii) higher yields on newly originated loans in recent months and prepayment penalties, yield maintenance and/or minimum interest provisions on certain loans that paid off early during the third quarter and first nine months of 2017. The yield on our purchased loan portfolio increased 27 bps for the third quarter and 12 bps for the first nine months of 2017 compared to the same periods in 2016. 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 of period, the yield on such loans will also vary from period to period. The yield on our aggregate investment securities portfolio decreased 36 bps for the third quarter and 71 bps for the first nine months of 2017 compared to the same periods in 2016. This decrease in yield on our aggregate investment securities portfolio was primarily the result of (i) the investment securities acquired in our C&S acquisition whose yields were lower than our existing portfolio of investment securities and (ii) \$728 million of highly liquid, short duration U.S. Government agency mortgage-backed pass through securities we purchased in June 2017 that yield approximately 2.0%. In October 2017 we purchased an additional \$450 million of these securities. While these securities provide substantial on-balance sheet liquidity, they 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 26 bps for the third quarter and 22 bps for the first nine months of 2017 compared to the same periods in 2016, was primarily due to an increase in rates on interest bearing deposits, which increased 29 bps for the third quarter and 19 bps for the first nine months of 2017 compared to the same periods in 2016. The increases in rates on our interest bearing deposits, the largest component of our interest bearing liabilities, were primarily due to our deposit gathering initiatives that were implemented in several target markets to fund growth in loans and leases. To the extent we have future growth in loans and leases, we would expect to increase deposit pricing in certain target markets to fund such growth. Any such increase in deposit pricing is expected to result in increased deposit costs in future periods.

Our other borrowing sources include (i) repurchase agreements with customers (“repos”), (ii) other borrowings, (iii) subordinated notes, and (iv) subordinated debentures. Our other borrowing sources, for both the third quarter and first nine months of 2017 and 2016 consist primarily of fixed rate callable Federal Home Loan Bank of Dallas (“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 are tied to a spread over the 90-day LIBOR and reset periodically.

The following table sets forth certain information relating to our net interest income for the periods indicated. The yields and rates are derived by dividing interest income or interest expense by the average balance of the related assets or liabilities, respectively. Average balances are derived from daily average balances for such assets and liabilities. The average balances of investment securities are computed based on amortized cost adjusted for unrealized gains and losses on investment securities 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 and leases includes non-purchased loans and leases on which we have discontinued accruing interest. The yields on non-purchased loans and leases 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 consist of 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. 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,					
	2017			2016			2017			2016		
	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												
Earning assets:												
Interest earning deposits and federal funds sold	\$ 102,972	\$ 253	0.98%	\$ 58,786	\$ 133	0.90%	\$ 89,930	\$ 388	0.58%	\$ 22,860	\$ 151	0.89%
Investment securities:												
Taxable	1,397,768	7,802	2.21	615,459	3,102	2.01	936,059	15,799	2.26	391,998	7,814	2.66
Tax-exempt – FTE	703,873	8,351	4.71	562,511	6,999	4.95	760,401	27,827	4.89	439,612	18,013	5.47
Non-purchased loans and leases – FTE	11,248,314	159,701	5.63	8,499,333	109,448	5.12	10,536,436	429,287	5.45	7,770,259	294,616	5.06
Purchased loans	3,988,881	68,473	6.81	4,695,139	77,208	6.54	4,392,955	220,196	6.70	2,696,890	132,942	6.58
Total earning assets – FTE	17,441,808	244,580	5.56	14,431,228	196,890	5.43	16,715,781	693,497	5.55	11,321,619	453,536	5.35
Non-interest earning assets	2,714,176			2,418,569			2,613,342			1,636,012		
Total assets	<u>\$ 20,155,984</u>			<u>\$ 16,849,797</u>			<u>\$ 19,329,123</u>			<u>\$ 12,957,631</u>		
LIABILITIES AND STOCKHOLDERS' EQUITY												
Interest bearing liabilities:												
Deposits:												
Savings and interest bearing transaction	\$ 8,972,419	\$ 16,074	0.71%	\$ 6,865,627	\$ 6,086	0.35%	\$ 8,310,430	\$ 35,445	0.57%	\$ 5,412,015	\$ 13,866	0.34%
Time deposits of \$100,000 or more	3,164,875	8,135	1.02	2,967,149	6,012	0.81	3,205,799	23,003	0.96	2,180,783	13,099	0.80
Other time deposits	1,518,430	2,868	0.75	1,713,471	2,437	0.57	1,596,332	8,485	0.71	1,340,744	5,633	0.56
Total interest bearing deposits	13,655,724	27,077	0.79	11,546,247	14,535	0.50	13,112,561	66,933	0.68	8,933,542	32,598	0.49
Repurchase agreements with customers	73,026	33	0.18	59,910	22	0.15	76,481	93	0.16	62,156	64	0.14
Other borrowings	42,433	255	2.39	42,004	286	2.71	42,312	732	2.31	48,628	880	2.42
Subordinated notes	222,749	3,190	5.68	222,369	3,259	5.83	222,658	9,430	5.66	81,159	3,542	5.83
Subordinated debentures	118,582	1,289	4.31	118,028	1,105	3.72	118,445	3,707	4.18	117,889	3,237	3.67
Total interest bearing liabilities	14,112,514	31,844	0.90	11,988,558	19,207	0.64	13,572,457	80,895	0.80	9,243,374	40,321	0.58
Non-interest bearing liabilities:												
Non-interest bearing deposits	2,662,265			2,303,728			2,627,214			1,819,530		
Other non-interest bearing liabilities	82,764			71,132			79,056			57,609		
Total liabilities	16,857,543			14,363,418			16,278,727			11,120,513		
Common stockholders' equity	3,295,394			2,483,181			3,047,279			1,833,933		
Noncontrolling interest	3,047			3,198			3,117			3,185		
Total liabilities and stockholders' equity	<u>\$ 20,155,984</u>			<u>\$ 16,849,797</u>			<u>\$ 19,329,123</u>			<u>\$ 12,957,631</u>		
Net interest income – FTE		<u>\$ 212,736</u>			<u>\$ 177,683</u>			<u>\$ 612,602</u>			<u>\$ 413,215</u>	
Net interest margin – FTE			<u>4.84%</u>			<u>4.90%</u>			<u>4.90%</u>		<u>4.88%</u>	

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, 2017 Over Three Months Ended September 30, 2016			Nine Months Ended September 30, 2017 Over Nine Months Ended September 30, 2016		
	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	\$ 109	\$ 11	\$ 120	\$ 289	\$ (52)	\$ 237
Investment securities:						
Taxable	4,367	333	4,700	9,183	(1,198)	7,985
Tax-exempt – FTE	1,677	(325)	1,352	11,739	(1,925)	9,814
Non-purchased loans and leases – FTE	39,029	11,224	50,253	112,703	21,968	134,671
Purchased loans	(12,124)	3,389	(8,735)	85,015	2,239	87,254
Total interest income – FTE	33,058	14,632	47,690	218,929	21,032	239,961
Interest expense:						
Savings and interest bearing transaction	3,774	6,214	9,988	12,362	9,217	21,579
Time deposits of \$100,000 or more	508	1,615	2,123	7,355	2,549	9,904
Other time deposits	(368)	799	431	1,359	1,493	2,852
Repurchase agreements with customers	6	5	11	17	12	29
Other borrowings	3	(34)	(31)	(109)	(39)	(148)
Subordinated notes	5	(74)	(69)	5,993	(105)	5,888
Subordinated debentures	6	178	184	17	453	470
Total interest expense	3,934	8,703	12,637	26,994	13,580	40,574
Increase in net interest income – FTE	\$ 29,124	\$ 5,929	\$ 35,053	\$ 191,935	\$ 7,452	\$ 199,387

Non-Interest Income

Our non-interest income consists primarily of, among others, service charges on deposit accounts, mortgage lending income, trust income, BOLI income, other income from purchased loans, loan service, maintenance and other fees and gains on investment securities and on sales of other assets. Non-interest income for the third quarter of 2017 increased 12.0% to \$32.7 million compared to \$29.2 million for the third quarter of 2016. Non-interest income for the first nine months of 2017 increased 30.4% to \$93.6 million compared to \$71.8 million for the first nine months of 2016.

Service charges on deposit accounts decreased 11.0% to \$9.7 million for the third quarter of 2017 compared to \$10.9 million for the third quarter of 2016. 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 of the provisions of the Durbin Amendment, we experienced a decrease in interchange fees of approximately \$2.0 million during the third quarter of 2017 compared to the third quarter of 2016. Service charges on deposit accounts increased 22.8% to \$32.8 million for the first nine months of 2017 compared to \$26.7 million for the first nine months of 2016. The increase in service charges on deposit accounts was primarily a result of the addition of deposit customers from our C&S and C1 acquisitions and growth in the number of transaction accounts, partially offset by the effects of the Durbin Amendment.

In October 2017, we purchased an additional \$60 million of BOLI. This BOLI should provide additional BOLI income beginning in the fourth quarter of 2017.

Loan service, maintenance and other fees, which includes fees that are not considered yield adjustments, increased 212.6% to \$5.3 million for the third quarter of 2017 compared to \$1.7 million for the third quarter of 2016. Loan service, maintenance and other fees increased 194.5% to \$11.4 million for the first nine months of 2017 compared to \$3.9 million for the first nine months of 2016. The increase in loan service, maintenance and other fees during the third quarter and first nine months of 2017 compared to the same periods in 2016 was primarily due to recent efforts to include provisions for such fees in many of our larger non-purchased loan transactions, the effects of which have resulted in an increase in such loan service, maintenance and other fees.

Net gains on sales of investment securities were \$2.4 million and \$2.8 million during the third quarter and first nine months of 2017 compared to none during the same periods in 2016. During the third quarter and first nine months of 2017, we elected to shorten the duration of our investment portfolio and reduce our exposure to longer-term tax-exempt bonds. As a result, during the third quarter of 2017, we sold \$149.6 million of investment securities which resulted in net gains of \$2.4 million. During the first nine months of 2017, we sold \$236.2 million of investment securities which resulted in net gains of \$2.8 million.

Other income from purchased loans was \$2.9 million in the third quarter of 2017 compared to \$4.6 million in the third quarter of 2016 and \$11.4 million during the first nine months of 2017 compared to \$12.3 million during the first nine months of 2016. 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.

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

Non-Interest Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Service charges on deposit accounts	\$ 9,729	\$ 10,926	\$ 32,794	\$ 26,703
Mortgage lending income	1,620	2,616	5,105	5,957
Trust income	1,755	1,564	4,962	4,645
BOLI income	4,453	4,638	13,511	10,243
Other income from purchased loans, net	2,933	4,635	11,447	12,285
Loan service, maintenance and other fees	5,274	1,687	11,407	3,874
Net gains on investment securities	2,429	—	2,833	—
Net gains on sales of other assets	1,363	594	3,654	2,619
Other	3,191	2,571	7,932	5,503
Total non-interest income	<u>\$ 32,747</u>	<u>\$ 29,231</u>	<u>\$ 93,645</u>	<u>\$ 71,829</u>

Non-Interest Expense

Our non-interest expense consists of salaries and employee benefits, net occupancy and equipment and other operating expenses. Non-interest expense increased 7.1% to \$84.4 million for the third quarter of 2017 compared to \$78.8 million for the third quarter of 2016. Non-interest expense increased 39.0% to \$246.5 million for the first nine months of 2017 compared to \$177.4 million for the first nine months of 2016. The increase in our non-interest expense is primarily attributable to our C&S and C1 acquisitions that closed in July 2016 and an increase in expenses related to our continued focus on expanding and enhancing our infrastructure for information technology, cybersecurity, business resilience, enterprise risk management, internal audit, compliance, Bank Secrecy Act and Anti-Money Laundering monitoring and a number of other important areas, including expanding our infrastructure to serve low-to-moderate income and majority-minority markets and customer segments.

Salaries and employee benefits, our largest component of non-interest expense, decreased 7.2% to \$35.3 million in the third quarter of 2017 compared to \$38.1 million in the third quarter of 2016. This decrease in salaries and benefits was due primarily to the resignation of our former chief lending officer which resulted in the reversal of various unearned incentive compensation accruals. Salaries and employee benefits increased 31.8% to \$113.8 million in the first nine months of 2017 compared to \$86.4 million in the first nine months of 2016. This increase in salaries and employee benefits was due primarily to employees added in our C&S and C1 acquisitions, along with employees added as we continue to focus on expanding and enhancing our infrastructure in a number of important areas.

Net occupancy and equipment expense for the third quarter of 2017 increased 16.5% to \$13.6 million compared to \$11.7 million for the third quarter of 2016. Net occupancy and equipment expense for the first nine months of 2017 increased 39.0% to \$39.7 million compared to \$28.6 million for the first nine months of 2016. These increases in net occupancy and equipment expense are due primarily to the C&S and C1 acquisitions.

Our aggregate other operating expenses increased 22.1% to \$35.5 million for the third quarter of 2017 compared to \$29.0 million for the third quarter of 2016. Our aggregate other operating expenses increased 48.9% to \$93.0 million for the first nine months of 2017 compared to \$62.5 million for the first nine months of 2016. These increases were primarily due to the growth of the Bank, including the growth added from the C&S and C1 acquisitions and the continued focus on expanding and enhancing our infrastructure in a number of important areas.

Our efficiency ratio (non-interest expense divided by the sum of net interest income – FTE and non-interest income) was 34.4% for the third quarter and 34.9% for the first nine months of 2017 compared to 38.1% for the third quarter and 36.6% for the first nine months of 2016.

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

Non-Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Salaries and employee benefits	\$ 35,331	\$ 38,069	\$ 113,777	\$ 86,351
Net occupancy and equipment	13,595	11,669	39,724	28,587
Other operating expenses:				
Professional and outside services	10,018	6,509	22,171	14,072
Postage and supplies	1,852	1,709	5,706	3,840
Advertising and public relations	1,907	1,941	4,355	4,543
Telecommunication services	3,321	1,883	10,398	5,339
Software and data processing	2,982	1,633	7,745	3,226
ATM expense	1,430	1,821	4,081	3,530
Travel and meals	2,223	2,778	6,138	5,850
FDIC insurance	3,500	1,725	7,000	4,125
FDIC and state assessments	881	392	2,531	1,071
Loan collection and repossession expense	1,249	1,524	4,354	3,244
Writedowns of foreclosed and other assets	1,028	859	2,494	2,119
Amortization of intangibles	3,145	2,596	9,435	5,879
Other	1,937	3,673	6,584	5,619
Total non-interest expense	<u>\$ 84,399</u>	<u>\$ 78,781</u>	<u>\$ 246,493</u>	<u>\$ 177,395</u>

Income Taxes

The provision for income taxes was \$54.2 million for the third quarter and \$155.2 million for the first nine months of 2017 compared to \$42.5 million for the third quarter and \$105.0 million for the first nine months of 2016. The effective income tax rate was 36.1% for the third quarter and 36.0% for the first nine months of 2017 compared to 35.8% for the third quarter and 36.5% for the first nine months of 2016. The effective tax rates for each of these periods were 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, changes in the tax treatment of excess tax benefits pursuant to ASU 2016-09 and various other factors related to non-taxable income and non-deductible expenses.

ANALYSIS OF FINANCIAL CONDITION

Loan and Lease Portfolio

At September 30, 2017, our total loan and lease portfolio was \$15.78 billion compared to \$14.56 billion at December 31, 2016. 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 \$12.86 billion at September 30, 2017 compared to \$12.09 billion at December 31, 2016. The amount and type of loans and leases outstanding as of the dates indicated, and their respective percentage of the total loan and lease portfolio, are reflected in the following table.

Total Loan and Lease Portfolio

	September 30, 2017		December 31, 2016	
	(Dollars in thousands)			
Real estate:				
Residential 1-4 family	\$ 1,181,991	7.5%	\$ 1,259,289	8.6%
Non-farm/non-residential	4,690,926	29.7	4,665,401	32.0
Construction/land development	6,180,876	39.2	5,295,860	36.4
Agricultural	149,801	0.9	124,857	0.9
Multifamily residential	651,914	4.2	744,005	5.1
Total real estate	12,855,508	81.5	12,089,412	83.0
Commercial and industrial	525,071	3.3	440,147	3.0
Consumer	1,341,279	8.5	1,028,991	7.1
Direct financing leases	138,797	0.9	137,188	0.9
Other	917,975	5.8	867,377	6.0
Total loans and leases	<u>\$ 15,778,630</u>	<u>100%</u>	<u>\$ 14,563,115</u>	<u>100.0%</u>

Included in “other” loans at September 30, 2017 and December 31, 2016 are loans totaling \$884 million and \$835 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 the loans are considered “other” loans in accordance with FDIC Call Report instructions, 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, 2017, 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	\$ 6,343	\$ 552,215	\$ 2,161,047	\$ —	\$ 50,612	\$2,770,217
All other New York ⁽¹⁾	609	10,306	2,783	—	—	13,698
Total New York	6,952	562,521	2,163,830	—	50,612	2,783,915
Florida:						
Miami–Fort Lauderdale–West Palm Beach, FL MSA	126,914	312,573	622,836	397	1,275	1,063,995
Tampa–St. Petersburg–Clearwater, FL MSA	60,980	228,754	66,574	275	4,841	361,424
Orlando–Kissimmee–Sanford, FL MSA	6,348	73,059	108,430	—	55	187,892
North Port–Sarasota–Bradenton, FL MSA	33,937	53,168	35,468	6,479	785	129,837
Cape Coral–Fort Myers, FL MSA	16,402	51,754	51,132	—	460	119,748
Jacksonville, FL MSA	2,669	36,338	9,060	—	26,707	74,774
Crestview–Fort Walton Beach–Destin, FL MSA	6,135	35,238	148	130	—	41,651
Deltona–Daytona Beach–Ormond Beach, FL MSA	308	11,513	8,443	—	14,902	35,166
Ocala, FL MSA	2,496	21,697	—	—	—	24,193
Punta Gorda, FL MSA	8,490	6,893	5,239	—	—	20,622
Sebastian–Vero Beach, FL MSA	18	19,045	—	—	1,441	20,504
Lakeland–Winter Haven, FL MSA	416	15,633	1,408	—	48	17,505
Palm Bay–Melbourne–Titusville, FL MSA	571	5,855	—	—	4,213	10,639
All other Florida ⁽¹⁾	8,656	105,842	2,403	782	673	118,356
Total Florida	274,340	977,362	911,141	8,063	55,400	2,226,306
Texas:						
Dallas–Fort Worth–Arlington, TX MSA	49,233	147,050	391,256	178	18,383	606,100
Houston–The Woodlands–Sugar Land, TX MSA	12,944	90,809	201,682	—	124,027	429,462
Austin–Round Rock, TX MSA	12,537	60,453	96,415	—	38,305	207,710
College Station–Bryan, TX MSA	—	1,236	31,763	—	16,463	49,462
Lubbock, TX MSA	308	4,578	—	—	17,274	22,160
Texarkana, TX–AR MSA	9,511	5,580	534	588	1,195	17,408
San Antonio–New Braunfels, TX MSA	1,498	6,411	6,124	—	1,143	15,176
All other Texas ⁽¹⁾	876	35,055	4,862	42	194	41,029
Total Texas	86,907	351,172	732,636	808	216,984	1,388,507
Georgia:						
Atlanta–Sandy Springs–Roswell, GA MSA	170,830	400,826	252,699	4,611	91,895	920,861
Savannah, GA MSA	4,571	43,154	614	—	—	48,339
Dalton, GA MSA	11,776	16,367	1,101	1,132	1,061	31,437
Gainesville, GA MSA	4,748	16,677	7,782	141	711	30,059
Athens–Clarke County, GA MSA	3,615	18,183	1,959	117	—	23,874
Brunswick, GA MSA	9,691	3,742	537	—	8,303	22,273
Macon, GA MSA	4,683	8,139	320	—	4,738	17,880
Valdosta, GA MSA	6,139	6,347	749	85	154	13,474
All other Georgia ⁽¹⁾	57,699	49,918	25,502	4,900	16,810	154,829
Total Georgia	273,752	563,353	291,263	10,986	123,672	1,263,026

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	156,506	269,373	55,054	16,447	21,895	519,275
Fayetteville–Springdale–Rogers, AR–MO MSA	17,627	50,097	32,301	18,434	20,486	138,945
Hot Springs, AR MSA	47,861	68,351	16,181	895	2,869	136,157
Fort Smith, AR–OK MSA	27,292	58,014	6,388	4,000	10,304	105,998
Southern Arkansas ⁽²⁾	24,607	17,864	2,037	18,461	733	63,702
Western Arkansas ⁽³⁾	16,104	27,682	9,127	6,834	589	60,336
Northern Arkansas ⁽⁴⁾	29,052	11,367	2,606	10,313	315	53,653
All other Arkansas ⁽¹⁾	22,755	27,289	16,413	36,739	3,572	106,768
Total Arkansas	341,804	530,037	140,107	112,123	60,763	1,184,834
North Carolina/South Carolina:						
Charlotte–Concord–Gastonia, NC–SC MSA	48,174	133,369	97,279	1,332	7,968	288,122
Charleston–North Charleston, SC MSA	1,230	14,141	68,607	—	4,955	88,933
Winston–Salem, NC MSA	38,492	34,832	7,159	—	1,571	82,054
North Carolina Foothills ⁽⁵⁾	39,297	25,068	5,167	2,740	1,445	73,717
Greensboro–High Point, NC MSA	15,354	17,830	16,737	811	1,064	51,796
Wilmington, NC MSA	3,707	26,210	12,640	405	—	42,962
Columbia, SC MSA	465	40,528	980	—	627	42,600
Raleigh, NC MSA	235	3,266	8,270	—	19,854	31,625
Hilton Head Island–Bluffton–Beaufort, SC MSA	3,817	10,416	4,366	—	—	18,599
Greenville–Anderson–Mauldin, SC MSA	5,484	2,520	4,625	—	—	12,629
Spartanburg, SC MSA	1,481	92	7,957	—	542	10,072
All other North Carolina ⁽¹⁾	8,491	24,106	78,692	—	419	111,708
All other South Carolina ⁽¹⁾	3,979	17,193	1,992	—	23	23,187
Total North Carolina / South Carolina	170,206	349,571	314,471	5,288	38,468	878,004
California:						
Los Angeles–Long Beach–Anaheim, CA MSA	—	131,215	221,976	—	—	353,191
Sacramento–Roseville–Arden–Arcade, CA MSA	—	—	134,778	—	—	134,778
Riverside–San Bernardino–Ontario, CA MSA	—	89,751	10,812	—	—	100,563
San Francisco–Oakland–Hayward, CA MSA	—	18,165	59,881	—	—	78,046
San Diego–Carlsbad, CA MSA	—	—	69,418	—	—	69,418
San Jose–Sunnyvale–Santa Clara, CA MSA	—	—	56,152	—	—	56,152
Stockton–Lodi, CA MSA	—	—	29,673	—	—	29,673
Oxnard–Thousand Oaks–Ventura, CA MSA	—	—	24,958	—	—	24,958
All other California ⁽¹⁾	—	4,722	—	—	—	4,722
Total California	—	243,853	607,648	—	—	851,501
Illinois:						
Chicago–Naperville–Elgin, IL–IN–WI MSA	—	1,833	306,710	—	2,146	310,689
All other Illinois ⁽¹⁾	—	1,949	—	—	—	1,949
Total Illinois	—	3,782	306,710	—	2,146	312,638
Colorado:						
Denver–Aurora–Lakewood, CO MSA	7	179,257	107,860	—	—	287,124
All other Colorado ⁽¹⁾	1,110	—	—	—	—	1,110
Total Colorado	1,117	179,257	107,860	—	—	288,234
Tennessee:						
Nashville–Davidson–Murfreesboro–Franklin, TN MSA	—	111,412	128,698	—	—	240,110
Chattanooga, TN-GA MSA	430	10,315	36	—	—	10,781
All other Tennessee ⁽¹⁾	1,410	8,299	207	—	—	9,916
Total Tennessee	1,840	130,026	128,941	—	—	260,807

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)					
Seattle–Tacoma–Bellevue, WA MSA	—	110,052	103,565	—	—	213,617
Phoenix–Mesa–Scottsdale, AZ MSA	—	55,654	101,780	—	33,577	191,011
Cayman Islands	—	139,242	—	—	—	139,242
Providence–Warwick, RI–MA MSA	—	90,435	—	—	—	90,435
Alabama:						
Mobile, AL MSA	5,424	16,584	668	—	721	23,397
Birmingham–Hoover, AL MSA	393	—	20,965	—	—	21,358
Huntsville, AL MSA	—	15,096	2,684	—	—	17,780
All other Alabama ⁽¹⁾	14,778	4,092	3,590	587	3,189	26,236
Total Alabama	<u>20,595</u>	<u>35,772</u>	<u>27,907</u>	<u>587</u>	<u>3,910</u>	<u>88,771</u>
Las Vegas–Henderson–Paradise, NV MSA	—	82,770	—	—	—	82,770
Oregon:						
Portland–Vancouver–Hillsboro, OR–WA MSA	—	—	13,284	—	35,940	49,224
Bend–Redmond, OR MSA	—	11,668	—	—	—	11,668
All other Oregon ⁽¹⁾	—	8,430	—	—	—	8,430
Total Oregon	—	<u>20,098</u>	<u>13,284</u>	—	<u>35,940</u>	<u>69,322</u>
Pennsylvania:						
Philadelphia–Camden–Wilmington, PA–NJ–DE–MD MSA	—	51,645	—	—	—	51,645
All other Pennsylvania ⁽¹⁾	—	16,367	—	—	—	16,367
Total Pennsylvania	—	<u>68,012</u>	—	—	—	<u>68,012</u>
Boston, MA MSA	—	—	67,466	—	—	67,466
Washington, DC / Maryland:						
Washington–Arlington–Alexandria, DC–VA–MD–WV MSA	313	12,102	43,345	—	—	55,760
All other Maryland ⁽¹⁾	—	1,355	—	—	9,069	10,424
Total Washington, DC / Maryland	<u>313</u>	<u>13,457</u>	<u>43,345</u>	—	<u>9,069</u>	<u>66,184</u>
Indiana:						
Indianapolis–Carmel–Anderson, IN MSA	126	2,374	36,114	—	—	38,614
All other Indiana ⁽¹⁾	—	2,476	—	—	—	2,476
Total Indiana	<u>126</u>	<u>4,850</u>	<u>36,114</u>	—	—	<u>41,090</u>
Ohio:						
Cincinnati, OH–KY–IN MSA	—	26,850	—	—	—	26,850
Columbus, OH MSA	—	10,972	—	—	—	10,972
All other Ohio ⁽¹⁾	—	2,933	—	—	—	2,933
Total Ohio	—	<u>40,755</u>	—	—	—	<u>40,755</u>

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)					
Missouri:						
St. Louis, MO–IL MSA	—	391	—	—	19,433	19,824
Kansas City, MO–KS MSA	71	13,089	—	—	—	13,160
All other Missouri ⁽¹⁾	457	4,957	1,358	—	—	6,772
Total Missouri	<u>528</u>	<u>18,437</u>	<u>1,358</u>	<u>—</u>	<u>19,433</u>	<u>39,756</u>
Kansas:						
Manhattan, KS MSA	—	—	36,438	—	—	36,438
All other Kansas ⁽¹⁾	—	1,205	—	—	—	1,205
Total Kansas	<u>—</u>	<u>1,205</u>	<u>36,438</u>	<u>—</u>	<u>—</u>	<u>37,643</u>
Minneapolis–St. Paul–Bloomington, MN–WI MSA						
	—	29,209	—	—	—	29,209
Oklahoma						
	779	10,270	535	11,398	1,862	24,844
Utah:						
Salt Lake City, UT MSA	—	1,153	13,413	—	—	14,566
All other Utah ⁽¹⁾	1,728	3,259	—	—	—	4,987
Total Utah	<u>1,728</u>	<u>4,412</u>	<u>13,413</u>	<u>—</u>	<u>—</u>	<u>19,553</u>
Virginia						
	534	17,318	1,519	—	75	19,446
Trenton City, NJ MSA						
	—	—	15,153	—	—	15,153
Bridgeport, CT MSA						
	—	14,239	—	—	—	14,239
Louisiana:						
New Orleans, LA MSA	—	2,739	7,812	—	—	10,551
All other Louisiana ⁽¹⁾	81	616	121	—	—	818
Total Louisiana	<u>81</u>	<u>3,355</u>	<u>7,933</u>	<u>—</u>	<u>—</u>	<u>11,369</u>
Bahamas						
	—	11,213	—	—	—	11,213
Mississippi:						
Gulfport–Biloxi–Pascagoula, MS MSA	—	9,756	426	—	—	10,182
All other Mississippi ⁽¹⁾	36	354	—	545	—	935
Total Mississippi	<u>36</u>	<u>10,110</u>	<u>426</u>	<u>545</u>	<u>—</u>	<u>11,117</u>
All other states ⁽⁶⁾						
	<u>353</u>	<u>19,127</u>	<u>6,033</u>	<u>3</u>	<u>3</u>	<u>25,519</u>
Total Real Estate Loans	<u>\$1,181,991</u>	<u>\$4,690,926</u>	<u>\$ 6,180,876</u>	<u>\$ 149,801</u>	<u>\$ 651,914</u>	<u>\$12,855,508</u>

- (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 southern Arkansas: Clark, Columbia, Hempstead and Hot Spring.
- (3) This geographic area includes the following counties in western Arkansas: Johnson, Logan, Pope and Yell.
- (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 Foothills: Cleveland, Lincoln and Rutherford.
- (6) Includes all states not separately presented above.

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, 2017		December 31, 2016	
	(Dollars in thousands)			
Hotels and motels	\$ 1,218,605	26.0%	\$ 1,043,710	22.4%
Office, including medical offices	781,928	16.7	745,329	16.0
Retail, including shopping centers and strip centers	577,609	12.3	596,383	12.8
Manufacturing and industrial facilities	445,887	9.5	491,816	10.5
Nursing homes and assisted living centers	240,898	5.1	315,265	6.8
Churches and schools	241,677	5.2	241,831	5.2
Restaurants and bars	150,004	3.2	171,436	3.7
Gasoline stations and convenience stores	104,002	2.2	102,693	2.2
Hospitals, surgery centers and other medical	51,347	1.1	56,342	1.2
Office warehouse, warehouse and mini-storage	39,330	0.8	31,591	0.7
Golf courses, entertainment and recreational facilities	38,839	0.8	38,916	0.8
Other non-farm/non-residential ⁽¹⁾	800,800	17.1	830,089	17.7
Total	\$ 4,690,926	100.0%	\$ 4,665,401	100.0%

(1) Includes non-farm/non-residential loans collateralized by other miscellaneous real property, including loans totaling \$372 million at September 30, 2017 and \$429 million at December 31, 2016 where the collateral is "mixed use" 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, 2017		December 31, 2016	
	(Dollars in thousands)			
Unimproved land	\$ 238,148	3.9%	\$ 291,131	5.5%
Land development and lots:				
1-4 family residential and multifamily	539,989	8.7	610,662	11.5
Non-residential	748,099	12.1	684,979	12.9
Construction:				
1-4 family residential:				
Owner occupied	21,413	0.3	123,099	2.3
Non-owner occupied:				
Pre-sold	1,627,231	26.3	1,147,198	21.7
Speculative	215,571	3.5	201,111	3.8
Multifamily	1,234,780	20.0	712,547	13.5
Industrial, commercial and other	1,555,645	25.2	1,525,133	28.8
Total	\$ 6,180,876	100.0%	\$ 5,295,860	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 loan. 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 advances. 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 had advanced interest reserves as part of the funding process, we believe that the borrowers in effect had in most cases provided for these sums as part of their initial equity contribution. During the

nine months ended September 30, 2017 and 2016, there were no situations where additional interest reserves were advanced on a loan to avoid such loan from becoming nonperforming, and at September 30, 2017, we had no construction and development loans with interest reserves that were nonperforming.

During the third quarter and first nine months of 2017, we recognized approximately \$44.5 million and \$116.6 million, respectively, of interest income on construction and development loans from the advance of interest reserves. We advanced construction period interest on construction and development loans totaling \$39.6 million and \$119.0 million, respectively, in the third quarter and first nine months of 2017.

The maximum committed balance of all construction and development loans which provide for the use of interest reserves at September 30, 2017 was approximately \$16.7 billion, of which \$5.6 billion was outstanding at September 30, 2017 and \$11.1 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 final loan-to-value ratio on such loans, based on the most recent appraisals and assuming such loans are ultimately fully advanced, is expected to be approximately 42%.

The following table reflects total loans and leases as of September 30, 2017 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 and leases either by adjusting rates on existing loans and leases or reinvesting principal cash flow in new loans and leases. For non-purchased loans and leases 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 and Lease Cash Flows or Repricing

	1 Year or Less	Over 1 Through 2 Years	Over 2 Through 3 Years	Over 3 Years	Total
	(Dollars in thousands)				
Fixed rate	\$ 1,119,236	\$ 683,316	\$ 577,276	\$2,150,969	\$ 4,530,797
Floating rate (not at a floor or ceiling rate)	9,477,631	54,598	117,130	199,184	9,848,543
Floating rate (at floor rate) ⁽¹⁾	922,429	54,961	119,443	222,640	1,319,473
Floating rate (at ceiling rate)	79,768	5	5	39	79,817
Total	<u>\$11,599,064</u>	<u>\$ 792,880</u>	<u>\$ 813,854</u>	<u>\$2,572,832</u>	<u>\$15,778,630</u>
Percentage of total	73.5%	5.0%	5.2%	16.3%	100.0%
Cumulative percentage of total	73.5%	78.5%	83.7%	100.0%	

- (1) We have included a floor rate in many of our loans and leases. As a result of such floor rates, certain loans and leases may not immediately reprice in a rising rate environment if the interest rate index and margin on such loans and leases 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 and leases.

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, 2017.

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	\$ 311,343	\$ 7,401,395	\$ —	\$ 7,712,738
3-month LIBOR	184,565	603,971	—	788,536
Wall Street Journal Prime	637,283	1,519,355	79,817	2,236,455
Other contractual interest rate indices	186,282	323,822	—	510,104
Total	<u>\$ 1,319,473</u>	<u>\$ 9,848,543</u>	<u>\$ 79,817</u>	<u>\$ 11,247,833</u>

Purchased Loans

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, 2017	December 31, 2016
(Dollars in thousands)		
Loans without evidence of credit deterioration at date of acquisition:		
Unpaid principal balance	\$ 3,597,677	\$ 4,809,224
Valuation discount	(55,182)	(92,821)
Carrying value	<u>3,542,495</u>	<u>4,716,403</u>
Loans with evidence of credit deterioration at date of acquisition:		
Unpaid principal balance	239,169	319,733
Valuation discount	(50,128)	(78,114)
Carrying value	<u>189,041</u>	<u>241,619</u>
Total carrying value	<u>\$ 3,731,536</u>	<u>\$ 4,958,022</u>

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.

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

	Nine Months Ended September 30,	
	2017	2016
(Dollars in thousands)		
Balance – beginning of period	\$ 241,619	\$ 216,786
Accretion	32,075	19,542
Purchased loans acquired	—	127,237
Transfers to foreclosed assets	(2,646)	(3,078)
Payments received	(80,113)	(101,548)
Charge-offs	(748)	(1,696)
Other activity, net	(1,146)	(126)
Balance – end of period	<u>\$ 189,041</u>	<u>\$ 257,117</u>

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,	
	2017	2016
	(Dollars in thousands)	
Accretable difference – beginning of period	\$ 65,152	\$ 59,176
Transfers to foreclosed assets	(295)	(267)
Purchased loans paid off	(352)	(5,720)
Cash flow revisions as a result of renewals and/or modifications	16,263	20,960
Accretable difference acquired	—	18,959
Accretion	(32,075)	(19,542)
Accretable difference – end of period	<u>\$ 48,693</u>	<u>\$ 73,566</u>

Nonperforming Assets

Non-Purchased Loans and Leases and Foreclosed Assets

Our nonperforming assets consist of (1) nonaccrual loans and leases, (2) accruing loans and leases 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 or lease 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, but are analyzed and discussed separately elsewhere in this MD&A.

The accrual of interest on non-purchased loans and leases is discontinued when, in management’s opinion, the borrower or lessee may be unable to meet payments as they become due. We generally place a loan or lease on nonaccrual status when such loan or lease is (i) deemed impaired or (ii) 90 days or more past due, or earlier when doubt exists as to the ultimate collection of payments. At the time a loan or lease is placed on nonaccrual status, interest previously accrued but uncollected is reversed and charged against interest income. Nonaccrual loans and leases 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 or lease is determined to be uncollectible, the portion of the principal determined to be uncollectible is charged against the ALLL. 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 and leases. Income on nonaccrual loans or leases, including impaired loans and leases but excluding certain TDRs which may continue to 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, 2017	December 31, 2016
(Dollars in thousands)		
Nonaccrual loans and leases ⁽¹⁾	\$ 13,269	\$ 14,371
Accruing loans and leases 90 days or more past due ⁽¹⁾	—	—
TDRs	—	—
Total nonperforming loans and leases ⁽¹⁾	13,269	14,371
Foreclosed assets ⁽²⁾	28,016	43,702
Total nonperforming assets ⁽¹⁾	\$ 41,285	\$ 58,073
Nonperforming loans and leases to total loans and leases ⁽¹⁾	0.11%	0.15%
Nonperforming assets to total assets ⁽¹⁾	0.20	0.31

(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 are initially recorded at the lesser of current principal investment or estimated market 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.

If an adequate current determination of collateral value has not been performed, once a loan or lease 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, typically at least quarterly, we evaluate the underlying collateral on all impaired loans and leases 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, 2017, we had reduced the carrying value of our non-purchased loans and leases deemed impaired (all of which were included in nonaccrual loans and leases) by \$4.0 million to the estimated fair value of such loans and leases of \$11.4 million. The adjustment to reduce the carrying value of such impaired loans and leases to estimated fair value consisted of \$2.2 million of partial charge-offs and \$1.8 million of specific loan and lease loss allocations. These amounts do not include our \$9.5 million of impaired purchased loans at September 30, 2017.

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

Foreclosed Assets

	September 30, 2017	December 31, 2016
(Dollars in thousands)		
Real estate:		
Residential 1-4 family	\$ 1,516	\$ 3,762
Non-farm/non-residential	9,902	17,207
Construction/land development	16,250	21,568
Agricultural	—	473
Total real estate	27,668	43,010
Commercial and industrial	196	293
Consumer	152	399
Total foreclosed assets	\$ 28,016	\$ 43,702

The following table presents information concerning the geographic location of nonperforming assets, excluding purchased loans, at September 30, 2017. Nonperforming loans and leases 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 and Leases	Foreclosed Assets and Repossessions	Total Nonperforming Assets
(Dollars in thousands)			
Arkansas	\$ 11,036	\$ 9,590	\$ 20,626
Florida	213	8,055	8,268
Georgia	534	5,788	6,322
Texas	850	1,894	2,744
North Carolina	225	2,332	2,557
All Other	247	228	475
Alabama	164	129	293
Total	<u>\$ 13,269</u>	<u>\$ 28,016</u>	<u>\$ 41,285</u>

Impaired Purchased Loans

At September 30, 2017 and December 31, 2016, 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, 2017	December 31, 2016
(Dollars in thousands)		
Impaired purchased loans without evidence of credit deterioration at date of acquisition (rated FV 77)	\$ 4,371	\$ 1,243
Impaired purchased loans with evidence of credit deterioration at date of acquisition (rated FV 88)	5,131	5,273
Total impaired purchased loans	<u>\$ 9,502</u>	<u>\$ 6,516</u>
Impaired purchased loans to total purchased loans	0.25%	0.13%

Allowance and Provision for Loan and Lease Losses

At September 30, 2017, our ALLL was \$86.8 million, including \$85.2 million allocated to our non-purchased loans and leases and \$1.6 million allocated to our purchased loans, compared to \$76.5 million at December 31, 2016, including \$74.9 million allocated to our non-purchased loans and leases and \$1.6 million allocated to our purchased loans. Our ALLL allocated to non-purchased loans and leases as a percent of total non-purchased loans and leases was 0.71% at September 30, 2017 compared to 0.78% at December 31, 2016. Our ALLL allocated to non-performing loans and leases was equal to 642% of our total nonperforming non-purchased loans and leases at September 30, 2017 compared to 521% at December 31, 2016. The amount of ALLL and provision to the ALLL is based on our analysis of the adequacy of the ALLL utilizing the criteria discussed in the Critical Accounting Policies section of our Annual Report on Form 10-K for the year ended December 31, 2016.

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 geographic location. We consider this geographic diversification to be a substantial 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, 2017, 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 42%, respectively. Each of these factors mentioned above has contributed to our favorable asset quality ratios and net charge-off ratios in recent years. In addition, these factors have also helped to contribute to recent decreases in our ratio of ALLL to total non-purchased loans and leases.

The provision for loan and lease losses for the third quarter of 2017 was \$7.8 million, including \$6.8 million for non-purchased loans and leases and \$1.0 million for purchased loans, compared to \$7.1 million for the third quarter of 2016, including \$5.6 million for non-purchased loans and leases and \$1.5 million for purchased loans. The provision for loan and lease losses for the first nine months of 2017 was \$18.8 million, including \$14.6 million for non-purchased loans and leases and \$4.2 million for purchased loans, compared to \$13.9 million for the first nine months of 2016, including \$12.0 million for non-purchased loans and leases and \$1.9 million for purchased loans.

Our practice is to charge off any estimated loss as soon as we are able to identify and reasonably quantify such potential loss. Accordingly, only a small portion of our ALLL is needed for potential losses on non-performing loans. Our ALLL allocated to non-purchased loans and leases as a percent of total non-purchased loans and leases decreased to 0.71% at September 30, 2017 compared to 0.78% at December 31, 2016, primarily as a result of the low level of net charge-offs in recent quarters, our conservative underwriting practices and our general trends in recent years of lower loan-to-cost and loan-to-value ratios in our construction and development portfolio. While we believe our ALLL at September 30, 2017 and related provision for the third quarter and first nine months of 2017 were appropriate, changing economic and other conditions may require future adjustments to the ALLL or the amount of provision thereto.

As a result of Hurricanes Harvey and Irma during the third quarter of 2017, we conducted a review of the majority of our loans with collateral in the impacted areas. This review included assessing the borrower's ability to repay as well as the impact, if any, on the underlying collateral securing the loan. Based on this review, we made no significant adjustments to our provision for loan and lease loss or ALLL for the third quarter of 2017.

Activity within the allowance for loan and lease losses for the periods indicated is shown in the following table.

Activity Within the Allowance for Loan and Lease Losses

	Nine Months Ended September 30,	
	2017	2016
	(Dollars in thousands)	
Balance, beginning of period	\$ 76,541	\$ 60,854
Charge-offs of non-purchased loans and leases:		
Real estate:		
Residential 1-4 family	(272)	(350)
Non-farm/non-residential	(380)	(248)
Construction/land development	(113)	(42)
Agricultural	(2)	(7)
Total real estate	(767)	(647)
Commercial and industrial	(739)	(87)
Consumer	(270)	(87)
Direct financing leases	(2,425)	(2,263)
Other	(1,582)	(1,272)
Total charge-offs of non-purchased loans and leases	(5,783)	(4,356)
Recoveries of non-purchased loans and leases previously charged off:		
Real estate:		
Residential 1-4 family	24	43
Non-farm/non-residential	545	—
Construction/land development	21	53
Agricultural	34	—
Multifamily residential	—	14
Total real estate	624	110
Commercial and industrial	133	52
Consumer	141	15
Direct financing leases	25	20
Other	503	665
Total recoveries of non-purchased loans and leases previously charged off	1,426	862
Net charge-offs of non-purchased loans and leases	(4,357)	(3,494)
Charge-offs of purchased loans	(6,261)	(1,732)
Recoveries of purchased loans previously charged off	2,047	195
Net charge-offs of purchased loans	(4,214)	(1,537)
Net charge-offs – total loans and leases	(8,571)	(5,031)
Provision for loan and lease losses:		
Non-purchased loans and leases	14,600	12,000
Purchased loans	4,214	1,937
Total provision	18,814	13,937
Balance, end of period	\$ 86,784	\$ 69,760
ALLL allocated to non-purchased loans and leases	\$ 85,184	\$ 68,160
ALLL allocated to purchased loans	1,600	1,600
Total ALLL	\$ 86,784	\$ 69,760

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

Net Charge-off and ALLL Ratios

	As of and for the Nine Months Ended September 30,		As of and for the Year Ended December 31,
	2017	2016	2016
	(Dollars in thousands)		
Net charge-offs of non-purchased loans and leases to average non-purchased loans and leases ⁽¹⁾⁽²⁾	0.06%	0.06%	0.06%
Net charge-offs of purchased loans to average purchased loans ⁽¹⁾	0.13%	0.08%	0.09%
Net charge-offs of total loans and leases to average total loans and leases ⁽¹⁾	0.08%	0.06%	0.07%
ALLL for non-purchased loans and leases to total non-purchased loans and leases ⁽³⁾	0.71%	0.78%	0.78%
ALLL for purchased loans to total purchased loans	0.04%	0.03%	0.03%
ALLL to total loans and leases	0.55%	0.49%	0.53%
ALLL to nonperforming loans and leases ⁽³⁾	642%	918%	521%

(1) Ratios for interim periods annualized.

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

(3) Excludes purchased loans and ALLL allocated to such loans.

Investment Securities

At September 30, 2017 and December 31, 2016, we classified all of 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. Our holdings of "other equity securities" include FHLB and First National Banker's Bankshares, Inc. shares which do not have readily determinable fair values and are carried at cost.

Investment Securities

	September 30, 2017		December 31, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Obligations of state and political subdivisions	\$ 686,109	\$ 683,971	\$ 946,886	\$ 919,013
Mortgage-backed securities ⁽¹⁾	1,256,866	1,250,696	516,636	505,356
U.S. Government agency securities	30,479	30,145	30,661	30,134
Corporate obligations	—	—	10,086	9,915
CRA qualified investment fund	1,078	1,058	1,061	1,034
Other equity securities	9,232	9,232	6,160	6,160
Total	<u>\$ 1,983,764</u>	<u>\$ 1,975,102</u>	<u>\$ 1,511,490</u>	<u>\$ 1,471,612</u>

(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 \$8.1 million and gross unrealized losses of \$16.7 million at September 30, 2017 and gross unrealized gains of \$8.7 million and gross unrealized losses of \$48.6 million at December 31, 2016. We believe that all unrealized losses on individual investment securities at September 30, 2017 and December 31, 2016 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. We 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

	<u>Amortized Cost</u>	<u>Unaccreted Discount</u>	<u>Unamortized Premium</u>	<u>Par Value</u>
	(Dollars in thousands)			
September 30, 2017:				
Obligations of states and political subdivisions	\$ 686,109	\$ 4,365	\$ (31,080)	\$ 659,394
Mortgage-backed securities ⁽¹⁾	1,256,866	86	(45,025)	1,211,927
U.S. Government agency securities	30,479	3	(856)	29,626
CRA qualified investment fund	1,078	—	—	1,078
Other equity securities	9,232	—	—	9,232
Total	<u>\$ 1,983,764</u>	<u>\$ 4,454</u>	<u>\$ (76,961)</u>	<u>\$ 1,911,257</u>
December 31, 2016:				
Obligations of states and political subdivisions	\$ 946,886	\$ 6,124	\$ (36,567)	\$ 916,443
Mortgage-backed securities ⁽¹⁾	516,636	111	(17,958)	498,789
U.S. Government agency securities	30,661	9	(1,044)	29,626
Corporate obligations	10,086	5,500	(72)	15,514
CRA qualified investment fund	1,061	—	—	1,061
Other equity securities	6,160	—	—	6,160
Total	<u>\$ 1,511,490</u>	<u>\$ 11,744</u>	<u>\$ (55,641)</u>	<u>\$ 1,467,593</u>

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

For 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 \$149.6 million and \$236.2 million of investment securities. We had no net gains or sales of investment securities during the third quarter or first nine months of 2016. During the third quarter of 2017 and 2016, respectively, investment securities totaling \$76.8 million and \$62.0 million matured, were called or were paid down by the issuer. During the first nine months of 2017 and 2016, respectively, investment securities totaling \$143.3 million and \$145.4 million matured, were called or were paid down by the issuer. We purchased \$106.6 million in investment securities during the third quarter and \$862.4 million during the first nine months of 2017 compared to \$114.1 million during the third quarter and \$382.6 million during the first nine months of 2016.

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, current market factors, interest rate risk and other relevant factors.

During June 2017, we purchased approximately \$728 million of highly liquid, short duration U.S. Government agency mortgage-backed pass through securities that yield approximately 2.0%. During October of 2017, we purchased an additional \$450 million of such securities. These securities provide substantial on-balance sheet liquidity and carry a 20% risk weighting for regulatory capital purposes.

The following table presents the types and estimated fair values of our investment securities at September 30, 2017 based on credit ratings by one or more nationally-recognized credit rating agency.

Credit Ratings of Investment Securities

	<u>AAA</u> ⁽¹⁾	<u>AA</u> ⁽²⁾	<u>A</u> ⁽³⁾	<u>BBB</u> ⁽⁴⁾	<u>Non-Rated</u> ⁽⁵⁾	<u>Total</u>
	(Dollars in thousands)					
Obligations of states and political subdivisions	\$ 143,502	\$ 278,231	\$ 110,633	\$ 6,010	\$ 145,595	\$ 683,971
Mortgage-backed securities ⁽⁶⁾	—	1,250,696	—	—	—	1,250,696
U.S. Government agency securities	30,145	—	—	—	—	30,145
CRA qualified investment fund	—	—	—	—	1,058	1,058
Other equity securities	—	—	—	—	9,232	9,232
Total	<u>\$ 173,647</u>	<u>\$ 1,528,927</u>	<u>\$ 110,633</u>	<u>\$ 6,010</u>	<u>\$ 155,885</u>	<u>\$ 1,975,102</u>
Percentage of total	8.8%	77.4%	5.6%	0.3%	7.9%	100.0%
Cumulative percentage of total	8.8%	86.2%	91.8%	92.1%	100.0%	

- (1) Includes securities rated Aaa by Moody's, AAA by Fitch or Standard & Poor's ("S&P") or a comparable rating by other nationally-recognized credit rating agencies.
- (2) Includes securities rated Aa1 to Aa3 by Moody's, AA+ to AA- by Fitch or S&P or a comparable rating by other nationally-recognized credit rating agencies.
- (3) Includes securities rated A1 to A3 by Moody's, A+ to A- by Fitch or S&P or a comparable rating by other nationally-recognized credit rating agencies.
- (4) Includes securities rated Baa1 to Baa3 by Moody's, BBB+ to BBB- by Fitch or S&P or a comparable rating by other nationally-recognized credit rating agencies.
- (5) Includes all securities that are not rated or securities that are not rated but that have a rated credit enhancement where we have ignored such credit enhancement. For these securities, 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 a credit rating of investment grade (i.e., Baa3 or better by Moody's or BBB- or better by Fitch or S&P or a comparable rating by other nationally-recognized credit rating agencies).
- (6) These mortgage-backed securities were issued by U.S. Government agencies.

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, 2017		December 31, 2016	
	(Dollars in thousands)			
Non-interest bearing	\$ 2,790,907	16.6%	\$ 2,589,458	16.6%
Interest bearing:				
Transaction (NOW)	3,417,079	20.3	2,751,283	17.7
Savings and money market	5,995,870	35.6	5,297,072	34.0
Time deposits less than \$100,000	1,479,720	8.8	1,741,307	11.2
Time deposits of \$100,000 or more	3,139,783	18.7	3,195,758	20.5
Total deposits	<u>\$ 16,823,359</u>	<u>100.0%</u>	<u>\$ 15,574,878</u>	<u>100.0%</u>

At September 30, 2017 brokered deposits totaled \$1.22 billion, or 7.2% of total deposits, compared to \$1.99 billion, or 12.8% of total deposits, at December 31, 2016.

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 respected 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, 2017		December 31, 2016	
	(Dollars in thousands)			
Arkansas	\$ 5,434,319	32.3%	\$ 6,309,230	40.5%
Georgia	3,960,173	23.5	3,714,963	23.9
Florida	2,685,786	16.0	2,015,492	12.9
Texas	2,182,104	13.0	2,056,956	13.2
New York	1,412,854	8.4	378,348	2.4
North Carolina	934,877	5.6	890,091	5.7
Alabama	111,817	0.7	107,458	0.7
South Carolina	101,429	0.5	102,340	0.7
Total	<u>\$ 16,823,359</u>	<u>100.0%</u>	<u>\$ 15,574,878</u>	<u>100.0%</u>

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, 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,			
	2017		2016		2017		2016	
	Average Balance	Rate Paid	Average Balance	Rate Paid	Average Balance	Rate Paid	Average Balance	Rate Paid
	(Dollars in thousands)							
Repurchase agreements with customers	\$ 73,026	0.18%	\$ 59,910	0.15%	\$ 76,481	0.16%	\$ 62,156	0.14%
Other borrowings ⁽¹⁾	42,433	2.39	42,004	2.71	42,312	2.31	48,628	2.42
Subordinated notes	222,749	5.68	222,369	5.83	222,658	5.66	81,159	5.83
Subordinated debentures	118,582	4.31	118,028	3.72	118,445	4.18	117,889	3.67
Total other interest bearing liabilities	<u>\$456,790</u>	<u>4.14%</u>	<u>\$442,311</u>	<u>4.20%</u>	<u>\$459,896</u>	<u>4.07%</u>	<u>\$309,832</u>	<u>3.34%</u>

- (1) Included in other borrowings at September 30, 2017 are FHLB advances that contain quarterly call features with weighted average interest rates which mature as follows: November 2017, \$20.0 million at 3.16% and January 2018, \$20.0 million at 2.53%.

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources

Subordinated Notes. At September 30, 2017, 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”), and as a result of our Investest acquisition, Investest Statutory Trust II (“Investest II”), Investest Statutory Trust III (“Investest III”), Investest Statutory Trust IV (“Investest IV”) and Investest Statutory Trust V (“Investest V”), (collectively, the “Trusts”). At September 30, 2017, 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, 2017	Carrying Value of Subordinated Debentures at September 30, 2017	Trust Preferred Securities of the Trusts	Contractual Interest Rate at September 30, 2017	Final Maturity Date
			(Dollars in thousands)			
Ozark II	\$ 14,433	\$ —	\$ 14,433	\$ 14,000	4.24%	September 29, 2033
Ozark III	14,434	—	14,434	14,000	4.25	September 25, 2033
Ozark IV	15,464	—	15,464	15,000	3.53	September 28, 2034
Ozark V	20,619	—	20,619	20,000	2.92	December 15, 2036
Investest II	15,464	(478)	14,986	15,000	4.27	September 17, 2033
Investest III	15,464	(553)	14,911	15,000	4.11	March 17, 2034
Investest IV	15,464	(1,006)	14,458	15,000	3.73	September 20, 2034
Investest V	10,310	(955)	9,355	10,000	2.97	December 15, 2036
	<u>\$ 121,652</u>	<u>\$ (2,992)</u>	<u>\$ 118,660</u>	<u>\$ 118,000</u>		

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, the Bank 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.

On May 31, 2017, we completed the issuance and sale of 6,600,000 shares of our common stock which, net of stock issuance costs of \$247,000, generated net proceeds of approximately \$299.7 million. We expect to use the proceeds from this offering to support our organic growth, including growth in non-purchased loans and leases, for potential future acquisitions and for general corporate purposes.

Corporate Reorganization. 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 the Bank, with the Bank continuing as the surviving corporation (the “Reorganization”). At the effective time of the merger, each share of Bank of the Ozarks, Inc.’s common stock issued and outstanding immediately prior to the merger was automatically converted to one share of common stock of the Bank having the same designations, rights, powers and preferences and the same qualifications, limitations and restrictions as those associated with each share of Bank of the Ozarks, Inc. As a result, Bank of the Ozarks, Inc. shareholders upon consummation of the merger became Bank shareholders. The primary purpose of the Reorganization was to create a more efficient corporate structure. The business operations, directors and executive officers of the Bank did not change as a result of the Reorganization.

The Bank continues to be subject to regulation by the ASBD. Because the Bank is an insured depository institution that is not a member bank of the FRB, our primary federal regulator is the FDIC. Following the Reorganization, we are no longer subject to the FRB’s regulation and supervision (except such regulations as are made applicable to the Bank by law and regulations of the FDIC).

Upon closing of the Reorganization, the Bank’s shares of common stock were listed on The NASDAQ Global Select Market (“NASDAQ”) under the same ticker symbol, “OZRK.” Our common stock is registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which vests the FDIC with the power to administer and enforce certain sections of the Exchange Act applicable to banks. Following the Reorganization, we no longer file periodic or current reports or other materials with the SEC but are required to file such periodic and current reports and other materials required under the Exchange Act with the FDIC.

Pursuant to Section 3(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”), securities issued by the Bank, including the common stock issued in connection with the Reorganization, are exempt from registration under the Securities Act.

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, 2017	December 31, 2016
	(Dollars in thousands)	
Total common stockholders’ equity before noncontrolling interest	\$ 3,334,740	\$ 2,791,607
Less intangible assets:		
Goodwill	(660,789)	(660,119)
Core deposit and other intangible assets, net of accumulated amortization	(51,396)	(60,831)
Total intangibles	(712,185)	(720,950)
Total tangible common stockholders’ equity	<u>\$ 2,622,555</u>	<u>\$ 2,070,657</u>
Total assets	\$ 20,768,493	\$ 18,890,142
Less intangible assets:		
Goodwill	(660,789)	(660,119)
Core deposit and other intangible assets, net of accumulated amortization	(51,396)	(60,831)
Total intangibles	(712,185)	(720,950)
Total tangible assets	<u>\$ 20,056,308</u>	<u>\$ 18,169,192</u>
Ratio of total common stockholders’ equity to total assets	<u>16.06%</u>	<u>14.78%</u>
Ratio of total tangible common stockholders’ equity to total tangible assets	<u>13.08%</u>	<u>11.40%</u>

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

	September 30, 2017	December 31, 2016
	(In thousands, except per share amounts)	
Total common stockholders' equity before noncontrolling interest	\$ 3,334,740	\$ 2,791,607
Less intangible assets:		
Goodwill	(660,789)	(660,119)
Core deposit and other intangible assets, net of accumulated amortization	(51,396)	(60,831)
Total intangibles	(712,185)	(720,950)
Total tangible common stockholders' equity	<u>\$ 2,622,555</u>	<u>\$ 2,070,657</u>
Shares of common stock outstanding	128,174	121,268
Book value per common share	<u>\$ 26.02</u>	<u>\$ 23.02</u>
Tangible book value per common share	<u>\$ 20.46</u>	<u>\$ 17.08</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Net income available to common stockholders	\$ 96,007	\$ 76,030	\$ 275,727	\$ 182,193
Average common stockholders' equity before noncontrolling interest	\$ 3,295,394	\$ 2,483,181	\$ 3,047,279	\$ 1,833,933
Less average intangible assets:				
Goodwill	(660,789)	(538,583)	(659,871)	(264,306)
Core deposit and other intangible assets, net of accumulated amortization	(53,128)	(55,693)	(56,311)	(36,844)
Total average intangibles	(713,917)	(594,276)	(716,182)	(301,150)
Average tangible common stockholders' equity	<u>\$ 2,581,477</u>	<u>\$ 1,888,905</u>	<u>\$ 2,331,097</u>	<u>\$ 1,532,783</u>
Return on average common stockholders' equity ⁽¹⁾	<u>11.56%</u>	<u>12.18%</u>	<u>12.10%</u>	<u>13.27%</u>
Return on average tangible common stockholders' equity ⁽¹⁾	<u>14.76%</u>	<u>16.01%</u>	<u>15.81%</u>	<u>15.88%</u>

(1) Ratios annualized based on actual days.

Common Stock Dividend Policy. During 2016 we paid quarterly cash dividends per common share of \$0.15 in the first quarter, \$0.155 in the second quarter, \$0.16 in the third quarter and \$0.165 in the fourth quarter. During 2017 we paid quarterly cash dividends per common share of \$0.17 in the first quarter, \$0.175 in the second quarter and \$0.18 in the third quarter. On October 2, 2017, our board of directors approved a cash dividend of \$0.185 per common share that was paid on October 20, 2017. 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, the Bank's ability to pay dividends to its shareholders is subject to the restrictions set forth in Arkansas law, by the Bank's 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, assessment rate calculations and other factors.

The FDIC and other federal banking regulators revised the risk-based capital requirements applicable to insured depository institutions, including the Bank, 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 the Bank 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. The tier 1 capital for the Bank 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. As a result of our acquisitions of C&S on July 20, 2016 and C1 on July 21, 2016, our total assets exceeded \$15 billion. Accordingly, 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 allow for insured depository institutions to make a one-time election not to include most elements of accumulated other comprehensive income 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 ALLL, 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, 2017 and December 31, 2016 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, 2017 and December 31, 2016, 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, 2017:								
Common equity tier 1 to risk-weighted assets	\$2,613,590	11.02%	\$1,364,021	5.75%	\$1,660,548	7.00%	\$1,541,937	6.50%
Tier 1 capital to risk-weighted assets	2,613,590	11.02	1,719,853	7.25	2,016,379	8.50	1,897,769	8.00
Total capital to risk-weighted assets	3,043,374	12.83	2,194,295	9.25	2,490,821	10.50	2,372,211	10.00
Tier 1 leverage to average assets	2,613,590	13.45	777,390	4.00	777,390	4.00	971,738	5.00
December 31, 2016 ⁽¹⁾:								
Common equity tier 1 to risk-weighted assets	\$2,093,548	9.99%	\$1,074,382	5.125%	\$1,467,448	7.00%	\$1,362,631	6.50%
Tier 1 capital to risk-weighted assets	2,093,548	9.99	1,388,835	6.625	1,781,902	8.50	2,093,548	8.00
Total capital to risk-weighted assets	2,513,089	11.99	1,808,106	8.625	2,201,173	10.50	2,093,548	10.00
Tier 1 leverage to average assets	2,093,548	11.99	698,438	4.00	698,438	4.00	873,048	5.00

- (1) On June 26, 2017, we completed an internal restructuring that eliminated our bank holding company. As a result, the prior period regulatory capital ratios have been adjusted to reflect this internal restructuring as if the restructuring had occurred as of December 31, 2016.

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 operating cash needs of the Bank, 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 leases, and repayments of 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, along with FHLB advances, federal funds purchased and other sources of short-term borrowings, to make loans and leases, 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 and lease repayments are generally a relatively stable source of funds but are subject to the borrowers' and lessees' ability to repay the loans and leases, 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 and leases 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 leases and deposit withdrawal demands or otherwise fund operations. Such secondary sources include wholesale deposit sources, FHLB advances, secured and unsecured federal funds lines of credit from correspondent banks, FRB borrowing programs and/or accessing the capital markets.

At September 30, 2017, we had \$12.52 billion in unfunded balances on loans already closed, the vast majority of which is attributable to construction loans for which construction has commenced. In most cases the borrower's equity and all other required subordinated elements of the capital structure must be fully funded before we advance funds. Typically we are the last to advance funds and the first to be repaid. In many cases we do not advance funds on loans for many months after closing because the borrower's equity and other funding sources must fund first. This conservative practice for handling construction loans has led to the large unfunded balance of closed loans. As a result, we maintain a detailed 36-month forward funding forecast projecting all loan fundings and loan pay downs and pay offs. Our ability to project monthly net portfolio growth with a substantial degree of accuracy is an important part of our liquidity management process.

At September 30, 2017, we had substantial unused borrowing availability. This availability was primarily comprised of the following four options: (1) \$4.0 billion of available blanket borrowing capacity with the FHLB, (2) \$1.0 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 \$166 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 leases 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.

During June 2017, we purchased approximately \$728 million of highly liquid, short duration U.S. Government agency mortgage-backed pass through securities that yield approximately 2.0%. In October 2017, we purchased an additional \$450 million of these 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 \$288.7 million for the first nine months of 2017 and \$160.2 million for the first nine months of 2016. 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. The increase in cash provided by operating activities during the first nine months of 2017 compared to the first nine months of 2016 is due, in part, to the increase in net income.

Investing activities used net cash of \$1.59 billion in the first nine months of 2017 and \$1.67 billion in the first nine months of 2016. The decrease in net cash used by investing activities was primarily the result of the slightly lower growth rate of our non-purchased loans and leases during the first nine months of 2017 compared to the same period in 2016 and the increase in net payments received on our purchased loan portfolio, partially offset by additional cash used by our investment securities portfolio activities.

Financing activities provided \$1.49 billion in the first nine months of 2017 and \$2.39 billion in the first nine months of 2016. The decrease in cash provided by financing activities is primarily the result of a lower growth rate of deposits needed to fund growth of interest earning assets during the first nine months of 2017 compared to the first nine months of 2016.

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 on 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, 2017.

Growth and Expansion

De Novo Growth. In January 2017, we consolidated our New York, New York RESG loan production office in with our retail banking office in New York, New York, and in February 2017, we opened a loan production office in Atlanta, Georgia for our mortgage lending team. In May 2017, we replaced leased facilities with Bank-owned facilities in Miami Beach, Florida and Harrisburg, North Carolina. In June 2017, we opened a loan production office in Little Rock, Arkansas for our mortgage lending team. In September 2017, we opened a retail banking office in McKinney, Texas. In the fourth quarter of 2017, we expect to open a loan production office in Brookhaven, Mississippi. In 2018, we expect to (i) relocate our RESG team in Dallas, Texas to a nearby larger facility, (ii) open retail banking offices in Dallas, Texas and Ft. Worth, Texas, (iii) replace an existing leased facility with a Bank-owned facility in Winston-Salem, North Carolina, (iv) open a retail banking office in Nashville, Tennessee and (v) open an additional retail banking office in Atlanta, Georgia. We also acquired property in Little Rock, Arkansas in 2016 where we expect to construct a new corporate headquarters facility that is currently projected to be completed in late 2019.

We intend to continue our growth and *de novo* branching strategy in the future years through the opening of additional retail banking and loan production offices. 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 2017, we spent approximately \$31.3 million on capital expenditures for premises and equipment. Our capital expenditures for the full year 2017 are expected to be in the range of \$35 million to \$40 million, including progress payments on construction projects expected to be completed in future periods, furniture and equipment costs and acquisition of sites for future development. Actual expenditures may vary significantly from those expected, depending on the number and cost of additional offices acquired or constructed and sites acquired for future development, progress or delays encountered on ongoing and new construction projects, delays in or inability to obtain required approvals, potential premises and equipment expenditures associated with acquisitions, if any, and other factors.

Future Growth Strategy. We expect to continue growing through both our *de novo* branching strategy and traditional acquisitions. 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 or two strategically located offices in each such market. Future RESG loan production offices are expected to be focused in strategically important markets (most likely offices in Seattle, Washington, D.C., Boston and Chicago). With respect to acquisitions, we are seeking acquisitions that are either immediately accretive to book value, tangible book value, and diluted earnings per share, or strategic to our business, or both.

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 15 to the Consolidated Financial Statements for a discussion of certain recently issued and recently adopted accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

We regularly review 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. Typically, ALCO reviews on at least a quarterly basis our relative ratio of rate sensitive assets (“RSA”) to rate sensitive liabilities (“RSL”) and the related cumulative gap for different time periods. However, the primary tool used by ALCO to analyze our interest rate risk and interest rate sensitivity is an earnings simulation model.

This earnings simulation modeling process projects a baseline net interest income (assuming no changes in interest rate levels) and estimates changes to that baseline net interest income resulting from changes in interest rate levels. We rely primarily on the results of this model in evaluating our interest rate risk. This model incorporates a number of additional factors including: (1) the expected exercise of call features on various assets and liabilities, (2) the expected rates at which various RSA and RSL 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 200 bps, 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 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, 2017. 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.

<u>Shift in Interest Rates (in bps)</u>	<u>% Change in Projected Baseline Net Interest Income</u>
+500	20.8%
+400	16.7
+300	12.6
+200	8.3
+100	4.1
-100	(5.0)
-200	Not meaningful
-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, leases and deposits.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

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

(b) Changes in Internal Control over Financial Reporting.

Our management, including our Chairman and Chief Executive Officer and our Chief Financial Officer and Chief Accounting Officer, has evaluated any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarterly period covered by this report and has concluded that there were no changes during the quarterly period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On December 19, 2011, Bank of the Ozarks' former parent holding company, Bank of the Ozarks, Inc., and Bank of the Ozarks (the "Bank") were named as defendants in a purported class action lawsuit filed in the Circuit Court of Lonoke County, Arkansas, Division III, styled *Robert Walker, Ann B. Hines and Judith Belk vs. Bank of the Ozarks, Inc. and Bank of the Ozarks*. On December 20, 2012, the Bank was named as a defendant in a purported class action lawsuit filed in the Circuit Court of Pulaski County, Arkansas, Ninth Division, styled *Audrey Muzingo v. Bank of the Ozarks*. Subsequently, counsel for the plaintiffs in the Walker case and counsel for the plaintiff in the *Muzingo* case reached an agreement whereby Ms. Muzingo is now considered a member of the class in the *Walker* case. The complaint in each of the cases challenged the manner in which overdraft fees were charged and the policies related to the posting order of payments. In addition, the complaint in each case alleged violations of the Arkansas Deceptive Trade Practices Act. The complaint in the *Walker* case seeks to have the case certified by the court as a class action for all Bank account holders located in the State of Arkansas similarly situated and seeks (1) a declaratory judgment as to the wrongful nature of the Bank's overdraft fee policies, (2) restitution of overdraft fees paid by the plaintiffs and the putative class as a result of the actions cited in the complaint, (3) disgorgement of profits as a result of the alleged wrongful actions, (4) unspecified compensatory and statutory or punitive damages, and (5) pre-judgment interest, costs, and plaintiffs' attorneys' fees. The parties participated in a mediation on May 11, 2017, at which time the parties reached a settlement in principle. The parties negotiated the form of the settlement documents, and the trial court in the *Walker* case conducted a hearing to consider the terms of the proposed settlement on August 9, 2017. The trial court entered an order preliminarily approving the settlement negotiated by the parties on August 10, 2017. The final approval hearing of the negotiated settlement is currently scheduled for November 13, 2017. The terms of the settlement negotiated by the parties will not have a material adverse affect on the Bank's financial condition, results of operations, or liquidity. The *Muzingo* case was dismissed with prejudice on July 10, 2017.

The Bank is party to various other claims and legal proceedings, as both plaintiff and defendant, arising in the ordinary course of business. While the ultimate resolution of these various claims and legal proceedings cannot be determined at this time, management of the Bank believes that such claims and proceedings, individually or in the aggregate, will not have a material adverse effect on the future results of operations, financial condition, or liquidity of the Bank.

Item 1A. Risk Factors

There are no material changes from the risk factors set forth under Part 1, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on March 1, 2017.

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

During the third quarter of 2017, the Bank issued an aggregate of 77,450 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.

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 of the Ozarks

DATE: November 7, 2017

/s/ Greg McKinney

Greg McKinney

Chief Financial Officer and

Chief Accounting Officer

(Principal Financial Officer and Authorized Officer)

Bank of the Ozarks

Exhibit Index

<u>Exhibit Number</u>	
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	Amended and Restated Bylaws of Bank of the Ozarks (previously filed as Exhibit 3.2 to the Bank's Current Report on Form 8-K filed with the FDIC on June 26, 2017, and incorporated herein by this 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.
11.1	Earnings Per Share Computation (included in Note 3 to the Consolidated Financial Statements).
12.1	Computation of Ratios of Earnings to Fixed Charges, filed herewith.
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.

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017	Years Ended December 31,				
			2016	2015	2014	2013	2012
(Dollars in thousands)							
Earnings:							
Add:							
Net income before income taxes	\$150,293	\$430,936	\$424,358	\$276,769	\$172,447	\$131,414	\$110,999
Fixed charges	32,141	81,807	61,813	28,041	21,225	18,831	21,825
Other	2	9	2	2	1	3	4
Less:							
Interest capitalized	(49)	(171)	(47)	(30)	(24)	(24)	(24)
Noncontrolling interest of subsidiaries	40	56	101	61	(18)	28	20
Earnings	<u>\$182,427</u>	<u>\$512,637</u>	<u>\$486,227</u>	<u>\$304,843</u>	<u>\$193,631</u>	<u>\$150,252</u>	<u>\$132,824</u>
Fixed Charges:							
Interest expense:							
Deposits	\$27,077	\$66,933	\$48,593	\$17,716	\$8,566	\$6,103	\$8,982
FHLB advances, subordinated notes and subordinated debentures	4,767	13,962	12,457	9,852	12,389	12,531	12,618
Interest capitalized	49	171	47	30	24	57	70
Estimated interest included within rental expense	248	741	716	443	246	140	155
Preferred dividend requirements	—	—	—	—	—	—	—
Fixed charges	<u>\$32,141</u>	<u>\$81,807</u>	<u>\$61,813</u>	<u>\$28,041</u>	<u>\$21,225</u>	<u>\$18,831</u>	<u>\$21,825</u>
Ratio of Earnings to Fixed Charges (including deposit interest)	<u>5.68</u>	<u>6.27</u>	<u>7.87</u>	<u>10.87</u>	<u>9.12</u>	<u>7.98</u>	<u>6.09</u>
Ratio of Earnings to Fixed Charges (excluding deposit interest)	<u>30.68</u>	<u>29.97</u>	<u>33.10</u>	<u>27.81</u>	<u>14.62</u>	<u>11.33</u>	<u>9.64</u>

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

Date: November 7, 2017

/s/ George Gleason

George Gleason
Chairman and Chief Executive Officer

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

Date: November 7, 2017

/s/ Greg McKinney

Greg McKinney
Chief Financial Officer and
Chief Accounting Officer

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

In connection with the accompanying Quarterly Report of Bank of the Ozarks (the Bank) on Form 10-Q for the period ended September 30, 2017, 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 Company.

November 7, 2017

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

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

In connection with the accompanying Quarterly Report of Bank of the Ozarks (the Bank) on Form 10-Q for the period ended September 30, 2017, 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 Company.

November 7, 2017

/s/ Greg McKinney

Greg McKinney
Chief Financial Officer and
Chief Accounting Officer