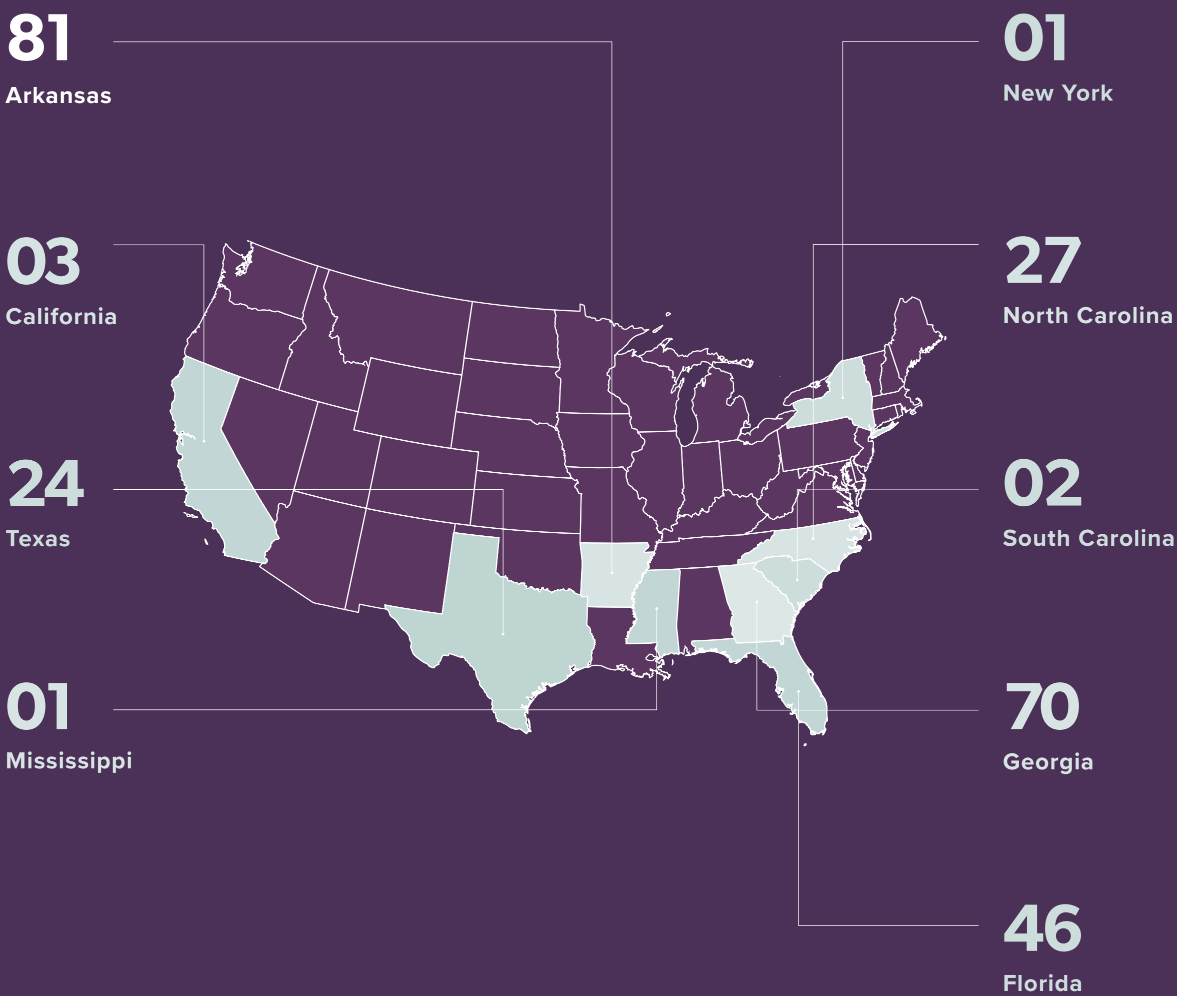
Bank OZK

2020 Annual Report

Through a combination of organic growth and acquisitions, we serve our customers in 250+ offices throughout nine states.*



*As of December 31, 2020

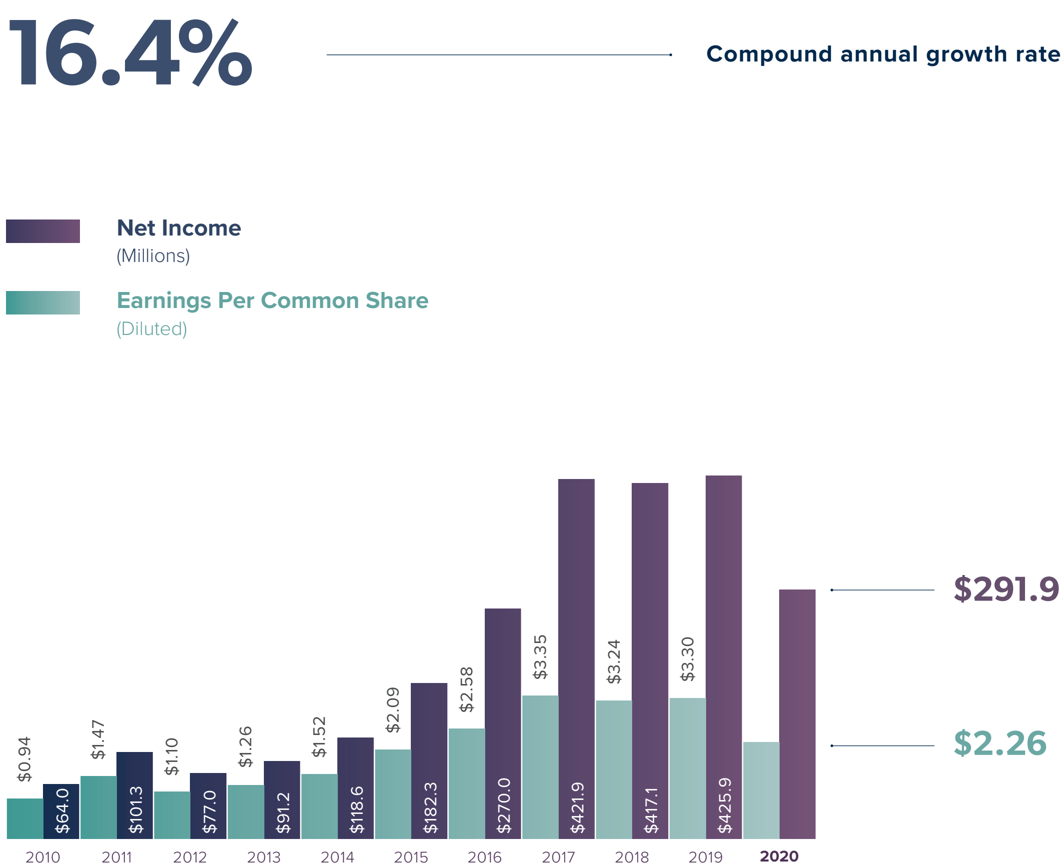
This report contains forward-looking statements and reflects management's current views of future economic circumstances, industry conditions, Company performance and financial results. Actual future performance, outcomes and results may differ materially from those expressed in these forward-looking statements due to certain risks, uncertainties and assumptions. A description of certain factors that may affect future results can be found in this annual report under "Forward-Looking Information" and under "Part I—Item 1A. Risk Factors."

Bank OZK has a 117-year tradition of community-based service and commitment to our customers. We've always been the kind of bank where our customers like to do business and where our employees like to work. With a strong commitment to the communities we serve, we cultivate relationships that grow and thrive.

At Bank OZK, we are committed to providing the great service you've come to expect from our community bank heritage, while leveraging technology to deliver for our customers. And no matter where you go, our digital experiences can go with you, making life simpler, safer and more fun.

A Long-Term Perspective

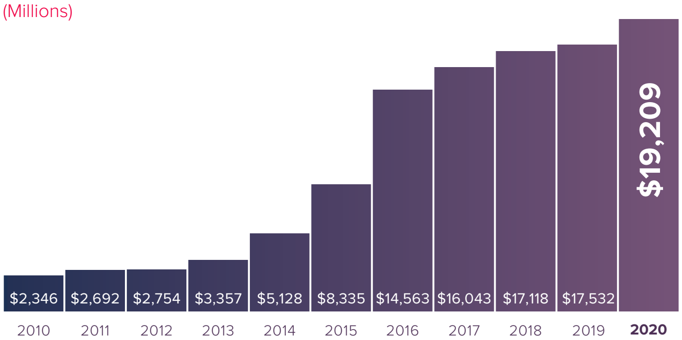
We remain focused on asset quality, profitability and growth. The results we achieved in 2020 reflect our continued commitment to excellence and our focus on long-term performance. Our constant pursuit of building relationships, improving performance and enhancing efficiency has consistently produced superior results.



Over the past ten years, we have achieved compound annual growth rates of **16.4%** in net income and **9.2%** in diluted earnings per common share.

Total Loans

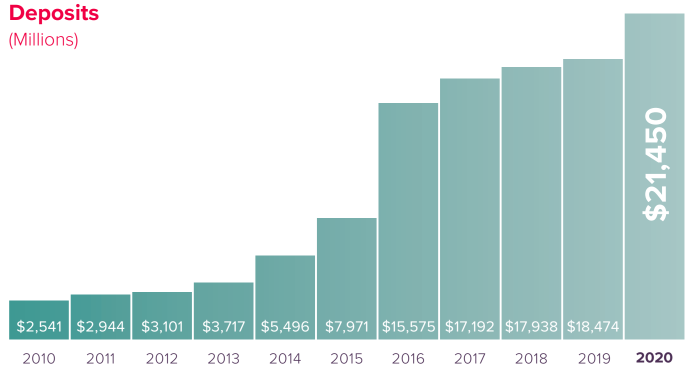
(Millions)



Over the past ten years, our total loans, including purchased loans, have grown at a compound annual rate of **23.4%.**

Deposits

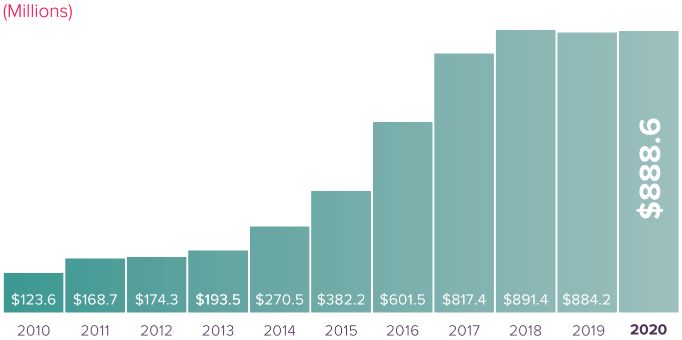
(Millions)



Over the past ten years, our deposits have grown at a compound annual rate of **23.8%.**

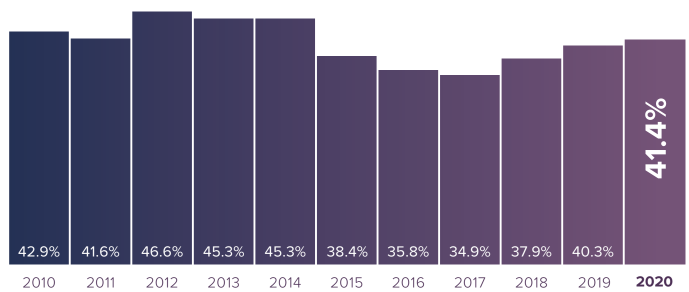
Net Interest Income

(Millions)



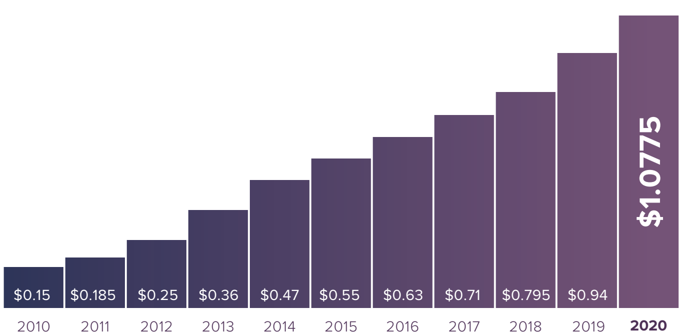
Net interest income has grown over the last ten years at a compound annual rate of **21.8%.**

Efficiency Ratio



We have worked relentlessly to become one of the most efficient banks in the nation. Our efficiency ratio has ranked in the top decile of the industry for the past 19 years.

Dividends per Share

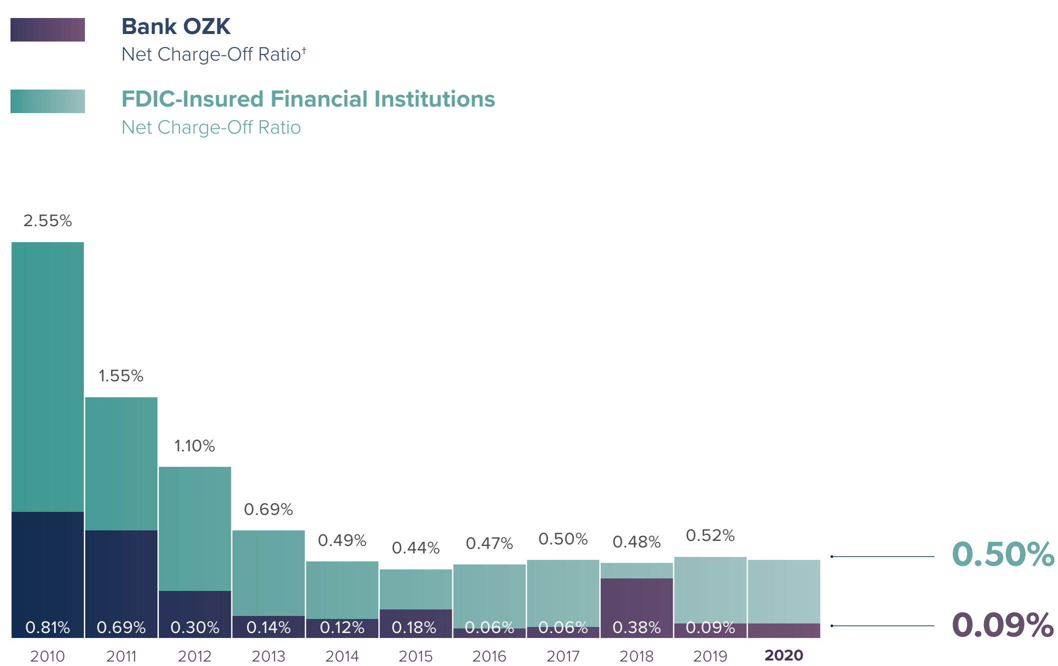


Over the past ten years, we have increased our dividends paid to our shareholders at a compound annual rate of **21.8%**, and we have increased our cash dividend in each of the last 42 quarters and every year since going public in 1997.

History of Asset Quality Better than the Industry

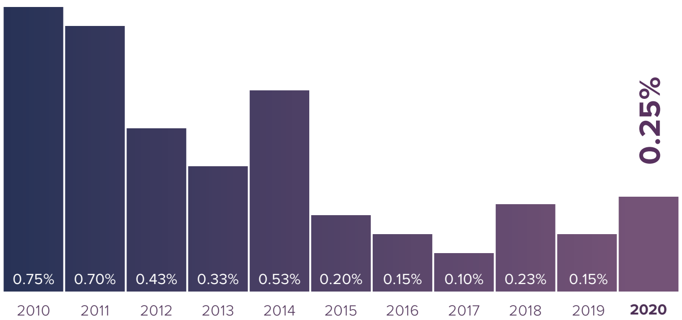
Our net charge-off ratio has consistently compared favorably with the ratio for all FDIC-insured institutions as a group.

0.09% — **Net Charge-Off Ratio†**



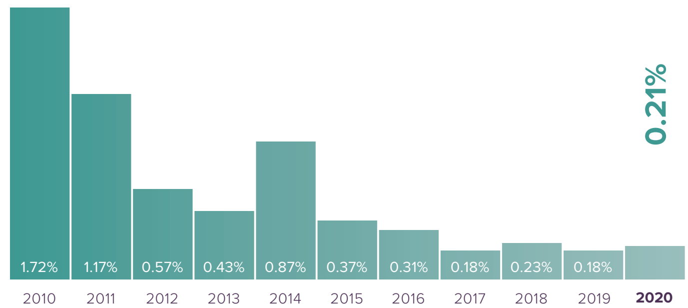
Source: Data from the FDIC Quarterly Banking Profile for 4Q20.
†Ratios exclude purchased loans and net charge-offs related to such loans.

Nonperforming Non-Purchased Loans (“NPLs”)/ Total Non-Purchased Loans %†



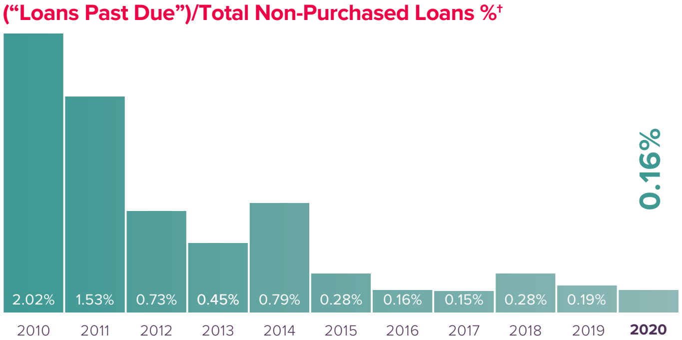
NPLs were just $46 million, or 0.25% of total non-purchased loans, at 12/31/20.

Nonperforming Assets (“NPAs”)/ Total Assets %†*



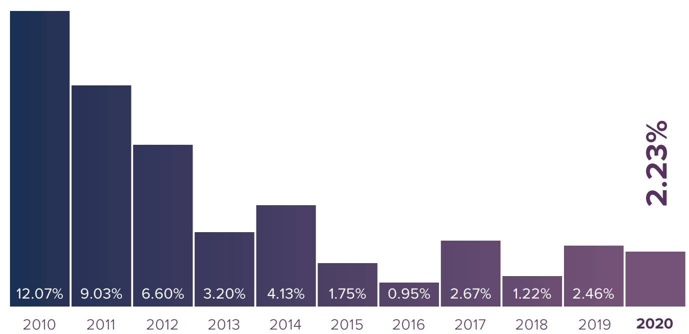
NPAs, which include NPLs and foreclosed assets, were just $57 million, or 0.21% of total assets, at 12/31/20.

Non-Purchased Loans Past Due 30 Days or More Including Past Due Nonaccrual Non-Purchased Loans (“Loans Past Due”)/Total Non-Purchased Loans %†



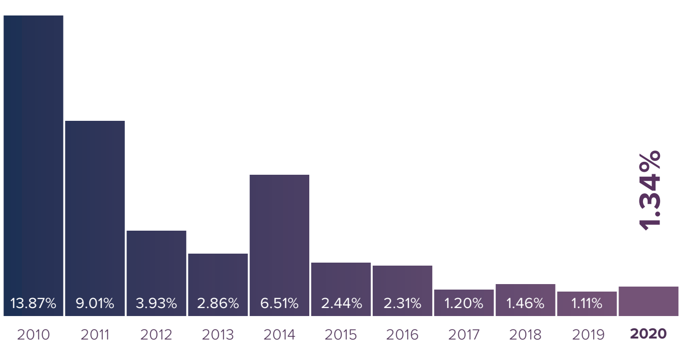
Non-purchased loans past due, including past due nonaccrual non-purchased loans, were just $29 million, or 0.16% of total non-purchased loans, at 12/31/20.

Substandard Non-Purchased Loans/ Total Risk-Based Capital %†



Substandard non-purchased loans were $95 million, or just 2.23% of total risk-based capital, at 12/31/20.

NPAs/Total Risk-Based Capital %†*



We have had tremendous growth in our total risk-based capital over the last 10 years, while our ratio of total NPAs/total risk-based capital has declined to a relatively nominal level.

†Ratios exclude purchased loans, except for their inclusion in total assets.

*In 2014, we terminated our loss share agreement with the FDIC and reclassified foreclosed assets previously reported as covered by FDIC loss share to foreclosed assets.

Quality and Diversity of Our Board Contribute to Our Success

Non-Independent Director

George Gleason

Independent Directors*

Nicholas Brown

Paula Cholmondeley**

Beverly Cole

Robert East

Kathleen Franklin

Catherine B. Freedberg, Ph.D.

Jeffrey Gearhart

Peter Kenny**
Presiding Independent Director

William Koefoed

Jack Mullen†

Christopher Orndorff

John Reynolds, M.D.†

Steven Sadoff

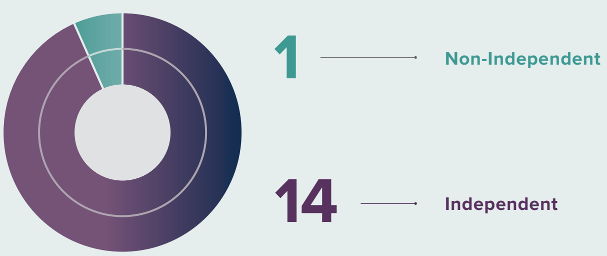
Ross Whipple

*As of December 31, 2020
**NACD Board Leadership Fellow
†Term will end at the 2021 Annual Shareholders' meeting on May 3, 2021

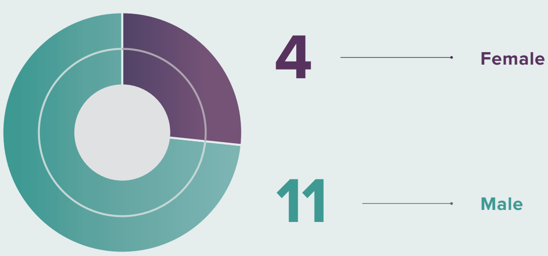
Diverse Blend of Experiences & Qualifications

- **Relevant Industry Experience** — Including banking, investment management, financial services and real estate experience
- **Expertise in Technology** — Experience in information security, data privacy, cybersecurity, or use of technology for operations
- **Leadership Experience** — Experience as CEO, CFO, COO or similar executive role with major organization
- **Finance, Audit and Accounting** — Large accounting firm, CFO, or other relevant experience in accounting, auditing or financial reporting
- **Public Company Experience** — Experience as a board member or executive of a publicly-traded company
- **Compliance Experience** — Significant roles in risk management, legal or as part of a highly regulated industry such as financial services
- **Human Capital** — Experience through human resources or similar leadership role in management and development of human capital
- **Strategic Planning** — Experience defining and driving strategic direction and growth and managing business operations
- **Community Affairs** — Experience in community affairs and managing community relations or community organization relationships

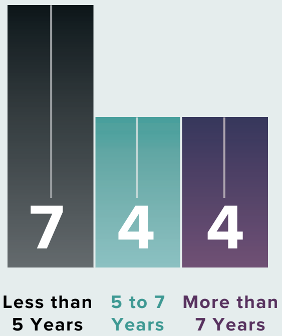
Independence*



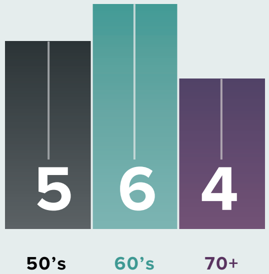
Gender*



Director Tenure*
(# of Directors)



Director Age*
(# of Directors)



*As of December 31, 2020

Deep and Talented Executive Management Team*

George Gleason

Chairman of the Board and Chief Executive Officer

42 years with OZK

Greg McKinney

Chief Financial Officer

18 years with OZK

Tim Hicks

Chief Credit and Administrative Officer/ Chairman Loan Committee

12 years with OZK

Brannon Hamblen

President and COO—Real Estate Specialties Group

13 years with OZK

Cindy Wolfe

Chief Banking Officer

23 years with OZK

Alan Jessup

Chief Lending Officer

13 years with OZK

Carmen McClennon

Chief Retail Banking Officer

1 year with OZK

Jennifer Junker

Managing Director, Trust and Wealth

6 years with OZK

Scott Trapani

Chief Risk Officer

2 years with OZK

Stan Thomas

Chief Accounting Officer

10 years with OZK

Helen Brown

General Counsel and Corporate Secretary

7 years with OZK

13 — **Average years with OZK**

*Bank OZK executive officers as of February 25, 2021

Bank OZK

2020 Form 10-K

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

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2020

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

For the transition period from to .

FDIC Certificate No. 110

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

ARKANSAS	**71-0130170**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
18000 CANTRELL ROAD, LITTLE ROCK, ARKANSAS	**72223**
(Address of principal executive offices)	**(Zip Code)**

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

17901 CHENAL PARKWAY, LITTLE ROCK, ARKANSAS 72223

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $0.01 par value per share	OZK	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Emerging growth company	☐
Smaller reporting company	☐		

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity as of the last business day of the registrant's most recently completed second fiscal quarter: $2,854,000,000.

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

Class	Outstanding at January 31, 2021
Common Stock, par value $0.01 per share	129,295,918

Documents incorporated by reference: Portions of the Registrant's Proxy Statement for the 2021 Annual Meeting of Shareholders, scheduled to be held on May 3, 2021 are incorporated by reference into Part III of this Annual Report on Form 10-K.

BANK OZK
ANNUAL REPORT ON FORM 10-K
December 31, 2020

INDEX		Page
PART I.		
Forward-Looking Information		1
Item 1.	Business	2
Item 1A.	Risk Factors	19
Item 1B.	Unresolved Staff Comments	39
Item 2.	Properties	40
Item 3.	Legal Proceedings	40
Item 4.	Mine Safety Disclosures	41
PART II.		
Item 5.	Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	42
Item 6.	Selected Financial Data	43
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	45
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	90
Item 8.	Financial Statements and Supplementary Data	91
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	134
Item 9A.	Controls and Procedures	134
Item 9B.	Other Information	135
PART III.		
Item 10.	Directors, Executive Officers and Corporate Governance	136
Item 11.	Executive Compensation	136
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	136
Item 13.	Certain Relationships and Related Transactions, and Director Independence	136
Item 14.	Principal Accounting Fees and Services	136
PART IV.		
Item 15.	Exhibits, Financial Statement Schedules	137
Item 16.	Form 10-K Summary	137
Exhibit Index		138
Signatures		140

PART I

FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K, including Management's Discussion and Analysis of Financial Condition and Results of Operations, 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; our plans, goals, beliefs, expectations, thoughts, estimates and outlook for the future with respect to our revenue growth; net income and earnings per common share; net interest margin; net interest income; non-interest income, including service charges on deposit accounts, trust income, bank owned life insurance income, loan service, maintenance and other fees, and gains (losses) on investment securities and sales of other assets; non-interest expense; efficiency ratio; future federal and state effective income tax rates; anticipated future operating results and financial performance; asset quality and asset quality ratios, including the effects of current economic and real estate market conditions; nonperforming loans; nonperforming assets; net charge-offs and net charge-off ratios; provision and allowance for credit losses; past due loans; current or future litigation; interest rate sensitivity, including the effects of possible interest rate changes; future growth and expansion opportunities, including plans for making additional acquisitions; problems with obtaining regulatory approval of or integrating or managing acquisitions; plans for opening new offices or relocating, selling or closing existing offices; opportunities and goals for future market share growth; expected capital expenditures; loan and deposit growth, including growth from unfunded closed loans; changes in the volume, yield and value of our investment securities portfolio; availability of unused borrowings; the need to issue debt or equity securities and other similar forecasts and statements of expectation. Forward-looking statements also include statements related to our continuing response to the coronavirus ("COVID-19") pandemic. Words such as "anticipate," "assume," "believe," "could," "estimate," "expect," "goal," "hope," "intend," "look," "may," "plan," "project," "seek," "target," "trend," "will," "would," and similar words and expressions, as they relate to us or our management, identify forward-looking statements.

Actual future performance, outcomes and results may differ materially from those expressed in, or implied by, forward-looking statements made by us and our management due to certain risks, uncertainties and assumptions. Certain factors that may affect our future results include, but are not limited to, potential delays or other problems in implementing our growth, expansion and acquisition strategies, including delays in identifying satisfactory sites, hiring or retaining qualified personnel, obtaining regulatory or other approvals, obtaining permits and designing, constructing and opening new offices or relocating, selling or closing existing offices; the ability to enter into and/or close additional acquisitions; the availability of and access to capital; possible downgrades in our credit ratings or outlook which could increase the costs or availability of funding from capital markets; the ability to attract new or retain existing or acquired deposits or to retain or grow loans, including growth from unfunded closed loans; the ability to generate future revenue growth or to control future growth in non-interest expense; interest rate fluctuations, including changes in the yield curve between short-term and long-term interest rates or changes in the relative relationships of various interest rate indices; the potential impact of the proposed phase-out of the London Interbank Offered Rate ("LIBOR") or other changes involving LIBOR; competitive factors and pricing pressures, including their effect on our net interest margin or core spread; general economic, unemployment, credit market and real estate market conditions, and the effect of such conditions on the creditworthiness of borrowers, collateral values, the value of investment securities and asset recovery values; changes in legal, financial and/or regulatory requirements; recently enacted and potential legislation and regulatory actions and the costs and expenses to comply with new and/or existing legislation and regulatory actions, including those actions in response to the COVID-19 pandemic such as the Coronavirus Aid, Relief and Economic Security Act, the Consolidated Appropriations Act of 2021 and any similar or related laws, rules and regulations; changes in U.S. Government monetary and fiscal policy, including changes that result from recent U.S. elections; Federal Deposit Insurance Corporation special assessments or changes to regular assessments; the ability to keep pace with technological changes, including changes regarding maintaining cybersecurity; the impact of failure in, or breach of, our operational or security systems or infrastructure, or those of third parties with whom we do business, including as a result of cyber-attacks or an increase in the incidence or severity of fraud, illegal payments, security breaches or other illegal acts impacting us or our customers; natural disasters or acts of war or terrorism; the adverse effects of the ongoing COVID-19 pandemic, including the magnitude and duration of the pandemic, and actions taken to contain or treat COVID-19 on us, our employees, our customers, the global economy and the financial markets; national, international or political instability; impairment of our goodwill or other intangible assets; adoption of new accounting standards, including the effects from the adoption of the current expected credit loss methodology on January 1, 2020, or changes in existing standards; and adverse results (including costs, fines, reputational harm and/or other negative effects) from current or future litigation, regulatory examinations or other legal and/or regulatory actions or rulings as well as other factors described in this Annual Report on Form 10-K or as detailed from time to time in the other public reports we file with the FDIC. See also Part I, Item 1A. Risk Factors in this Annual Report on Form 10-K. 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.

EXPLANATORY NOTE

In June 2017, we eliminated our former bank holding company by merging it with and into Bank of the Ozarks (subsequently renamed Bank OZK), an Arkansas state banking corporation (the "Bank"). The Bank is subject to regulation by the Arkansas State Bank Department ("ASBD") and, as an insured depository institution that is not a member bank of the Board of Governors of the Federal Reserve System ("FRB"), the Bank's primary federal regulator is the Federal Deposit Insurance Corporation ("FDIC"). The Bank is not 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. Unless the context otherwise requires, references in this Annual Report on Form 10-K to terms such as "Bank," "we," "us," and "our" refer to the Bank and its consolidated subsidiaries. Shares of the Bank's common stock are listed on the Nasdaq Global Select Market under the symbol "OZK."

Item 1. BUSINESS

The disclosures set forth in this item are qualified by "Item 1A. Risk Factors," the section captioned "Forward-Looking Information" and other cautionary statements set forth elsewhere in this Annual Report on Form 10-K.

General

Bank OZK, chartered in 1903, is a full-service Arkansas state-chartered bank, headquartered in Little Rock, Arkansas with deposits insured by the FDIC. We are focused on meeting the needs of our customers through a broad array of financial products and services at competitive prices and with high-quality personal service. At December 31, 2020, we had total assets of $27.15 billion, total loans (including purchased loans) of $19.21 billion, total deposits of $21.45 billion and total common stockholders' equity of $4.27 billion. For 2020, net interest income was $888.6 million, net income available to common stockholders was $291.9 million and diluted earnings per common share were $2.26.

We provide a wide range of retail and commercial banking services through more than 250 offices (as of December 31, 2020) in Arkansas, Georgia, Florida, North Carolina, Texas, South Carolina, California, New York and Mississippi. Deposit services include checking, savings, money market, time deposit and individual retirement accounts. Loan services include various types of real estate, consumer, commercial, industrial and agricultural loans. We also provide, among other products and services, treasury management services for businesses, individuals and non-profit and governmental entities, including wholesale lock box services, remote deposit capture services, trust and wealth management services for businesses, individuals and non-profit and governmental entities (including financial planning, money management, custodial services and corporate trust services, among other services), ATMs, telephone banking, online and mobile banking services (including electronic bill pay and mobile deposits), debit cards and safe deposit boxes. Through third party providers, we offer credit cards for consumers and businesses and processing of merchant debit and credit card transactions. We currently operate in one business segment and do not have significant foreign operations.

Our Mission

Our mission is to be the best banking organization in each of the markets we serve as determined by our customers, shareholders, employees, regulators and communities. Our approach for achieving this mission for each of these constituent groups is as follows:

- *Customers.* We strive to be the best bank for our customers by providing exceptional customer service and offering an array of financial products and services, including innovative technology-based products and services.
- *Shareholders.* We strive to be the best bank for our shareholders by maximizing long-term shareholder value through meaningful year-to-year growth in loans, deposits, capital, net income and earnings per share, while achieving asset quality, profit margins and operating efficiency that compare favorably to the industry.
- *Employees.* We strive to be the best bank for our employees by being the employer of choice and promoting a culture of excellence and of the highest ethics. We provide competitive compensation and benefits, opportunities for growth and advancement, an opportunity to share in the success of the Bank and a positive workplace and culture.
- *Regulators.* We strive to be the best bank for regulators by adhering to safe, sound and prudent banking practices, complying with all applicable laws and regulations and giving appropriate attention to capital adequacy, asset quality, management, earnings, liquidity and market sensitivity, as well as maintaining comprehensive programs for enterprise risk management, internal audit, credit review, data governance, compliance and related matters.

- *Communities.* We strive to be the best bank for the communities we serve by creating healthy and sustainable environments, which are a cornerstone for a vibrant economy. We focus on sound environmental stewardship and pursue business practices to reasonably use and protect our natural resources. We foster improvements to make our communities a better place to work, live and play.

Business Strategy

We believe that stable long-term growth and profitability are the result of developing comprehensive, strong banking relationships with our customers by offering a wide range of products and services and delivering excellent customer service while maintaining disciplined underwriting standards. We are focused on originating high-quality loans and growing a stable deposit base through our emphasis on relationship-based banking, and believe that the following strategies will assist us in growing our loan portfolio responsibly, maintaining our operational efficiency, increasing our profitability, and preserving our asset quality.

- In recent years, we have grown our non-purchased loan portfolio while remaining committed to our conservative credit culture. A significant portion of our non-purchased loan portfolio growth in recent years has been attributable to our Real Estate Specialties Group ("RESG"), which focuses on commercial real estate ("CRE") and acquisition, development and construction lending. We are focused on continuing to pursue meaningful non-purchased loan growth, including growth within RESG, while diversifying our growth to achieve more balance between CRE lending and other types of loan originations. While RESG continues to be an industry leader in CRE finance, our Indirect Recreational Vehicle ("RV") and Marine lending business has become another national lending platform that helps us achieve diversification within our loan portfolio. We expect that production from our other lending teams such as our Community Banking division (which includes consumer finance, small business, government guaranteed, agricultural, business aviation, affordable housing, middle market CRE, homebuilder finance and residential investment properties) and our Corporate and Business Specialties Group ("CBSG") will continue to further contribute to that diversification effort over time.
- As we continue to grow and diversify our lending activities, we intend to employ, and enhance as appropriate, the same disciplined underwriting standards and credit risk management processes that have contributed to our consistently strong asset quality.
- Our reputation, expertise and banking model enable us to build and expand our banking relationships with customers in the markets we serve. We remain committed to growing our business in a disciplined manner. We intend to focus on underwriting and originating high-quality loans and expanding our business by offering an array of financial products and services, which we believe will allow us to continue to achieve long-term and profitable expansion within our current markets.
- We continue to focus on the evolving role and importance of technology in our business. We are developing innovative technology-based solutions through our OZK Labs and other technology groups and through coordination with various external partners that provide many of our technology platforms and systems. This focus is critical in today's rapidly evolving banking environment where technology is becoming increasingly important in driving efficiency, speed and quality of service.
- Our focus on long-term operational efficiency is a key factor in achieving our profitability and future growth goals and objectives. We believe that our expanded and enhanced infrastructure, which has been an area of emphasis for us in recent years, including our focus on technology and risk management, may generate opportunities to improve operational efficiencies over the long term as we grow our business.

Lending Activities

We offer a variety of commercial and consumer lending products to our customers, including most types of real estate loans, consumer and small business loans, indirect RV and marine loans, business aviation financing, commercial and industrial loans, government guaranteed loans, agricultural loans, homebuilder loans, affordable housing loans and subscription financing, among others. Interest rates charged by us vary with degree of risk, type, size, complexity, repricing frequency and other relevant factors associated with the loan or financing arrangement. Competition from other lending providers also affects the interest rates we charge.

Real Estate Loans. Our portfolio of real estate loans includes loans secured by residential 1-4 family, non-farm/non-residential, agricultural, construction/land development, multifamily residential properties and other land loans. Non-farm/non-residential loans include those secured by real estate mortgages on owner-occupied commercial buildings of various types, leased commercial, retail and office buildings, hospitals, nursing and other medical facilities, hotels and motels, mixed use properties and other business and industrial properties. Agricultural real estate loans include loans secured by farmland and related improvements, including some loans guaranteed by the Farm Service Agency ("FSA") and the Small Business Administration ("SBA"). Real estate construction/land development loans include loans secured by vacant land, loans to finance land development or construction of industrial, commercial, residential or farm buildings or additions or alterations to existing structures. Included in our residential 1-4 family loans are home equity lines of credit.

We offer a variety of real estate loan products that are generally amortized over five to thirty years, payable in monthly or other periodic installments of principal and interest, and due and payable in full (unless renewed) at a balloon maturity generally within one to seven years. A significant portion of our loans are structured as term loans with adjustable interest rates (adjustable daily, monthly, semi-annually, annually, or at other regular adjustment intervals usually not to exceed five years), and many of such adjustable rate loans have established “floor” interest rates.

Residential 1-4 family loans are underwritten primarily based on the borrower’s ability to repay, including prior credit history, and the value of the collateral.

Other real estate loans are underwritten based on the ability of the property, in the case of income producing property, or the borrower’s business to generate sufficient cash flow to repay the debt. Secondary emphasis is placed upon collateral value, financial strength of any guarantors and other factors.

Loans collateralized by real estate have generally been originated with loan-to-value (“LTV”) ratios, based on market appraisal, of not more than 89% for residential 1-4 family, 85% for other residential and other improved property, 80% for construction loans secured by commercial, multifamily and other non-residential properties, 75% for land development loans and 65% for raw land loans. We typically require mortgage title insurance in the amount of the loan and hazard insurance on improvements. Documentation requirements vary depending on loan size, type, degree of risk, complexity and other relevant factors. Included in Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Risk Elements – Credit Risk Management to this Annual Report on Form 10-K is an analysis of the weighted-average LTV and loan-to-cost (“LTC”) ratios of our construction and development loan portfolio.

Consumer Loans and Business Purpose Loans to Individuals. Our portfolio of consumer loans and business purpose loans to individuals includes loans to fund the purchase of automobiles, equipment, ATVs, mobile homes and other similar purposes for consumer or business purpose needs. These loans are generally collateralized and have terms ranging up to 120 months, depending upon the nature of the collateral, size of the loan, and other relevant factors. The interest rates for consumer and business purpose loans to individuals are determined based on the borrower’s credit score, bankruptcy indicator score, LTV and amortization period, among other factors. The borrower’s ability to repay is of primary importance in the underwriting of consumer loans and business purpose loans to individuals.

Indirect RV and Marine Loans. Our portfolio of indirect loans includes loans to individuals for the purchase of RVs and marine vessels, generated largely through relationships with dealers and correspondent lenders. These loans are generally collateralized by the purchased asset and have terms ranging up to 240 months. These loans are underwritten based on a combination of borrower credit score, documented debt service coverage, previous asset ownership, experience and borrower liquidity, among other factors.

Government Guaranteed Loans. Our portfolio of government guaranteed loans is comprised mainly of SBA, FSA and U.S. Department of Agriculture guaranteed loans, including loans originated under the SBA’s Paycheck Protection Program (“PPP”). These loans are commercial in nature and are typically for the refinance or origination of credit facilities secured by, but not limited to, commercial real estate, agricultural real estate, equipment and various other assets.

Small Business Loans. Our portfolio of small business loans includes loans to businesses with less than $1 million in annual revenues. Such loans generally include loans for the purchase (or refinance) of commercial or residential real estate, equipment, lines of credit and various other business purposes. These loans are centrally underwritten and are based on the borrower’s ability to make repayment from the cash flow of its business with collateral or guarantor support being a secondary source of repayment.

Commercial and Industrial Loans. Our commercial and industrial loan portfolio consists of loans for commercial, industrial and professional purposes including loans to fund working capital requirements (such as inventory, floor plan and receivables financing), purchases of machinery and equipment and other purposes. Also included in commercial and industrial loans are our subscription credit facilities for investment funds and our business aviation financing. We offer a variety of commercial and industrial loan and financing arrangements, including term loans, balloon loans and lines of credit, including some loans guaranteed by the SBA, with the purpose and collateral supporting a particular loan determining its structure. These loans are offered to businesses and professionals for short and medium terms on both a collateralized and uncollateralized basis. As a general practice, we obtain as collateral a lien on furniture, fixtures, equipment, inventory, receivables, capital commitments or other assets. Our commercial and industrial loan portfolio also includes shared national credits (“SNC”) that are underwritten by our CBSG. SNC generally include syndicated loans and loan commitments, letters of credit, commercial leases, and other forms of credit.

Commercial and industrial loans, including our SNC portfolio, typically are underwritten on the basis of the borrower's ability to make repayment from the cash flow of its business and generally are collateralized by business assets. As a result, such loans involve additional complexities, variables and risks and require more thorough underwriting and servicing than certain other types of loans.

Agricultural (Non-Real Estate) Loans. Our portfolio of agricultural (non-real estate) loans consists mainly of loans for financing agricultural production, including loans to businesses or individuals engaged in the production of timber, poultry, livestock or crops. Our agricultural (non-real estate) loans are generally secured by farm machinery, livestock, crops, vehicles or other agricultural-related collateral. A portion of our portfolio of agricultural (non-real estate) loans is comprised of loans to individuals which would normally be characterized as consumer loans but for the fact that the individual borrowers are primarily engaged in the production of timber, poultry, livestock or crops.

Mortgage Lending. We offer certain residential mortgage products, including long-term fixed rate loans that are retained in our loan portfolio. In December 2017, we ceased taking new loan applications for secondary market consumer mortgage loans.

Lending Approvals and Process

Our Board of Directors ("Board") and Loan Committee ("LC"), which is comprised of four or more directors and is chaired by our Chief Credit and Administrative Officer ("CCAO"), oversee and provide policy direction for our lending operations, which are primarily administered by our Chief Executive Officer ("CEO") and Chief Lending Officer ("CLO"). We maintain a tiered loan limit authorization system. The CEO and CLO are granted lending authority by the Board. The loan authorities of other lending officers are granted by the LC on the recommendation of appropriate senior officers in amounts commensurate with the lending officer's skill level and knowledge. Our lending policies contain various measures to limit concentration exposures, including customer and CRE exposures for both funded balances and total commitment (comprised of both funded and unfunded balance), as well as by property type and geography.

We have detailed, comprehensive standards for evaluating credit risk, both at the point of origination and thereafter, as well as a comprehensive internal grading system that is used to identify credit risk at the individual loan level. Oversight of credit risk is provided through loan policy, and various other credit-related policies, clearly defined processes and detailed procedures. These policies, processes and procedures place emphasis on strong underwriting standards and early detection of potential credit problems in order to develop and implement any necessary action plan(s) on a timely basis to mitigate potential losses, and are carried out on a daily basis by our lenders and lending support personnel, our credit administration group, our underwriters and various other officers and personnel that have credit management responsibilities. Such policies, processes and procedures are subject to review by our Credit Risk Management ("CRM") group (second line oversight), our Board Risk Committee ("BRC") and periodic reviews by our Internal Audit group (third line oversight).

Deposits

We offer an array of deposit products consisting of non-interest bearing checking accounts, interest bearing transaction accounts, business sweep accounts, savings accounts, money market accounts, time deposits, including access to products offered through the various CDARS® programs, and individual retirement accounts, among others. We also make available, through various deposit placement networks, reciprocal deposits to our consumer, commercial and public funds deposit customers who want to make large deposit balances eligible for FDIC insurance beyond the traditional $250,000 per insured bank, per depositor. Rates paid on deposits vary by banking market and deposit category due to different terms and conditions, individual deposit size, services rendered and rates paid by competitors on similar deposit products. We act as depository for a number of state and local governments and government agencies or instrumentalities. Such public funds deposits are often subject to competitive bid and generally must be secured by pledging a portion of our investment securities or a letter of credit.

Deposit balances are generally influenced by national, regional and local economic conditions, changes in prevailing interest rates, internal pricing decisions, perceived stability of financial institutions and competition, among other factors. Our deposits come primarily from within our trade area, except that brokered deposits, listing service deposits and certain of our public funds deposits are from outside our primary trade area and may vary from time to time depending on competitive interest rate conditions and other factors.

In addition to our deposit base, we have access to other sources of funding, including Federal Home Loan Bank of Dallas ("FHLB") advances, FRB borrowings, repurchase agreements and secured and unsecured federal funds lines of credit from correspondent banks. In recent years, we have also accessed the capital markets through subordinated debt and common stock offerings. For additional information concerning the Bank's deposits and other funding sources, see Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Elements – Liquidity Risk Management to this Annual Report on Form 10-K.

Other Banking Services

Trust and Wealth Services. We offer a broad array of trust and wealth services from our headquarters in Little Rock, Arkansas, with additional staff in Northwest Arkansas, Texas, North Carolina, Georgia and Florida. These services include personal trusts, custodial accounts, investment management accounts, retirement accounts, corporate trust services including trustee, paying agent and registered transfer agent services, and other incidental services. At December 31, 2020, total trust assets were approximately $2.12 billion compared to approximately $2.06 billion at December 31, 2019 and approximately $1.82 billion at December 31, 2018.

Treasury Management Services. We offer treasury management services designed to provide a high level of customized solutions to business and public funds customers. Our treasury management services include automated clearing house, or ACH, services (e.g. direct deposit, direct payment and electronic cash concentration and disbursement), wire transfer, zero balance accounts, current and prior day transaction reporting, wholesale lockbox services, remote deposit capture services, automated credit line transfer, investment sweep accounts, reconciliation services, positive pay services, and merchant and commercial card, among other services.

Market Areas, Concentrations and Competition

At December 31, 2020, we conducted operations through more than 250 offices, including offices in Arkansas, Georgia, Florida, North Carolina, Texas, South Carolina, California, New York and Mississippi. Our business is impacted by the trends of the regional and local economies in the market areas we serve.

The banking industry in our market areas is highly competitive. In addition to competing with other commercial and savings banks and savings and loan associations, we compete with credit unions, finance companies, leasing companies, mortgage companies, fintech companies, insurance companies, brokerage and investment banking firms, asset-based non-bank lenders and many other financial service firms. Competition is based on interest rates offered on deposit accounts, interest rates charged on loans, fees and service charges, the quality and scope of products offered and services rendered, including technology-driven solutions and the convenience of banking facilities, among other factors.

A number of competing commercial banks operating in our market areas are branches or subsidiaries of larger organizations affiliated with regional or national banking companies and as a result may have greater resources and lower costs of funds than we have, may have greater access to capital markets, and may offer a broader range of financial services than we currently provide. Additionally, we face competition from a large number of community banks, many of which have senior management who were previously with other local banks or investor groups with strong ties to local businesses and the communities in which they serve. Some of our competitors (larger or smaller) may have more liberal lending policies and processes. Competition among providers of financial products and services continues to increase as technology advances have lowered the barriers to entry for financial technology companies, with consumers having the opportunity to select from a growing variety of traditional and nontraditional alternatives, including crowdfunding, digital wallets and money transfer services, among others. The ability of non-banking financial institutions to provide services previously limited to commercial banks has also intensified competition. Because non-banking financial institutions are not subject to many of the same regulatory restrictions as banks, they can often operate with greater flexibility and lower cost structures. Despite the highly competitive environment, we believe we will continue to be competitive because of our expertise in real estate lending and various other types of lending, strong commitment to quality customer service, active community involvement and competitive products and pricing.

Information Technology

The ability to access and use technology is an increasingly competitive factor in the financial services industry. Technology is not only important with respect to delivering financial services and protection of the security of customer information but also in processing information. We must continually make technology investments to remain competitive in the financial services industry. We utilize, to varying degrees in our business, certain patents, copyrights and trademarks. The performance of our technology partners is managed and monitored in accordance with our internal policies, processes and procedures. Additionally, we have various technology applications developed or under development within OZK Labs and other internal technology groups to address the needs of our customers, our lending groups and our employees, among others, by using technology to provide solutions, create additional operational efficiencies and provide greater privacy and security protection for our and our customers' data. While each of these patents, copyrights, trademarks and technology applications is important to our business, we believe through effective business resilience planning the loss or unavailability of one or more of these items would not be expected, at the present time, to have a material adverse effect on our business.

Information Security, Cybersecurity, and Privacy

Bank OZK has implemented and continues to mature a robust information security program. The program aligns with industry standards and leading practices, complies with regulatory requirements, including those of the Federal Financial Institutions Examination Council ("FFIEC"), and is subject to periodic review by the FDIC and ASBD, as well as internal audits. We rely on electronic communications and information systems to conduct our operations and store sensitive data, and employ an in-depth, layered, defensive approach that leverages people, processes and technology to manage and maintain cybersecurity controls. We also utilize a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. We closely monitor information security for trends and new threats, including cybersecurity risks, and invest significant resources to continuously improve the security and privacy of our systems and data.

Business Resilience

We have developed and implemented business resilience programs to provide employees, customers, and stakeholders with reasonable assurance of resilience and recovery capabilities prior to, during and following a disruption. These programs align with industry standards and leading practices, comply with regulatory requirements, including those of the FFIEC, and are subject to periodic review by the FDIC and ASBD, as well as internal audits.

The key elements of the programs are business continuity, disaster recovery and crisis management. These include planning, monitoring for new or adapting threats, adjustments to meet the needs of a dynamic organization, verification of recovery capabilities through tests and exercises, and continuous process improvement. The programs are actively managed, include various plans and teams trained and available around-the-clock to respond to disruptions and provide appropriate response during a disruption affecting our employees, customers, assets, business operations, technology infrastructure, brand and/or third-party relationships. The plans and programs are supported by a governance framework and are reviewed no less than annually to ensure strategies are effective, scalable, and current.

Employees and Human Capital Resources

At December 31, 2020, we had 2,652 full-time equivalent employees. None of our employees is represented by a union, collective bargaining agreement or similar arrangement, and we have not experienced any labor disputes or strikes arising from any organized labor groups. We believe our employee relations are good.

Our Culture. Our guiding principles, shown below, which we refer to as the OZK Way, are the foundation of our corporate culture and are incorporated into our employee communications, training and goals.

- We want to provide exceptional service, present our products and services in an engaging way, and leverage our evolving technology to maximize the experience for each customer.

- We believe that capitalizing on the unique insights, abilities and experiences of each team member is critical to achieving the Bank's full potential. We embrace teamwork, collaboration and diversity in all its forms, recognizing that our potential together far exceeds the sum of our potential individually.

- We expect our team members to conduct themselves and our business with the highest standards of honesty, ethics, integrity and fair dealing.

- We will relentlessly pursue excellence. We strive to be Better to the X-Power®, continuously implementing new and innovative ideas and improving our performance in every way, realizing that many small incremental enhancements can compound mightily over time.

Diversity, Equity and Inclusion. One of our corporate strengths is our commitment to promoting and advancing diversity, equity and inclusion ("DEI") across the Bank. We believe that fostering a culture of diversity, equity and inclusion broadens perspectives, engages employees, encourages teambuilding and helps create a positive environment to work and grow. This ultimately can better address the varied needs of our customers and the communities in which we serve. We established a Diversity, Equity and Inclusion Strategy Council comprised of diverse, senior leaders from multiple business units within the Bank. In 2020, we created a new position of Director of Employee Relations, Diversity and Inclusion, to further develop, emphasize and implement our diversity, equity and inclusion initiatives. This appointment demonstrates the Bank's commitment to and recognition of the importance of expanding diversity and inclusion awareness and initiatives throughout the organization. We are also investing in building a future pipeline of diverse candidates through programs within our local communities and by casting a wider net for talent acquisition and development.

Training and Talent Development. We aim to help each member of our corporate family grow, develop and achieve his or her career objectives and potential. In return, we expect all employees to advance our interests through their hard work, loyalty, positive attitudes and performance. Because continuous learning is essential to our success and the success of our employees, we invest significantly in employee education and development, not only to ensure our employees are knowledgeable about regulatory requirements and corporate policies, but also to build the skills and capabilities necessary for employees to advance professionally over the long-term. In 2020, we enhanced our leadership development program offerings throughout the Bank to enable our employees to improve competencies in communications, coaching and team development through online and micro-learning, on-the-job activities, and guided discussion sessions. In addition, to help drive our culture of inclusion, we are adding new training resources for our employees that focus on building understanding in the workplace, including the recognition of unconscious bias and micro inequities, and offers practical tips for navigating DEI challenges.

Compensation & Benefits. We provide competitive compensation and benefits programs to help meet the needs of our employees. In addition to base wages, these programs include a 401(k) Plan, healthcare and insurance benefits, health savings and flexible spending accounts, paid time off, family leave, family care resources, flexible work schedules, employee assistance programs, and tuition assistance, among many others. All employees are compensated based on their individual merit and performance without regard to race, color, national origin, religion, sex (including gender, pregnancy, sexual orientation or gender identity), age, disability, genetic information, veteran status or any other protected status under federal, state or local law.

Employee Health, Wellness & Safety. The success of our business is fundamentally connected to the well-being of our people. Accordingly, we are committed to the health, safety and wellness of our employees. We provide our employees and their families with access to a variety of innovative, flexible and convenient health and wellness programs, including benefits that support their physical and mental health by providing tools and resources to help them improve or maintain their health status and encourage engagement in healthy behaviors.

From the outset of the COVID-19 pandemic, we communicated consistently, proactively and transparently with our employees to keep them apprised of developments, ever-evolving company and governmental health and safety initiatives and protocols. We immediately enhanced our technology and information security infrastructure and adapted our remote-access availability to support more than 1,500 employees and enable them to work from home or other remote locations, implemented a new COVID-19 paid leave policy and internal COVID-19 reporting and communication processes, redesigned our customer and branch interactions consistent with recommended public health practices, monitored COVID-19 case trends and local health orders across our markets, and deployed company-wide health and safety training. We also reallocated resources internally between departments in response to rapidly-changing business needs.

We encourage you to refer to our most recent Environmental, Social and Governance ("ESG") Report, available on our investor relations website, for more detailed information regarding our human capital initiatives. Nothing on our website, our ESG Report, or sections thereof shall be deemed incorporated by reference into this Annual Report on Form 10-K.

Information about our Executive Officers

The following is a list of our executive officers. All information is given as of February 25, 2021.

George Gleason, age 67, Chairman and Chief Executive Officer. Mr. Gleason has served the Company as Chairman, Chief Executive Officer and/or President since 1979. He holds a B.A. in Business and Economics from Hendrix College and a J.D. from the University of Arkansas.

Greg McKinney, age 52, Chief Financial Officer. Mr. McKinney joined the Bank in 2003 and served as Executive Vice President and Controller prior to assuming the role of Chief Financial Officer and Chief Accounting Officer on December 31, 2010. From 2001 to 2003 Mr. McKinney served as a member of the financial leadership team of a publicly-traded software development and data management company. From 1991 to 2000 he held various positions with a big-four public accounting firm, leaving as senior audit manager when the firm closed its Little Rock office. Mr. McKinney is a C.P.A. (inactive) and holds a B.S. in Accounting from Louisiana Tech University.

Tim Hicks, age 48, Chief Credit and Administrative Officer. Prior to assuming the role of Chief Credit and Administrative Officer in October 2020, Mr. Hicks served as Chief Administrative Officer and Executive Director of Investor Relations since July 2017. Mr. Hicks joined the Bank in 2009 and served as Senior Vice President, Corporate Finance from 2009 to 2012, Executive Vice President, Corporate Finance from 2012 to 2016, and Executive Vice President and Chief of Staff from 2016 through July 2017. From 2006 to 2009, Mr. Hicks served as director of investor relations and assistant treasurer of a publicly traded telecommunications company. Prior to 2006, Mr. Hicks held various positions with a big-four public accounting firm, leaving as a senior audit manager. Mr. Hicks is a C.P.A. and holds a B.A. in Business and Economics from Hendrix College.

Brannon Hamblen, age 55, President and Chief Operating Officer – RESG. Prior to assuming the roles of President – RESG in 2018 and Chief Operating Officer – RESG in 2017, Mr. Hamblen served as Director of Asset Management since 2012. Mr. Hamblen joined the Bank in 2008 as Senior Vice President, Originations and assumed leadership of RESG Asset Management in 2010. Prior to joining the Bank, Mr. Hamblen worked in the real estate consulting practices of Ernst & Young/Kenneth Leventhal and KPMG, and in acquisitions, development, asset management, and capital markets with R.M. Crowe Company, a large Dallas-based, privately owned real estate owner/operator. Mr. Hamblen holds a B.S. in Agricultural Economics and a M.S. in Land Economics and Real Estate from Texas A&M University.

Cindy Wolfe, age 55, Chief Banking Officer. Prior to assuming the role of Chief Banking Officer in 2018, Ms. Wolfe served as Deputy Director of Community Banking since 2015 overseeing the Bank's Middle Market Commercial Real Estate business unit and offices across North Carolina and South Carolina. Ms. Wolfe joined the Bank in 1997, opened the Bank's Charlotte loan production office in 2001, and served as Senior Vice President – Lending from 2001 to 2005, Executive Vice President – Lending from 2005 to 2012, Charlotte Market President from 2012 to 2014, and Carolinas Division President from 2014 to 2018. Prior to joining the Bank, Ms. Wolfe held various positions with national banks in commercial lending, operations, project management and internal audit. Ms. Wolfe holds a B.A. in Business Administration from Queens University of Charlotte and is a Certified Commercial Investment Member.

Alan Jessup, age 48, Chief Lending Officer. Prior to assuming the role of Chief Lending Officer, Mr. Jessup served as Deputy Director of Community Banking since 2015 overseeing the Bank's Agricultural Lending Division and offices across South Arkansas, Alabama, Florida and Georgia. Mr. Jessup joined the Bank in 2008 and served as Saline County President from 2008 to 2011 and South Arkansas President from 2011 to 2015. Mr. Jessup holds a B.S. in Finance from Arkansas State University.

Scott Trapani, age 58, Chief Risk Officer. Prior to joining the Bank in 2019, Mr. Trapani served as Executive Vice President and Chief Risk Officer for Hilltop Holdings Inc. (NYSE: HTH) in Dallas, Texas from 2015 through 2019. Mr. Trapani served as Senior Vice President and Chief Risk Officer for the Federal Home Loan Bank of Dallas from 2013 through 2015 and as Chief Compliance Officer for Invesco, Ltd. in Atlanta, Georgia from 2008 through 2013. Earlier in his career, Mr. Trapani held senior roles in compliance and risk management with SunTrust Bank, GE Capital Corporation, BearingPoint Consulting and the FDIC. Mr. Trapani is a C.F.A. and holds a B.S. in Finance from Arizona State University.

Jennifer Junker, age 50, Managing Director, Trust and Wealth. Prior to joining the Bank in 2015, Ms. Junker served as Fiduciary Director and then as Co-Leader of Trust Advisory Services and Trust Director for a national financial services firm from 2011 through December 2014. From 2006 to 2011 she was in private practice as an attorney concentrating in trust administration and high net worth estate planning. She also held the position of Senior Counsel for a national financial services firm from 2000 through 2006, and as an associate attorney for two law firms in Florida and Minnesota concentrating on legal issues involving trust and wealth management from 1995 through 2000. Ms. Junker holds a B.A. in English Literature and Communications from Wake Forest University as well as a J.D. from the University of Florida, College of Law.

Stan Thomas, age 49, Chief Accounting Officer since January 2020. Mr. Thomas joined the Bank in 2011 and served as Senior Vice President/Director of Financial Reporting from 2011 to 2015 and Executive Vice President/Director of Financial Reporting from 2015 to 2019 prior to assuming the role of Chief Accounting Officer. From 2008 to 2011, Mr. Thomas was a senior audit manager with a regional accounting firm. Prior to 2008, Mr. Thomas held various positions with big-four accounting firms, leaving as a senior audit manager. Mr. Thomas is a C.P.A and holds a B.S. in Accounting and an M.B.A from Louisiana Tech University.

Helen Brown, age 43, General Counsel and Corporate Secretary since February 2020. Prior to assuming the role of General Counsel, Ms. Brown served as the General Counsel Corporate Governance and Corporate Secretary from July 2018 to January 2020. Ms. Brown joined the Bank in November 2013 as General Counsel Corporate Finance. Prior to joining the Bank, Ms. Brown was a Partner at Bass, Berry & Sims PLC in the firm's Corporate and Securities practice group. While in private practice, Ms. Brown focused on capital markets transactions, mergers and acquisitions and strategic investments, as well as advising companies on a variety of corporate governance and securities law matters. Ms. Brown received her Juris Doctor degree from the University of Arkansas School of Law, summa cum laude, and her Bachelor of Arts degree from the University of Arkansas, cum laude.

Carmen McClennon, age 56, Chief Retail Banking Officer since December 2019. As Chief Retail Banking Officer, Ms. McClennon oversees the Bank's digital banking, retail branches, customer care centers and corporate marketing and communications. Ms. McClennon joined the Bank in July 2019 and served as Executive Vice President and Director of Marketing Strategies before assuming her current role. Prior to joining the Bank, she led customer and product strategy at First Citizens Bank from 2017 to 2019 and was the Director, Integrated Channels at Key Bank from 2015 to 2017, where she led the consumer bank integration when Key Bank acquired First Niagara Bank. Ms. McClennon has over two decades of banking experience in leadership roles managing retail, product and channel strategy, customer experience and digital banking supporting national and multi-national financial institutions. She holds a B.A. from the University of Victoria and an M.B.A. from Dalhousie University.

SUPERVISION AND REGULATION

We are subject to extensive regulation under federal and state banking laws that establish a comprehensive framework for our operations. This regulatory framework may materially impact our growth potential and financial performance and is intended primarily for the protection of depositors, customers, federal deposit insurance funds and the stability of the banking system as a whole, not for the protection of our shareholders or creditors. Significant elements of some of the statutes, regulations and policies applicable to us are described below, although the following discussion is a summary and does not purport to be complete. This description is qualified in its entirety by reference to the full text of the statutes, regulations and policies described herein.

Overview

As an insured state bank that is not a member of the FRB, we are examined, supervised and regulated by the ASBD and the FDIC, which is our primary federal regulator. The laws enforced by, and regulations and policies of, these agencies affect most aspects of our business, including prescribing permissible types of loans and investments, the amount of required reserves, requirements for branch offices, the permissible scope of our activities and various other requirements. We are also subject to the regulations of the states in which we do business, the enforcement and rulemaking authority of the Consumer Financial Protection Bureau ("CFPB") regarding consumer protection laws and regulations, and various other regulatory authorities, as well as the information reporting requirements of the Securities Exchange Act of 1934 (the "Exchange Act") and the FDIC rules relating thereto, as administered and enforced by the FDIC. We file periodic and current reports and other materials required to be filed under the Exchange Act with the FDIC.

With few exceptions, state and federal banking laws have as their principal objective either the maintenance of the safety and soundness of the Deposit Insurance Fund ("DIF") of the FDIC or the protection of customers, depositors, other classes of consumers and the banking system as a whole, rather than the specific protection of our non-deposit creditors or shareholders. Banks that fail to conduct their operations in a safe and sound manner or in compliance with applicable laws can be compelled by the regulators to change the way they do business and may be subject to regulatory enforcement actions, including civil monetary penalties and restrictions imposed on their operations, including in extraordinary circumstances, closure of the banks.

In 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "EGRRCPA") was signed into law, which, among other things, amended certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") and included certain additional banking, commercial real estate, consumer protection, and securities law-related provisions. The EGRRCPA provides limited regulatory relief to certain financial institutions while preserving the existing framework under which U.S. financial institutions are regulated. Despite the relief for mid-sized financial institutions such as us that have resulted from the EGRRCPA, many provisions of the Dodd-Frank Act and its implementing regulations remain in place and will continue to result in additional operating and compliance costs that could have a material adverse effect on our business, financial condition, and results of operations. In addition, the EGRRCPA requires the enactment of a number of implementing regulations, the details of which may have a material effect on the ultimate impact of the law.

The current U.S. political environment makes the prospects for further statutory changes to federal banking laws in the near term uncertain; however, even absent additional legislation, the federal banking agencies will continue to consider and potentially propose and adopt regulatory changes. Recently, changes to regulations addressing brokered deposits and interest rate restrictions (the "brokered deposits rules") were adopted by the FDIC. The FDIC adopted its final rules regarding brokered deposits on December 15, 2020, relating to the brokered deposits and interest rate restrictions that currently apply to less than well-capitalized insured depository institutions. The brokered deposits rules will take effect on April 1, 2021, with full compliance with the rules required by January 1, 2022. The new brokered deposits rules establish a new framework for analyzing certain provisions of the "deposit broker" definition and amend the FDIC's methodology for calculating the national rate, the national rate cap, and the local market rate cap. As we are considered a well-capitalized insured depository institution, these new rules are not currently expected to have a material effect on our depository practices.

Changes in applicable laws or regulations, and in their interpretation and application by regulatory agencies and other governmental authorities, cannot be predicted, but any of such changes may have an adverse effect on our business, financial condition or results of operations.

Safety and Soundness

The federal banking agencies have adopted guidelines pursuant to the Federal Deposit Insurance Act ("FDIA") establishing general safety and soundness standards for depository institutions related to, among other things, internal controls, information systems, internal audit systems, loan underwriting and documentation, compensation, interest rate exposure, and asset growth. For example, the FDIA limits the interest rates paid on deposits by undercapitalized institutions, restricts the use of brokered deposits, and limits the aggregate extensions of credit by a depository institution to an executive officer, director, principal shareholder or related interest. If the FDIC determines that an institution fails to meet these standards, the FDIC may require the institution to submit an acceptable compliance plan or, alternatively, pursue other courses of action depending on the specific circumstances and severity of the noncompliance.

Permissible Activities

Our business is generally limited to activities permitted by Arkansas law and any applicable federal laws. Under the Arkansas Banking Code of 1997 (the "Arkansas Banking Code"), we may generally engage in all usual banking activities, including, among other activities, taking deposits, lending money, issuing letters of credit, buying, discounting and negotiating promissory notes, bonds, drafts and other forms of indebtedness, and buying and selling certain investment securities. Subject to the authorization of the Arkansas State Bank Commissioner (the "Bank Commissioner"), we may also engage in any activity then permissible for national banks.

In addition, under the Gramm-Leach-Bliley Act of 1999 (the "GLBA"), state banks such as ours may invest in financial subsidiaries that engage as the principal in activities that would only be permissible for a national bank to conduct in a financial subsidiary. This authority is generally subject to the same conditions that apply to national bank investments in financial subsidiaries.

Dodd-Frank Act

The Dodd-Frank Act fundamentally restructured federal banking regulation by shifting from prudential regulation of individual institutions to a systemic view of regulations. The Dodd-Frank Act and its implementing regulations resulted in significant regulatory change. Aspects of the Dodd-Frank Act that have had or may have a material effect on our business include, among others: changing the assessment base for federal deposit insurance; making permanent the $250,000 limit for federal deposit insurance; eliminating the requirement that the FDIC pay dividends from the DIF in certain cases; repealing the federal prohibitions on the payment of interest on demand deposits; heightening corporate governance requirements for all public companies (including "say-on-pay" shareholder votes, compensation clawback policy requirements, expanded executive compensation disclosures and new director independence requirements); creation of the CFPB; imposing additional underwriting standards and other requirements for mortgage lending; permitting the establishment of *de novo* interstate branches; limiting debit card interchange fee charges for banks with $10 billion or more in assets; and incentivizing and protecting whistleblowers who report violations of the federal securities laws.

Because our total assets exceed $10 billion, we must also comply with certain additional requirements created by the Dodd-Frank Act, including enhanced prudential oversight requirements and a more frequent and enhanced regulatory examination regime. Failure to comply with these requirements could result in regulatory enforcement actions, could negatively impact our business, financial condition or results of operations and could limit our growth or expansion activities. The changes resulting from the Dodd-Frank Act have had and may continue to have an adverse effect on the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes have required and may continue to require us to invest significant management attention and resources to evaluate and take any actions necessary to comply with new statutory and regulatory requirements.

Capital Stress Testing. As a result of the EGRRCPA, we are no longer required to prepare annual capital stress tests pursuant to the Dodd-Frank Act. However, we continue to utilize internal stress testing as part of our capital planning process and monitor our capital consistent with the safety and soundness expectations of the federal regulators.

Debit Interchange Fees. Since July 1, 2017 we have been required to comply with Section 1075 of the Dodd-Frank Act, often referred to as the Durbin Amendment, which caps interchange fees for debit card transactions, or "swipe fees," at $0.21 plus 5 basis points multiplied by the size of the transaction. Prior to July 1, 2017, we were exempt from the Durbin Amendment's limitation on swipe fees because our total assets were less than $10 billion.

The Volcker Rule. Section 619 of the Dodd-Frank Act, also known as the Volcker Rule, prohibits banks and their affiliates from engaging in proprietary trading or acquiring or retaining an ownership interest in, sponsoring, or having certain relationships with a hedge fund or private equity fund. Effective January 1, 2020, the federal banking agencies amended the Volcker Rule to establish a tiered compliance regime based on a bank's dollar amount of trading activity. Because we do not currently engage and have not historically engaged in activities prohibited by the Volcker Rule or its associated regulations, we do not currently anticipate that it will have a material effect on our operations. We may incur costs if we are required to adopt additional policies and systems to ensure compliance with the Volcker Rule, but any such costs are not expected to be material. Unanticipated effects of the Volcker Rule's provisions or future regulatory or court interpretations may have an adverse effect on our business.

Emergency Economic Stabilization Act. From December 2008 to November 2009, we participated in the Troubled Asset Relief Program ("TARP") and related Capital Purchase Plan ("CPP") established by the U.S. Treasury Department ("Treasury"). Although we exited the programs in 2009, the Office of the Special Inspector General for TARP ("Inspector General") retains authority to audit and investigate all aspects of TARP even after the capital we received under the CPP was repaid to Treasury. In addition, in the event that any bank we have previously acquired or acquire in the future participated in the TARP and CPP programs, we are or will be subject to the same enforcement and oversight activities of the Inspector General with respect to such bank's participation.

CRE Lending Concentrations. The federal banking agencies, including the FDIC, have promulgated guidance governing financial institutions with concentrations in CRE lending. The guidance provides that a bank has a concentration in CRE lending if (i) total reported loans for construction, land development and other land represent 100% or more of total risk-based capital or (ii) total reported loans secured by multifamily and non-owner occupied non-farm/non-residential properties and loans for construction, land development and other land represent 300% or more of total capital and the bank's CRE loan portfolio has increased 50% or more during the prior 36 months. If a concentration is present, management must employ heightened risk management practices that address key elements, including board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of CRE lending. Based on the regulatory guidance, we have determined that we have a concentration in CRE lending. While we believe we have implemented policies and procedures with respect to our CRE lending consistent with this guidance, bank regulators could require us to implement additional policies and procedures consistent with their interpretation of the guidance that may result in additional costs to us.

Deposit Premiums and Assessments

Our deposits are insured by the FDIC's DIF to the fullest extent permissible by law, and we are subject to deposit insurance assessments to maintain the DIF. Under the FDIC's risk-based assessment system, the assessment rates for an insured depository institution are determined by an assessment rate calculator, which is based on a number of elements such as supervisory evaluations, regulatory capital levels and other components that measure the perceived risk the institution poses to the DIF. The calculated assessment rate is applied to the institution's average consolidated total assets less its average tangible equity during the assessment period to determine the dollar amount of the assessment paid by the institution. The FDIC has the ability to make discretionary adjustments to the total score based upon its determination of the existence of significant risk factors that are not adequately captured in the calculations. In addition to ordinary assessments, the FDIC has the ability to impose special assessments in certain instances.

The Dodd-Frank Act increased the minimum target DIF reserve ratio from 1.15% to 1.35% of estimated insured deposits and required that the increased reserve ratio be reached by September 30, 2020. Pursuant to the FDIC's DIF restoration plan, insured institutions with total assets of $10 billion or more, including us, are responsible for funding the increase, and on July 1, 2016, the FDIC began imposing a surcharge on such banks. The surcharge equaled an annual rate of 4.5 basis points applied to the institution's assessment base (with certain adjustments), and continued through October 1, 2018, when the reserve ratio exceeded 1.35%. Although the reserve ratio fell below 1.35% as of June 30, 2020, the FDIC subsequently implemented a plan to restore the DIF to the 1.35% minimum ratio without an anticipated increase in assessment rates.

The FDIC has established a long-term target for the reserve ratio of 2.0%. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking, if required. Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Capital Requirements

We are subject to the risk-based capital requirements established by the FDIC and other federal banking regulators consistent with agreements reached by the Basel Committee on Banking Supervision ("Basel III") and certain provisions of the Dodd-Frank Act (the "Basel III Rules"). The Basel III Rules became effective for us on January 1, 2015 (subject to a phase-in period for certain provisions). The Basel III Rules require the maintenance of minimum amounts and ratios of common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets, and of tier 1 capital to adjusted quarterly average assets.

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

Tier 1 capital includes common equity tier 1 capital and certain additional tier 1 items as provided under the Basel III Rules. Our tier 1 capital consists solely of common equity tier 1 capital. Because we exceed $15 billion in total assets, our trust preferred securities are not included in tier 1 capital, but continue to be included as tier 2 capital.

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

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

The Basel III Rules also changed the risk-weights of assets in an effort to better reflect perceived credit risk and other risk exposures. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans ("HVCRE") and the unsecured portion of non-residential mortgage loans that are 90 days past due or otherwise on nonaccrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; a 250% risk weight (up from 100%) for mortgage servicing rights and deferred tax assets that are not deducted from capital; and increased risk weights (from 0% to up to 600%) for equity exposures. The EGRRCPA clarified the definition and risk-weighting of HVCRE loans, with the revised definition excluding any loans made prior to January 1, 2015, and certain other loans currently classified as HVCRE.

The Basel III Rules limit capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets in addition to the amount necessary to meet minimum risk-based capital requirements. The Basel III Rules require us to maintain (i) a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 7.0%, (ii) a minimum ratio of tier 1 capital to risk-weighted assets of at least 6.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 8.5%, (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 10.5%, and (iv) a minimum leverage ratio of 4.0%.

Information Security, Cybersecurity, and Privacy

Information security and cybersecurity are high-priority items for legislators and regulators at the federal and state levels, as well as internationally. State and federal banking regulators have issued various policy statements and, in some cases, regulations emphasizing the importance of technology risk management and supervision. Such policy statements and regulations indicate that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. A financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. These requirements may cause us to incur significant additional compliance costs and in some cases may impact our growth prospects. Additionally, if we fail to observe federal or state regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

Federal statutes and regulations, including the GLBA and the Right to Financial Privacy Act of 1978, limit our ability to disclose non-public information about consumers, customers and employees to nonaffiliated third parties. Specifically, the GLBA requires us to disclose our privacy policies and practices relating to sharing non-public information and enables retail customers to opt out of our ability to share information with unaffiliated third parties under certain circumstances. The GLBA also requires us to implement a comprehensive information security program that includes administrative, technical and physical safeguards to ensure the security and confidentiality of customer records and information and, if applicable state law is more protective of customer privacy than the GLBA, financial institutions, including our bank, will be required to comply with such state law. Other laws and regulations impact our ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. In connection with the regulations governing the privacy of consumer financial information, the federal banking agencies, including the FDIC, have adopted guidelines for establishing information security standards and programs to protect such information.

Proposed or new legislation or regulations related to information security, data and/or privacy may significantly increase our compliance costs and impede our ability to grow into specific markets. There are several proposals that have either recently been adopted or are currently pending before federal, state, and foreign legislative and regulatory bodies. For example, in 2018 the European Union's General Data Protection Regulation (the "GDPR") and the California Consumer Privacy Act of 2018 (the "CCPA") became effective. Both the GDPR and the CCPA impose additional obligations on companies regarding the handling of personal data and provide certain individual privacy rights to persons whose data is stored. In the event of a data breach, there are mandatory reporting requirements that may hamper a company's ability to fully assess an incident prior to external reporting. We must constantly monitor additional legal and regulatory requirements that apply to existing and future subsets of our customer base for protection against legal, reputational, and financial risk due to compliance failures.

Community Reinvestment Act and Fair Lending

The Community Reinvestment Act of 1977 (“CRA”) requires that federal banking regulators, in connection with their examinations of financial institutions, evaluate the record of financial institutions in meeting the credit needs of their local communities, including low and moderate-income individuals and neighborhoods, consistent with the safe and sound operations of the banks. Failure to adequately meet these criteria could impose additional requirements and limitations on us. Regulations under the CRA also provide for regulatory assessment of a bank’s record in meeting the needs of its service areas, and this record is taken into account by the regulators when considering applications to, among other things, establish branches or merge with or acquire another bank or its assets or liabilities. A bank’s CRA performance record is reviewed in connection with the filing of certain regulatory applications, including merger applications and branch applications. An unsatisfactory performance record can substantially delay or block the transactions contemplated by such applications. Additionally, a bank must make certain portions of its most recent CRA examination report conducted by its federal banking regulators available for public review. In December 2019, the FDIC and the Office of the Comptroller of the Currency (“OCC”) proposed changes to the CRA’s implementing regulations in an attempt to reduce their complexity. These proposed changes were adopted in final form by the OCC on May 20, 2020. While the FDIC had joined in the original proposed rule change, it has not adopted the OCC’s final rule changes on the CRA as of the date of this report. We will continue to evaluate the impact of any changes to the regulations implementing the CRA.

We are also subject to certain fair lending laws and regulations, including the Equal Credit Opportunity Act of 1974 and the Fair Housing Act of 1968, which (among other things) prohibit discrimination in credit and residential real estate transactions, including discrimination on the basis of, among other factors, race or color, national origin, gender, marital or familial status, age, handicap or disability, and religion. We are required to have a fair lending program of sufficient depth and breadth to monitor fair lending risks and appropriately remediate identified risks. Bank regulators have increasingly focused on the enforcement of these laws, and fair lending weaknesses can result in significant supervision and/or enforcement actions, along with fines, penalties, or financial remediation; reputational damage; CRA rating downgrade; investigation and enforcement actions by the U.S. Department of Justice (“DOJ”); or restrictions on our growth, revenue or expansion opportunities. Private parties may also have the ability to challenge an institution’s performance under fair lending laws in private class action litigation.

Executive and Incentive Compensation

The federal banking regulators have adopted guidelines prohibiting excessive compensation as an unsafe and unsound practice. Compensation is considered excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder.

The federal banking regulators have issued guidance on incentive compensation policies intended to ensure that banks’ incentive compensation policies do not undermine safety and soundness by encouraging excessive risk taking. This guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based on key principles that a bank’s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization’s ability to identify and manage risk, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective board oversight. Deficiencies in compensation practices may affect our supervisory ratings, which could affect our ability to make acquisitions or take other actions, and enforcement actions may be taken if our incentive compensation arrangements or related risk-management control or governance processes pose a risk to safety and soundness and we are not taking prompt and effective measures to correct the deficiencies.

The Dodd-Frank Act requires the federal banking agencies and the Securities and Exchange Commission (“SEC”) to establish joint regulations or guidelines for specified regulated entities, like us, having at least $1 billion in total assets, to prohibit incentive-based payment arrangements that encourage inappropriate risk-taking by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. These regulators must also establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The federal regulators proposed such regulations in April 2011 and issued a second proposed rule in April 2016. The April 2016 proposed rule would apply to banks with at least $1 billion in average total consolidated assets and would prohibit certain types and features of incentive-based compensation arrangements, require incentive-based compensation arrangements to adhere to certain basic principles, and require appropriate board or committee oversight and recordkeeping and disclosures to the appropriate agency. Although final rules have not been adopted to date, if these or other regulations are adopted in a form similar to that proposed, they will impose limitations on the manner in which we may structure compensation for our executives and certain other employees.

Anti-Money Laundering, the USA PATRIOT Act and the Office of Foreign Assets Control Regulation

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The Bank Secrecy Act ("BSA") and its implementing regulations and parallel requirements of the federal banking regulators require us to maintain a risk-based anti-money laundering ("AML") program reasonably designed to prevent and detect money laundering and terrorist financing and to comply with the recordkeeping and reporting requirements of the BSA, including the requirement to report suspicious activity. The USA PATRIOT Act of 2001 (the "Patriot Act") substantially broadened the scope of AML laws and regulations by imposing significant new compliance and due diligence obligations on financial institutions, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Financial institutions, including banks, are required under final rules implementing Section 326 of the Patriot Act to establish procedures for collecting standard information from customers opening new accounts and verifying the identity of these new account holders within a reasonable period of time. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must take certain steps to assist government agencies in detecting and preventing money laundering and to report certain types of suspicious transactions. The Patriot Act also amended Section 18(c) of the FDIA (commonly referred to as the "Bank Merger Act") to require federal banking regulatory authorities to consider the effectiveness of a financial institution's AML program when reviewing an application to expand operations.

We are subject to the customer due diligence rules issued by Treasury's Financial Crimes Enforcement Network ("FinCEN") under the BSA, which require financial institutions to identify the beneficial owners who own or control certain legal entity customers at the time an account is opened and to update their AML compliance programs to include risk-based policies and procedures for conducting ongoing customer due diligence, including policies and procedures that are reasonably designed to (1) identify and verify the identity of customers; (2) identify and verify the identity of the beneficial owners of companies opening accounts; (3) understand the nature and purpose of customer relationships to develop customer risk profiles; and (4) conduct ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information. As part of the requirement to obtain beneficial ownership information, we must identify and verify the identity of any individuals who own 25 percent or more of a legal entity, and an individual who controls the legal entity.

On January 1, 2021, the National Defense Authorization Act for Fiscal Year 2021, including the Anti-Money Laundering Act of 2020 (the "AMLA"), was enacted. The AMLA significantly amends the BSA to, among other things, require certain companies to report beneficial ownership information to FinCEN that will be made available to financial institutions to conduct customer due diligence, increase the duties and powers of FinCEN, and instruct Treasury and FinCEN to promulgate or amend regulations related to beneficial ownership reporting requirements, AML program requirements and other matters.

Among other things, AMLA's provisions clarify that cryptocurrency and other digital assets are within the scope of the regulatory requirements of the BSA, and codify existing guidance from FinCEN to resolve any doubts raised by some industry participants regarding Congress' delegation of authority intended to regulate this sector. AMLA also updates and expands whistleblower rewards and anti-retaliation protections contained in the BSA, including that whistleblowers can receive up to 30% of an assessed monetary penalty where that penalty totals more than $1 million, and imposes enhanced applicable penalties for BSA violators and persons convicted of repeat violations or committing an "egregious violation" of the BSA. Among other changes enacted in AMLA, FinCEN must provide financial institutions with information about financial crime concerns and patterns and within six months after passage of AMLA, Treasury must establish national AML priorities, to be updated at least once every four years. Federal banking regulators may subsequently review whether and to what extent financial institutions have incorporated the national AML priorities into their risk-based programs to comply with BSA requirements.

FinCEN and the federal banking agencies continue to issue regulations and guidance with respect to the application and requirements of the BSA and their expectations for effective AML programs. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, to comply with United States sanctions that affect transactions with designated foreign countries, nationals and others, or to comply with any other relevant laws or regulations, could have serious legal, economic and reputational consequences for the institution, including causing applicable bank regulatory authorities to not approve any applications, including branch openings and mergers or acquisitions, when regulatory approval is required or to prohibit such transactions even if approval is not required. The ultimate impact of AMLA and the regulations to be promulgated thereunder, including its effect on our business, results of operations and financial condition, is uncertain.

Oversight and Enforcement

Enforcement Authority. The FDIC possesses enforcement authority over insured banks, including us, pursuant to the FDIA, the Federal Deposit Insurance Corporation Improvement Act of 1991 (the "FDICIA") and other statutes. Insured banks may be subject to potential actions for unsafe or unsound practices or violations of laws, rules, regulations or conditions imposed in writing by applicable federal banking agencies. The FDIC may exercise its enforcement powers by, among other things, issuing a cease-and-desist order, imposing civil monetary penalties, requiring an increase in capital, entering into informal and formal enforcement actions against the insured bank, requiring the insured bank to take identified corrective actions to address cited concerns or refrain from taking certain actions, or terminating deposit insurance.

Federal and state banking regulators have the authority to initiate informal or formal enforcement actions against us. Informal actions may include board resolutions approved by the applicable regulators, supervisory letters or memoranda of understanding. Formal actions may include consent orders, cease-and-desist orders, requiring an increase in capital, termination of deposit insurance and civil money penalties. Informal actions are generally a confidential part of the regulators' examination and supervisory process and may not be disclosed without the permission of the regulators. Formal actions, however, are publicly disclosed.

In connection with the FDICIA, federal banking agencies established capital measures (including both a leverage measure and a risk-based capital measure) and specified for each capital measure the levels at which depository institutions will be considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized. If an institution becomes classified as undercapitalized, the appropriate federal banking agency will require the institution to submit an acceptable capital restoration plan and can suspend or greatly limit the institution's ability to effect numerous actions, including capital distributions, certain deposit gathering activities, acquisitions of assets, establishing new branches, entering into new lines of business, or using brokered deposits. The capital restoration plan will not be accepted by the regulators unless any company having control of the undercapitalized institution guarantees the subsidiary's compliance with the capital restoration plan up to a certain specified amount.

Examination. Consistent with their supervision practices for banks of our size, the FDIC and ASBD utilize an exam team that remains on site throughout the year (although it worked virtually for the majority of 2020 due to the COVID-19 pandemic). The exam team conducts regular examinations of us, reviewing such matters as the overall safety and soundness of our institution, the adequacy of our allowance for credit losses, the quality of our loans and investments, the appropriateness of management practices, risk management, interest rate exposure, vendor management, internal controls and audit systems, compliance with laws and regulations, and other aspects of our operations. These examinations are designed for the protection of our depositors, rather than our shareholders. Our FDIC and ASBD examinations are generally conducted jointly by the agencies. In addition, the Dodd-Frank Act gives the CFPB the authority to include its examiners, on a sampling basis, in examinations performed by primary federal regulators such as the FDIC, in order to assess compliance with consumer financial protection laws.

Acquisition Approvals. Under the Bank Merger Act and the Arkansas Banking Code, the prior approval of the FDIC and the ASBD is required for us to merge with another bank or purchase all or substantially all of the assets or assume any of the deposits of another FDIC-insured depository institution. In reviewing applications for merger and acquisition transactions, bank regulators consider, among other things, the competitive effect and public benefits of the transactions, the capital position and managerial resources of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's CRA performance record, the applicant's compliance with fair housing and other consumer protection laws and the effectiveness of all organizations involved in combatting money laundering activities. In addition, failure to implement or maintain adequate compliance programs could cause bank regulators not to approve an acquisition where regulatory approval is required or to prohibit an acquisition even if approval is not required.

Change in Bank Control. Under the Change in Bank Control Act (the "CIBCA"), a notice must be submitted to the FDIC if any person (including a company), or group acting in concert, seeks to acquire "control" of us. Control is defined as the power, directly or indirectly, to direct our management or policies or to vote 25% or more of any class of our outstanding voting securities. Additionally, a rebuttable presumption of control arises when any person (including a company), or group acting in concert, seeks to acquire 10% or more, but less than 25%, of any class of our outstanding voting securities which are publicly traded. When reviewing a notice under the CIBCA, the FDIC will take into consideration the financial and managerial resources of the acquirer, the convenience and needs of the communities served by us, the anti-trust effects of the acquisition and other factors. Under the Bank Holding Company Act of 1956, as amended (the "BHCA"), any company that is not an existing bank holding company would be required to obtain prior approval from the FRB before it could obtain "control" of us (and thereby become a bank holding company) within the meaning of the BHCA. Control generally is defined to mean the ownership or power to vote 25% or more of any class of our voting securities, the ability to control in any manner the election of a majority of our directors or the exercise of a controlling influence over our management and policies. An existing bank holding company would be required to obtain the FRB's prior approval under the BHCA before acquiring more than 5% of any class of our voting securities.

Other Regulations and Restrictions

Reporting Obligations. We must submit to federal and state regulators annual audit reports prepared by independent auditors. Our Annual Report on Form 10-K, which includes the report of our independent auditors, can be used to satisfy this requirement. We also submit FFIEC Consolidated Reports of Condition and Income to the FDIC on a quarterly basis and file other required reports with various federal and state regulators.

Lending Limits. Our lending and investment authority is derived from Arkansas law. The lending power is generally subject to certain restrictions, including limitations on the amount which may be lent to a single borrower. Under Arkansas law, the obligations of one borrower to a bank may not exceed 20% of the bank's capital base. See also note 18 of the consolidated financial statements under Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K for a discussion of lending limits.

Reserve Requirements. Arkansas law requires state chartered banks to maintain such reserves as are required by the applicable federal regulatory agency. Federal banking laws require all insured banks to maintain reserves against their checking and transaction accounts (primarily checking accounts, NOW and Super NOW checking accounts). Effective March 26, 2020, the FRB reduced reserve requirement ratios to zero percent. Because reserves must generally be maintained in cash, non-interest bearing accounts or accounts that earn only a nominal amount of interest, the effect of any reserve requirements is to increase our cost of funds.

Payment of Dividends. Regulations of the FDIC and the ASBD limit our ability to pay dividends to our shareholders without the prior approval of such agencies. FDIC regulations prevent insured state banks from paying any dividends from capital and allow the payment of dividends only from net profits then on hand after deduction for losses and bad debts. The ASBD currently limits the amount of dividends that we can pay our shareholders to 75% of net profits after taxes for the current year plus 75% of retained net profits after taxes for the immediately preceding year. In addition, our ability to pay dividends may also be restricted by certain covenants contained in the indentures governing our trust preferred securities, our subordinated debentures and our subordinated notes. See also note 18 of the consolidated financial statements under Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K for a discussion of dividend restrictions.

Restrictions on Transactions with Affiliates or Related Parties. Federal law substantially restricts transactions between financial institutions and their affiliates, particularly their non-financial institution affiliates. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank.

We are subject to Section 23A of the Federal Reserve Act, which places limits on the amount of loans or extensions of credit to, or investments in, or certain other transactions with, affiliates. In addition, limits are placed on the amount of advances to third parties collateralized by the securities or obligations of affiliates. Most of these loans and certain other transactions must be secured in prescribed amounts. We are also subject to Section 23B of the Federal Reserve Act, which prohibits an institution from engaging in transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with non-affiliated companies. We are subject to restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. These extensions of credit (1) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (2) must not involve more than the normal risk of repayment or present other unfavorable features. See also note 17 of the consolidated financial statements under Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K for a discussion of related party transactions.

Securities Laws and Regulations. We are subject to certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws. We are subject to the jurisdiction of the FDIC, the ASBD and state securities regulatory authorities for matters relating to the offer and sale of our securities.

Consumer Financial Protection

We are subject to a number of federal and state consumer protection laws that extensively govern our relationship with our customers. These laws include, among others, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Home Ownership and Equity Protection Act, the Electronic Fund Transfer Act, the Fair and Accurate Credit Transactions Act, the Fair Debt Collection Practices Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Truth in Savings Act, the Expedited Funds Availability Act, the Check Clearing for the 21st Century Act, the Service Members Civil Relief Act, the Telephone Consumer Protection Act, the CAN-SPAM Act, and similar state laws, as well as state usury laws and other state consumer protection laws. These and other laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive acts and practices, restrict our ability to raise interest rates and subject us to significant regulatory oversight. Failure to comply with these and other consumer protection requirements may result in significant liability in private civil actions or enforcement actions by federal and state bank regulators or consumer protection agencies or state attorneys general, and may prevent us from engaging in merger or acquisition transactions or other activities requiring regulatory approval or that regulators may prohibit even if approval is not required.

The CFPB is designed to prevent unfair, deceptive and abusive acts and practices and ensure that all consumers have access to markets for consumer financial products and services, and that such markets are fair, transparent and competitive. Because our total assets exceed $10 billion, the CFPB has direct supervision and enforcement authority over us, including the authority to investigate possible violations of federal consumer financial laws, hold hearings and commence civil litigation, and establish applicable examination, enforcement and reporting requirements. The CFPB has significant authority to implement and enforce the consumer finance laws identified above and others, as well as the authority to identify and prohibit unfair, deceptive or abusive acts and practices. The review of products and practices to prevent such unfair, deceptive or abusive acts and practices is a continuing focus of the CFPB, and of banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to our pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties. In addition, the CFPB has broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations, to impose significant monetary penalties or injunctive relief that prohibits lenders from engaging in allegedly unlawful practices, or to obtain cease and desist orders providing for affirmative relief or monetary penalties. The CFPB has been active in bringing enforcement actions related to consumer financial protection laws and obtaining the forms of relief described above.

State regulation of financial products and potential enforcement actions, which could be stricter in some cases than federal consumer protection standards, could also adversely affect our business, financial condition or results of operations.

Arkansas Law

We are subject to examination and regulation by the ASBD. Under the Arkansas Banking Code, the acquisition of more than 25% of any class of the outstanding capital stock of any bank requires approval of the Bank Commissioner. The Bank Commissioner's approval is required in order for us to make acquisitions, amend our articles of incorporation, repurchase shares of our capital stock (other than payments to dissenting shareholders in a transaction), issue preferred stock or debt, increase, reduce or retire any part of our capital stock, retire debt instruments, or conduct certain types of activities that are incidental or closely related to banking.

The Bank Commissioner has the authority, with the consent of the Governor of the State of Arkansas, to declare a state of emergency and temporarily modify or suspend banking laws and regulations in communities where such a state of emergency exists. The Bank Commissioner may also authorize a bank to close its offices and any day when such bank offices are closed will be treated as a legal holiday, and any director, officer or employee of such bank shall not incur any liability related to such emergency closing. To date no such state of emergency has been declared to exist by the Bank Commissioner.

Effect of Governmental Monetary Policies

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the U.S. government and its agencies. The monetary policies of the FRB have had, and are likely to continue to have, an important impact on the operating results of commercial banks through the FRB's statutory power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The FRB, through its monetary and fiscal policies, affects the levels of bank loans, investments and deposits through its control over the issuance of U.S. government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which member banks are subject. We cannot predict the nature or impact of future changes in the FRB's monetary and fiscal policies.

Future Regulation of Banks

Banking regulators, federal and state governments and other bodies routinely consider and enact new laws, regulations and policies, and may have differing interpretations regarding certain laws, regulations and policies, regulating the banking industry and public companies generally. In addition to potential legislative action, it is unclear whether or to what extent the federal departments and agencies will finalize, adopt, amend or repeal existing or proposed rules and regulations, including those implementing the Dodd-Frank Act, the EGRRCPA and the AMLA. The ultimate impact of changes in laws on our business and results of operations will depend in part on regulatory interpretation and rulemaking, including as a result of the EGRRCPA and the AMLA, as well as the success of any actions taken to mitigate the negative earnings impact of certain provisions.

We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute. However, given our growth and the extensive and comprehensive regulation of our industry, we expect that our regulatory compliance costs will continue to increase over time. The scope, timing and implementation of regulatory and statutory changes, including as a result of the recent U.S. presidential and congressional elections, are uncertain and could have an adverse effect on our business, financial condition or results of operation.

AVAILABLE INFORMATION

We file annual, periodic and current reports, proxy statements and other information required by the Exchange Act with the FDIC, copies of which are available electronically at the FDIC's website at http://www.fdic.gov. In addition, we make available, free of charge, through the Investor Relations section of our Internet website at http://ir.ozk.com under "Filings," our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such reports with or furnish them to the FDIC. You may also inspect and copy any document we file with the FDIC at the public reference facilities maintained at the FDIC, Accounting and Securities Disclosure Section, Division of Risk Management Supervision, 550 17th Street, NW, Washington, DC 20429.

We have adopted a written code of ethics that applies to all directors, officers and employees of the Bank, including our principal executive officer, principal financial officer and principal accounting officer, in accordance with Section 406 of the Sarbanes-Oxley Act of 2002 and the rules of the SEC promulgated thereunder. Our code of ethics is available on our Investor Relations website, http://ir.ozk.com, under "Corporate – Governance Documents." In the event that we make changes in, or provide waivers from, the provisions of this code of ethics that we are required to disclose, we intend to disclose these events on our Investor Relations website in such section. Our Corporate Governance Guidelines, Board committee charters and other corporate governance related documents are also posted on our website, and available in print upon request from any shareholder to our Investor Relations Department.

Information contained on or accessible through our website or any other website referenced in this report is not part of this report. References to websites in this report are intended to be inactive textual references only.

Shareholders may obtain a copy of any of the above-referenced corporate governance documents by writing to our Investor Relations Department at Investor Relations, Bank OZK, P. O. Box 8811, Little Rock, Arkansas 72231-8811 or by calling (501) 978-2265. Pursuant to Section 350.3 of the FDIC rules and regulations, each bank is required to make available on request an annual disclosure statement. Our Annual Report on Form 10-K serves as our annual disclosure statement.

Item 1A. RISK FACTORS

An investment in shares of our common stock involves a variety of risks, some of which are specific to us and some of which are inherent to the financial services industry. The following risks and other information in this report or incorporated in this report by reference, including our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations," should be carefully considered before investing in our securities. These risks may adversely affect our financial condition, results of operations or liquidity. Many of these risks are out of our direct control, though efforts are made to manage those risks while optimizing financial results. These risks are not the only ones we face. Additional risks and uncertainties that we are not aware of or focused on or that we currently deem immaterial may also adversely affect our business and operation. This Annual Report on Form 10-K is qualified in its entirety by all these risk factors.

SUMMARY

The following is a summary of the principal risks that could adversely affect our business, financial condition and results of operations.

Economic and Credit Risks

- Our financial performance may be adversely affected by conditions in the financial markets and economic conditions generally and in our markets in particular.
- Our business depends on the condition of the local and regional economies where we operate and we may have more credit risk to the extent loans are concentrated by location or industry of the borrowers or collateral.
- We make and hold a significant number of construction/land development and non-farm/non-residential real estate loans in our loan portfolio.
- Our business may suffer if there are significant declines in the value of real estate.
- The appraisals and other valuation techniques we use in evaluating and monitoring loans secured by real property may not accurately describe the net value of the collateral that we can realize.
- Our indirect lending involves risk elements in addition to normal credit risk.
- We could experience deficiencies in our allowance for credit losses.
- We face strong competition in our markets.

Operational Risks

- We depend on key personnel for our success.
- We rely on certain third-party vendors.
- We need to stay current on technological changes in order to compete and meet customer demands.
- Failures or interruptions in or breaches to our computer systems, or other cyber threats or information security incidents, could materially and adversely affect our business and operations.
- Ineffective techniques for managing risk, maintaining data quality, or failures or circumvention of our internal controls, may expose us to material unanticipated losses.
- We are subject to environmental liability risks.
- We may incur losses as a result of unforeseen or catastrophic events, including the emergence of a pandemic, terrorist attacks, extreme weather events, or other natural disasters and climate change.
- New lines of business, products, product enhancements or services may subject us to additional risks.
- Our accounting estimates and risk management processes rely on analytical and forecasting models and tools.

Legal, Compliance and Regulatory Risks

- We are subject to extensive government regulation that limits or restricts our activities and could adversely affect our operations.
- We are involved in legal proceedings and may be the subject of additional litigation and/or investigations in the future.
- We may not be able to protect our intellectual property, and may be subject to claims of third-party intellectual property rights.
- Changes in accounting standards could materially impact how we report our financial results.
- Our concentration in CRE lending may subject us to additional scrutiny.
- Existing and proposed legislation and regulations may affect our operations and growth.
- We are subject to changes in federal and state tax laws, interpretation of existing laws and examinations and challenges by taxing authorities.

Liquidity and Market Risks

- If we lose a significant portion of our core deposits or our cost of funding deposits increases, our liquidity and/or profitability could be adversely impacted.
- We use brokered deposits which may be an unstable and/or expensive deposit source to fund earning asset growth.
- We may need to raise additional capital in the future to continue to grow, but that capital may not be available when needed.
- We cannot guarantee that we will pay dividends to common shareholders in the future.
- Our operations are significantly affected by interest rate levels.
- We and/or the holders of certain classes of our securities could be adversely affected by unfavorable ratings from rating agencies.
- The performance of our investment securities portfolio is subject to fluctuation due to changes in interest rates and market conditions, including credit deterioration of the issuers of individual securities.
- Changes to or possible elimination of LIBOR may adversely affect our results of operations.
- The holders of our subordinated debentures and subordinated notes have rights that are senior to those of our common shareholders, and any future debt or preferred equity securities we may offer may adversely affect the market price of our common stock.
- Our common stock is not an insured deposit.

Strategic, Reputational and Other Risks

- The changes and enhancements being made to our infrastructure could materially affect our control environment, operating efficiency, and results of operations.
- If we do not manage our growth effectively, our business, future prospects, financial condition, results of operations and liquidity could be adversely affected.
- We may be adversely affected by risks associated with completed or any potential future acquisition.

- Reputational risk and social factors, including the soundness of other financial institutions may impact our results.
- If our goodwill becomes impaired, we could be required to record impairment charges.

ECONOMIC AND CREDIT RISKS

Our financial performance may be adversely affected by conditions in the financial markets and economic conditions generally and in our markets in particular.

Our financial performance is highly dependent on the business environment in the markets where we operate and in the U.S. as a whole. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, investor or business confidence, consumer sentiment, limitations on the availability or increases in the cost of credit and capital, increases in inflation or interest rates, natural disasters, terrorist attacks, acts of war, or a combination of these or other factors. A worsening of business and economic conditions generally or specifically in the principal markets in which we conduct business could have adverse effects, including, but not limited to, the following:

- a decrease in deposit balances or the demand for loans and other products and services we offer;
- an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us, which could lead to higher levels of past due loans, nonperforming assets, net charge-offs and provisions for credit losses;
- a decrease in the value of loans and other assets secured by real estate;
- a decrease in net interest income from our lending and deposit gathering activities; and
- an increase in competition resulting from financial services companies.

It is possible that the business environment in the markets where we operate and in the U.S. as a whole may continue to experience volatility in the future. There can be no assurance that these conditions will improve in the near term or that conditions will not worsen. Such conditions could adversely affect our business, financial condition, and results of operations.

Our business depends on the condition of the local and regional economies where we operate and we may have more credit risk to the extent loans are concentrated by location or industry of the borrowers or collateral.

A large number of our banking offices are located in south central and southeastern portions of the United States. As a result, our financial condition and results of operations may be significantly impacted by changes in the economies of the states where we currently have most of our banking offices, or the markets in which our assets are geographically located. Slowdown in economic activity in these areas, including deterioration in housing or real estate markets or increases in unemployment and under-employment, may have a significant and disproportionate effect on consumer and business confidence and the demand for our products and services, result in an increase in delinquencies or non-payment of loans and a decrease in collateral value, and significantly affect our deposit funding sources. Any of these events could have an adverse effect on our financial position, results of operations and liquidity.

Approximately 18% of the funded balance of our total loan portfolio at December 31, 2020 (19% at December 31, 2019) was concentrated in the New York–Newark–Jersey City Metropolitan Statistical Area ("MSA"). As a result, our financial condition and results of operations depend, in part, upon economic conditions in this market area. Deterioration in economic conditions in this market could result in one or more of the following: an increase in loan delinquencies and charge-offs, an increase in problem assets and foreclosures, a decrease in the demand for our products and services, or a decrease in the value of collateral for loans, especially real estate.

If we do not properly manage our credit risk, our business could be seriously harmed.

There are substantial risks inherent in making any loan, including, but not limited to:

- risks resulting from changes in economic and industry conditions;
- risks inherent in dealing with individual borrowers;
- risks inherent from uncertainties as to the future value of collateral; and
- the risk of non-payment of loans.

Although we attempt to minimize our credit risk through, among other management and monitoring procedures, prudent loan underwriting procedures and by monitoring concentrations of our loans, there can be no assurance that these underwriting and monitoring procedures will reduce these risks. Moreover, as we continue to expand into new markets, credit administration and loan underwriting policies and procedures may need to be adapted to local conditions. The inability to properly manage our credit risk or appropriately adapt our credit administration and loan underwriting policies and procedures to local market conditions or changing economic circumstances could significantly increase our credit risk, which could have an adverse effect on our allowance and provision for credit losses and our financial condition, results of operations and liquidity.

We make and hold a significant number of construction/land development and non-farm/non-residential real estate loans in our loan portfolio.

Our loan portfolio is comprised of a significant amount of real estate loans, including a large number of construction/land development and non-farm/non-residential loans. Our real estate loans comprised 74.1% of our total loans at December 31, 2020 (72.8% at December 31, 2019). In addition, our construction/land development and non-farm/non-residential loans, which are subsets of our real estate loans, comprised 41.9% and 21.9%, respectively, of our total loan portfolio at December 31, 2020 (36.4% and 22.6%, respectively, at December 31, 2019). Real estate loans, including construction/land development and non-farm/non-residential loans, pose different risks than other types of loan categories. In particular, real estate construction, acquisition and development loans have certain risks not present in other types of loans, including, among others, risks associated with uncertainty of total construction costs, including the potential for construction cost overruns, project completion risk, general contractor credit risk and risks associated with the ultimate sale, lease or use of the completed construction. In addition, many of our real estate construction, acquisition and development loans typically involve large balances to single borrowers or groups of related borrowers. If a decline in economic conditions or other issues cause difficulties for our borrowers of these types of loans, if we fail to accurately evaluate the credit risk of these loans when we underwrite them or if we do not continue to adequately monitor the performance of these loans, the underlying construction projects that collateralize our loans may have material adverse deviations from projected construction plans and budgets, resulting in the potential that our loan portfolio could experience delinquencies, defaults and credit losses that could have a material adverse effect on our business, financial condition or results of operations.

We believe we have established appropriate underwriting and ongoing monitoring policies and procedures for our real estate loans, including construction/land development and non-farm/non-residential loans, and have established appropriate allowances for such loans. However, there can be no assurance that such underwriting and ongoing monitoring policies and procedures are, or will continue to be, appropriate or that losses on real estate loans, including construction/land development and non-farm/non-residential loans, will not require additions to our allowance for credit losses, which could have an adverse effect on our financial position and results of operations.

Our business may suffer if there are significant declines in the value of real estate.

The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located, whether locally, regionally or nationally, and numerous other factors. If the value of the real estate serving as collateral for our loan portfolio were to decline materially, a significant part of our loan portfolio could become under-collateralized. If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, we may not be able to realize the value of the security anticipated when we originated the loan, which in turn could have an adverse effect on our net charge-offs, our allowance and provision for credit losses and our financial condition, results of operations and liquidity.

Most of our foreclosed assets are comprised of real estate properties. We carry these properties at their estimated fair values less estimated selling costs. While we believe the carrying values for such assets are reasonable and appropriately reflect current market conditions, there can be no assurance that the values of such assets will not further decline prior to sale, or that the amount of proceeds realized, or expected to be realized, upon disposition of foreclosed assets will approximate the carrying value of such assets. If the proceeds, or expected proceeds, from any such dispositions are less than the carrying value of foreclosed assets, we will record a loss on the disposition of such assets, or otherwise be required to write down the value of such assets, which in turn could have an adverse effect on our results of operations.

The appraisals and other valuation techniques we use in evaluating and monitoring loans secured by real property may not accurately describe the net value of the collateral that we can realize.

Our underwriting and ongoing monitoring policies and processes for real estate loans generally utilize appraisals of the real property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and, as real estate values may change significantly in relatively short periods of time (especially in periods of heightened economic uncertainty), this estimate may not accurately describe the net value of the real property collateral after the loan is made. As a result, we may obtain subsequent appraisals that differ materially from prior appraisals regarding the value of the property, which could have an adverse effect on the loan's credit quality or risk rating, and we may not be able to realize the full amount of any remaining indebtedness when we foreclose on and sell the relevant property. This could have a material adverse effect on our business, financial condition or results of operations.

Our indirect lending involves risk elements in addition to normal credit risk.

Our Indirect RV and Marine lending group makes loans to individuals for the purchase of those types of vehicles and vessels. We serve customers that cover varying ranges of creditworthiness, and the terms and rates of these types of loans reflect those varying risk profiles. We have limited personal contact with these borrowers as a result of indirect lending through non-bank channels, namely dealer and correspondent relationships. If we are not able to maintain existing relationships with significant dealers or correspondents or if we are not able to develop new relationships for any reason – including if we are not able to provide services on a timely basis or compete successfully with the products and services of our competitors – our indirect lending volumes, and the number of dealers and correspondents with whom we have relationships, could decline in the future, which could adversely affect our results of operations or financial condition. While our lending team is experienced and skilled at underwriting and monitoring these loans, such loans involve risk elements in addition to normal credit risk. While these loans are secured, they are secured principally by depreciating assets and characterized by LTV ratios that could result in us not recovering the full value of an outstanding loan upon default by the borrower. If the losses from our indirect loan portfolio are higher than anticipated, it could have a material adverse effect on our allowance and provision for credit losses and our financial condition and results of operations.

We could experience deficiencies in our allowance for credit losses ("ACL").

We maintain an ACL, established through a provision for credit losses charged to expense, that represents our best estimate of probable losses incurred in our loan portfolio. Effective January 1, 2020, we adopted the current expected credit loss ("CECL") methodology which requires, among other items, that we establish an allowance for the lifetime expected losses on individual loans, and a reserve (reflected as a liability on our consolidated balance sheet) for lifetime expected losses on our unfunded loan commitments (comprised primarily of closed but unfunded construction and development loans). The aggregate of the allowance for our funded loans and the reserve for losses on unfunded loan commitments is referred to as our ACL. Although we believe that we maintain our ACL at a level adequate to absorb lifetime expected losses in our loan portfolio, estimates of credit losses are subjective and their accuracy may depend on the outcome of future events that are difficult to predict. Our experience in the banking industry indicates that some portion of our loans may only be partially repaid or may never be repaid at all. Credit losses occur for many reasons beyond our control. Accordingly, we may incur charge-offs or otherwise be required to make significant and unanticipated increases in our ACL during future periods which could materially affect our financial position and results of operations. Additionally, bank regulatory authorities, as an integral part of their supervisory functions, periodically review our ACL and our methodologies for calculating the ACL. These regulatory authorities may require adjustments to the ACL or ACL methodology or may require recognition of additional credit losses or charge-offs based upon their judgment. Any increase in the ACL, credit losses or charge-offs required by bank regulatory authorities could have a material adverse effect on our financial condition, results of operations and liquidity.

We face strong competition in our markets.

Competition in many of our banking markets is intense. We compete with financial and bank holding companies, state and national commercial banks, savings and loan associations, consumer finance companies, credit unions, securities brokerages, insurance companies, mortgage companies, money market mutual funds, asset-based non-bank lenders and other financial institutions and intermediaries, as well as non-financial institutions offering payroll, debit card and other services. Some of these competitors have an advantage over us through greater financial resources, lending limits and larger distribution networks, and may be able to offer a broader range of products and services. Other competitors, many of which are smaller, are either privately-held or non-banks that are not subject to the same extensive regulations that govern our activities and thus benefit from greater flexibility than we have in adopting or modifying growth or operational strategies. Some of our competitors (larger or smaller) may have more liberal lending policies and processes. If we fail to compete effectively for deposits, loans and other banking customers in our markets, we could lose substantial market share, suffer a slower growth rate or no growth and our financial condition, results of operations and liquidity could be adversely affected.

We depend on the accuracy and completeness of information about customers.

In deciding whether to extend credit or enter into certain transactions, we rely on information furnished by or on behalf of customers, including financial statements, credit reports, tax returns and other financial information. We may also rely on representations of those customers or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading information, financial statements, credit reports, tax returns or other financial information, including information falsely provided as a result of identity theft, could have an adverse effect on our business, financial condition and results of operations.

OPERATIONAL RISKS

We depend on key personnel for our success.

Our operating results and ability to execute our strategic plans and minimize credit losses are highly dependent on the services, managerial abilities and performance of our current executive officers and other key personnel. We have an experienced management team that our Board believes is capable of managing and growing our business and executing those strategic plans. We do not have employment contracts with our executive officers or key personnel. Losses of or changes in our current executive officers or other key personnel and their responsibilities may disrupt our business and could adversely affect our financial condition, results of operations and liquidity. Additionally, our ability to retain our current executive officers and other key personnel may be further impacted by existing or new legislation and regulations regarding incentive compensation that is affecting or may affect the financial services industry, as discussed in Item 1. Business – Supervision and Regulation – Executive and Incentive Compensation. There can be no assurance that we will be successful in retaining our current executive officers or other key personnel, or hiring additional key personnel to assist in executing our business strategies.

We rely on certain third-party vendors.

Our reliance on certain third-party vendors to provide products and services necessary to maintain our day-to-day operations subjects us to the risk of operational disruption, failure or capacity constraints. Third-party vendors provide certain key operational components, such as cloud-based computing, storage services, payment and card processing services and internet connections and network access. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with applicable contractual arrangements or service level agreements. Legal authorities and regulators could hold us responsible for failures by these parties to comply with applicable laws, rules or regulations. These failures could expose us to significant litigation or regulatory action that could limit our activities or impose significant fines or other financial losses. Additionally, we could be subject to significant litigation from consumers or other parties harmed by these failures and could suffer significant losses of business and revenue, as well as reputational harm as a result of these failures.

We maintain a system of policies and procedures designed to monitor vendor risks including, among other things, (i) changes in the vendor's organizational structure, (ii) changes in the vendor's financial condition, (iii) changes in existing products and services or the introduction of new products and services, and (iv) changes in the vendor's support for existing products and services. While we believe these policies and procedures help to mitigate risk, the failure of an external vendor to perform in accordance with applicable contractual arrangements or the service level agreements could be disruptive to our operations, which could have a material adverse effect on our business and our financial condition and results of operations.

We need to stay current on technological changes in order to compete and meet customer demands.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven solutions, and as customer preferences and expectations continue to evolve, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems, as well as nontraditional alternatives like crowdfunding and digital wallets. Our future success will depend, in part, upon our ability, including our ability to fully deploy and leverage the technology applications under development from our OZK Labs and other technology groups, to address the needs of our customers by using technology to provide solutions that will satisfy customer demands for convenience, as well as to create additional operational efficiencies and greater privacy and security protection for customers and their personal information. Some of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven solutions or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could impair our ability to retain or acquire new customers and could have an adverse effect on our business, financial position, results of operations and liquidity.

Failures or interruptions in or breaches to our computer systems, or other cyber threats or information security incidents, could materially and adversely affect our business and operations.

We are dependent upon information technologies, computer systems and networks, including those maintained by us and those maintained and provided to us by third parties (e.g. cloud solutions and "software-as-a-service"), to conduct operations and are reliant on technology to help increase efficiency in our business. These systems could become unavailable or impaired from a variety of causes, including storms and other natural disasters, terrorist attacks, fires, utility outages, internal or external theft or fraud, design defects, human error or complications encountered as existing systems are maintained, replaced or upgraded. We maintain a system of internal controls and security and, for many systems we maintain redundancy and/or back-up technologies, to mitigate the risks of many of these occurrences, and we maintain insurance coverage for certain risks. However, should an event occur that is not prevented or detected by our internal controls, causes an interruption in service where we do not have an effective redundant or back-up system, or is uninsured against or in excess of applicable insurance limits, such occurrence could have an adverse effect on our business and our reputation, which, in turn, could have a material adverse effect on our financial condition, results of operations and liquidity.

In addition, our operations require us to protect our information systems, technology infrastructure and data. Cyber security incidents and other disruptions could jeopardize the security of information stored in and transmitted through our information systems and networks and result in the transmission, theft, disclosure and/or destruction of our confidential information, including client and customer information, corporate information or other assets. We proactively monitor our network and deploy appropriate security personnel, processes and technologies to identify, protect, detect, respond and recover from damage or unauthorized access to our information systems and network; however, there can be no assurance that these security measures or procedures will be completely successful against every threat, every time, or that we will discover a breach in a timely fashion, especially as the methods used become increasingly complex and sophisticated and change frequently. Additionally, our risk and exposure to cyber threats and other information security breaches is heightened as we expand our use of cloud technology and internet and mobile banking delivery channels for our products and services.

We also face the risk of operational disruption, failure, termination, or capacity constraints of any of the third parties that facilitate our business activities, including vendors, exchanges, and other financial intermediaries. Such parties could also be the source or cause of an attack on, or breach of, our operational systems, data or infrastructure, and could disclose such attack or breach to us in a delayed manner or not at all. For example, although we did not experience any material impacts from the SolarWinds Orion cybersecurity breach that was widely publicized in December 2020, we cannot assure you that we will not experience future events that may be material. In addition, we may be at risk of an operational failure with respect to our customers' systems. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats and the continued uncertain global economic environment.

As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures, investigate and remediate any information security vulnerabilities, or respond to any changes to state or federal regulations, policy statements or laws concerning information systems or security. Any failure to maintain adequate security over our information systems, our technology-driven products and services or our customers' personal and transactional information could negatively affect our business and our reputation and result in fines, penalties, or other costs, including litigation expense and/or additional compliance costs, all of which could have a material adverse effect on our financial condition, results of operations and liquidity.

Ineffective techniques for managing risk, maintaining data quality, or failures or circumvention of our internal controls, may expose us to material unanticipated losses.

In order to manage the significant risks inherent in our business, we must maintain effective policies, procedures and systems that enable us to identify, monitor and control our exposure to material risks, such as credit, operational, legal and reputational risks, among other risks. Additionally, data is key to the decision-making processes used throughout our Bank. We maintain appropriate data quality and data governance standards, frameworks and processes to help ensure that data and data elements are accurately identified, securely stored, accessed appropriately and utilized in compliance with internal policies and procedures. Our risk management methods and data governance standards may prove to be ineffective due to their design, their implementation or the degree to which we adhere to them, the lack of adequate, accurate or timely information, inappropriate use of data or various other factors. Any failure or circumvention of our controls, processes and procedures or failure to comply with regulations related to controls, processes and procedures could necessitate changes in those controls, processes and procedures, which may increase our compliance costs, divert management attention from our business or subject us to regulatory actions and increased regulatory scrutiny. If our risk management or data quality efforts are ineffective, we could suffer losses that could have a material adverse effect on our financial condition, results of operations and liquidity, and we could be subject to litigation from customers or sanctions or fines from regulators. Our techniques for managing the risks we face may not fully mitigate the risk exposure in all economic or market environments, including exposure to risks that we might fail to identify or anticipate.

Our internal controls, disclosure controls, processes and procedures, and corporate governance policies and procedures are based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls, processes and procedures or failure to comply with regulations related to controls, processes and procedures could necessitate changes in those controls, processes and procedures, which may increase our compliance costs, divert management attention from our business or subject us to regulatory actions and increased regulatory scrutiny. Any of these could have an adverse effect on our financial condition, results of operations and liquidity.

We are subject to environmental liability risks.

A significant portion of our loan portfolio is secured by real property. In the ordinary course of business, we may foreclose on and take title to real properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. Additionally, we have acquired a number of retail banking facilities and other real properties, any of which may contain hazardous or toxic substances. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. We have policies and procedures that require either formal or informal evaluation of environmental risks and liabilities on real property (i) before originating any loan or foreclosure action, except for certain loans where the real estate collateral is second lien collateral or (ii) prior to the completion of any acquisition of retail banking facilities, real property for future development of retail banking facilities or any other real property, including any real property to be acquired in a merger and acquisition transaction. These policies, procedures and evaluations may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard, including any fines or penalties levied for noncompliance with environmental laws, could have an adverse effect on our financial condition, results of operations and liquidity.

The COVID-19 pandemic has impacted our business, and the ultimate impact on our business, financial position, results of operations and/or cash flows will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the scope and duration of the pandemic and the actions taken by governmental authorities, our customers and our business partners in response to the pandemic.

The global pandemic resulting from the outbreak of COVID-19 has negatively impacted the global economy, disrupted global supply chains, created significant volatility and disruption in financial markets, and increased unemployment levels. The COVID-19 pandemic has created economic and financial disruptions that have adversely affected, and are likely to continue to adversely affect, our business, financial condition and results of operations. The extent to which the COVID-19 pandemic will negatively affect our business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the direct and indirect impact of the pandemic on our employees, customers, counterparties and service providers, as well as other market participants, and actions taken by governmental authorities and other third parties in response to the pandemic.

The COVID-19 pandemic has contributed to (i) sudden and significant declines, and significant increases in volatility, in financial markets; (ii) ratings downgrades, credit deterioration and defaults in many industries; and (iii) heightened cybersecurity, information security and operational risks as a result of arrangements to work remotely. In addition, many of our customers, counterparties and third-party service providers have been, and may further be, affected by "shelter-in-place" orders, market volatility and other factors that increase their risks of business disruption or that may otherwise affect their ability to repay loans, perform under the terms of any agreements with us or provide other essential services. As a result, our credit, operational and other risks are generally expected to increase until the pandemic subsides.

In addition, following the COVID-19 outbreak, market interest rates have declined significantly to historic lows. The reductions in interest rates, and continued fluctuations in the interest rate environment as a result of changes in monetary policies of the FRB, including in connection with efforts to address the economic fallout from the COVID-19 outbreak, could have significant adverse effects on the yields we receive on our earning assets and otherwise decrease our net interest margin, which is an important component of our earnings. Continued volatility in interest rates could have a significant adverse effect on our financial condition and results of operations.

As noted in Part II., Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Annual Report on Form 10-K, the FRB has taken various actions and the U.S. government has enacted several fiscal stimulus measures to counteract the economic disruption caused by the COVID-19 pandemic and provide economic assistance to individual households and businesses, stabilize the markets and support economic growth. The success of these measures is unknown and they may not be sufficient to fully mitigate the negative impact of the COVID-19 pandemic. We face an increased risk of litigation and governmental, regulatory and third-party scrutiny as a result of the effects of COVID-19 on market and economic conditions and actions governmental authorities take in response to those conditions. Furthermore, various governmental programs, including the PPP in which we are participating, are complex and may impact our ability to resolve credit delinquencies and our participation may lead to additional litigation and governmental, regulatory and third-party scrutiny, negative publicity and damage to our reputation.

Our customers are subject to many of the factors described above. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, and result in loss of revenue. It is possible that the spread of COVID-19 may also cause delays in the willingness or ability of customers to perform, including, but not limited to, making timely payments to us, and other unpredictable events. Continued unfavorable market conditions and uncertainty due to the COVID-19 pandemic may result in a deterioration in the credit quality of borrowers, an increase in the number of loan delinquencies, defaults and charge-offs, additional provisions for credit losses, adverse asset values of the collateral securing loans and an overall material adverse effect on the quality and profitability of our loan portfolio.

The pandemic has increased our allowance for credit losses. We have also entered into a substantial number of forbearance agreements with customers. The pandemic could continue to have a material adverse effect on our loan portfolio. Similarly, because of changing economic and market conditions affecting issuers, we may be required to recognize losses in future periods on the investment securities we hold.

We do not yet know the full extent of the impacts on our business, our operations or the global economy as a whole. However, the effects have had and are expected to continue to have a material effect on our results of operations and heighten many of our known risks described in this risk factors section.

We may incur losses as a result of unforeseen or catastrophic events, including terrorist attacks, extreme weather events, or other natural disasters and climate change.

The occurrence of unforeseen or catastrophic events, including terrorist attacks, extreme terrestrial or solar weather events or other natural disasters, could create economic and financial disruptions, and could lead to operational difficulties (including travel limitations) that could impair our ability to manage our businesses. Our operations and customer base are located in markets where natural disasters, including tornadoes, severe storms, fires, floods, hurricanes, earthquakes and other extreme weather conditions often occur. Such natural disasters could significantly impact the local population and economies and our business, and could pose physical risks to our properties and/or employees, and could increase the risk that many of our borrowers may experience losses or sustained job interruption, which may materially impair their ability to satisfy their loan obligations. Although our banking offices are geographically dispersed primarily throughout the south central and southeastern portions of the United States and we maintain insurance coverages for such events, a significant natural disaster in or near one or more of our markets could have a material adverse effect on our financial condition, results of operations and liquidity.

Some of our operations and customer base are also located in markets which could experience the effects of climate change, including increases in storm incidents and resulting rising sea levels. To the extent climate change causes changes in weather patterns, our markets could experience increases in storm intensity and rising sea-levels. Over time, these conditions could result in declining demand for certain types of business that we finance, including commercial real estate projects, or decrease the value of our loans and other assets secured by real estate that might be impacted. Should the impact of climate change be material in nature or occur for lengthy periods of time, our financial condition or results of operations would be adversely affected. In addition, changes in federal and state legislation and regulation on climate change could result in increased capital expenditures to, among other things, improve the energy efficiency of properties we own in order to comply with such regulations. Climate change may also have indirect effects on our business by increasing the cost of (or making unavailable) property insurance on terms we find acceptable. There can be no assurance that climate change will not have a material adverse effect on our operations or business.

Consumers may decide not to use banks to complete their financial transactions.

Technology and other changes are allowing parties to complete, through alternative methods and delivery channels, financial transactions that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds with an Internet-only bank, or with virtually any bank in the country through online or mobile banking. Consumers can also complete transactions such as purchasing goods and services, paying bills and/or transferring funds directly without the assistance of banks by transacting through non-bank enterprises or through the use of emerging payment technologies such as cryptocurrencies. The process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower-cost deposits as a source of funds could have an adverse effect on our financial condition, results of operations and liquidity.

New lines of business, products, product enhancements or services may subject us to additional risks.

From time to time, we may implement or acquire new lines of business or offer new products and product enhancements as well as new services within our existing lines of business. There are substantial risks and uncertainties associated with these efforts. In acquiring, developing or marketing new lines of business, products, product enhancements or services, we may invest significant time and resources, although there is no guarantee that these new lines of business, products, product enhancements or services will be successful or that we will realize their expected benefits. Further, initial timetables for the introduction and development of new lines of business, products, product enhancements or services may not be achieved, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the ultimate implementation and success of new lines of business or offerings of new products, product enhancements or services. Furthermore, any new line of business, product, product enhancement or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or offerings of new products, product enhancements or services could have a material adverse effect on our business, financial condition or results of operations.

Our accounting estimates and risk management processes rely on analytical and forecasting models and tools.

The processes we use to estimate probable credit losses, to measure the fair value of financial instruments, and to measure and monitor risk throughout the Bank, as well as the processes used to estimate the effects of changing interest rates and other measures of our financial condition and results of operations, depend upon the use of analytical and forecasting models and tools. These models and tools reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are accurate, the models and tools may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. Any such failure in our analytical or forecasting models and tools could have a material adverse effect on our business, financial condition and results of operations.

Our selection of accounting policies and methods may affect our reported financial results.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with accounting principles generally accepted in the U.S. ("GAAP") and reflect management's judgment of the most appropriate manner to report our financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet which may result in our reporting materially different results than would have been reported under a different alternative.

Certain accounting policies have been determined by management to be critical to presenting our financial condition and results of operations. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. Because of the uncertainty of estimates involved in these matters, we may be required to do one or more of the following: significantly increase the ACL or sustain credit losses that are significantly higher than the ACL allocation provided; recognize an ACL on our portfolio of investment securities AFS; or significantly increase our accrued tax liability. Any of these could have a material adverse effect on our business, financial condition or results of operations. For a discussion of our critical accounting policies, see Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies included in this Annual Report on Form 10-K.

LEGAL, COMPLIANCE AND REGULATORY RISKS

We are subject to extensive government regulation that limits or restricts our activities and could adversely affect our operations.

We operate in a highly regulated industry and are subject to examination, supervision and comprehensive regulation by various federal and state agencies. Compliance with these regulations is costly and restricts certain activities, including issuance or redemption of debt securities, common stock or other forms of capital, payment of dividends on shares of our common stock, mergers and acquisitions, investments, interest rates charged for loans, interest rates paid on deposits, opening, closing or relocation of banking offices and various other activities and aspects of our operations. We are also subject to capital guidelines established by regulators which require maintenance of adequate capital. Many of these regulations are intended to protect depositors, the public and the FDIC's DIF rather than shareholders. Additionally, in order to conduct certain activities, including acquisitions, we are required to obtain regulatory approval. There can be no assurance that any required approvals can be obtained, or obtained without conditions or on a timeframe acceptable to us.

In addition, recently enacted statutes and regulations have increased the scope, complexity and cost of corporate governance and reporting and disclosure practices, including the costs of maintaining our internal controls. We continue to implement a number of externally driven regulatory programs, changes and enhancements. The cumulative impact of the collective change initiatives could be significant and have direct implications on resourcing and our people. Our ability to execute our strategy may also be limited by our operational capacity and the increasing complexity of the regulatory environment in which we operate.

We are subject to increased litigation, government investigation and increased scrutiny from bank regulatory and other government authorities, stemming from broader systemic regulatory concerns, including with respect to stress testing, liquidity and capital levels, asset quality, provisioning for credit loss, BSA/AML, consumer compliance and other prudential matters and efforts to ensure that financial institutions take steps to improve their risk management and prevent future crises. In this regard, government authorities, including the bank regulatory agencies and law enforcement, are also pursuing aggressive enforcement actions with respect to compliance and other legal matters involving financial activities, which heightens the risks associated with actual and perceived compliance failures and may also adversely affect our ability to enter into certain transactions or engage in certain activities, or obtain necessary regulatory approvals in connection therewith. The government enforcement authority includes, among other things, the ability to assess significant civil or criminal monetary penalties, fines, or restitution; to issue informal or formal enforcement actions, including required board resolutions, memoranda of understanding, written agreements, consent orders, cease and desist orders or prompt corrective action orders; to take corrective action and cease unsafe and unsound practices; and to initiate injunctive actions against banking organizations and institution-affiliated parties. These enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices.

In some cases, regulatory agencies may take supervisory actions that may not be publicly disclosed, which may address existing controls and could restrict or limit a financial institution. Also, as part of our regular examination process, our regulators may advise us to operate under various restrictions as a prudential matter. Such supervisory actions or restrictions, in whatever manner imposed, could negatively affect our ability to engage in new activities and certain transactions, as well as have a material adverse effect on our business and results of operations and may not be publicly disclosed.

We are involved in legal proceedings and may be the subject of additional litigation and/or investigations in the future.

In the normal course of business, from time to time, we are or have been named as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our business activities and acquisitions. Certain legal actions may include claims for substantial compensatory or punitive damages or indeterminate amounts of damages. In addition, while the arbitration provisions in certain of our customer agreements historically have limited our exposure to consumer class action litigation, there can be no assurance that we will be able to include or enforce such arbitration clauses in the future.

Although we have developed policies and procedures to minimize the impact of legal noncompliance and other disputes and endeavored to provide reasonable insurance coverage, litigation, government investigations and regulatory actions present an ongoing risk. We cannot predict with certainty the cost of defense, the cost of prosecution or the ultimate outcome of litigation and other proceedings filed by or against us, our directors, management or employees, including remedies or damage awards. On a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings as well as certain threatened claims (which are not considered incidental to the ordinary conduct of our business) utilizing the latest and most reliable information available. In accordance with GAAP, for matters where a loss is not probable or the amount of the loss cannot be estimated, no accrual is established. For matters where it is probable we will incur a loss and the amount can be reasonably estimated, we establish an accrual for the loss. Once established, the accrual is adjusted periodically to reflect any relevant developments. The actual cost of any outstanding legal proceedings or threatened claims, however, may turn out to be substantially higher than the amount accrued. Further, our insurance may not cover all litigation, other proceedings or claims, or the costs of defense. Future developments could result in an unfavorable outcome for any existing or new lawsuits or investigations in which we are, or may become, involved, which may have a material adverse effect on our business and our results of operations.

We may be subject to claims and litigation asserting lender liability.

From time to time, and particularly during periods of economic stress, customers, including real estate developers, may make claims or otherwise take legal action pertaining to performance of our responsibilities. These claims are often referred to as “lender liability” claims and are sometimes brought in an effort to produce or increase leverage against us in workout negotiations or debt collection proceedings. Lender liability claims frequently assert one or more of the following allegations: breach of fiduciary duties, fraud, economic duress, breach of contract, breach of the implied covenant of good faith and fair dealing, and similar claims. Whether customer claims and legal action related to the performance of our responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a favorable manner, they may result in significant financial liability and/or adversely affect our market reputation, products and services, as well as potentially affecting customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition, results of operations and liquidity.

We may be subject to claims and litigation pertaining to fiduciary responsibility.

From time to time as part of our normal course of business, customers may make claims and take legal action against us based on actions or inactions related to the fiduciary responsibilities of our Trust and Wealth Division. If such claims and legal actions are not resolved in a manner favorable to us, they may result in financial liability and/or adversely affect our market reputation or our products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

We may not be able to protect our intellectual property, and may be subject to claims of third-party intellectual property rights.

We utilize, to varying degrees in our business, certain patents, copyrights, trademarks, trade secret laws and confidentiality provisions to establish and protect our proprietary rights, including those created by our OZK Labs group. If we are unable to protect our intellectual property and proprietary technology, including any technology applications developed by our OZK Labs group, our competitors may be able to duplicate our technology and products. To the extent that we do not effectively protect our proprietary intellectual property through patents or other means, other parties, including former employees, with knowledge of our intellectual property may seek to exploit our intellectual property for their own or others' advantage. In addition, we may unintentionally infringe on claims of third-party patents, and we may face intellectual property challenges from other parties. We may not be successful in defending against any such challenges or obtaining licenses to avoid or resolve any intellectual property disputes. Third-party intellectual property rights, valid or not, may also impede our deployment of the full scope of our products and service capabilities, including our OZK Labs technology applications, in all of the market areas in which we operate or market our products and services.

The intellectual property of an acquired business may be an important component of the value that we agree to pay for such a business. Such an acquisition, however, is subject to the risks that, among others, the acquired business may not own the intellectual property that we believe we are acquiring, that the intellectual property is dependent on licenses from third parties, that the acquired business infringes on the intellectual property rights of others, or that the technology does not have the acceptance in the marketplace that we may have anticipated. Any inability to protect our intellectual property or any claims of third-party intellectual property rights may negatively affect our business, which, in turn, could have an adverse effect on our business reputation, financial condition or results of operations.

In some instances, litigation may be necessary to enforce our intellectual property rights and protect our proprietary information, or to defend against claims by third parties that our products, services or technology infringe or otherwise violate their intellectual property or proprietary rights. Third parties may have, or may eventually be issued, patents that could be infringed by our products, services or technology. Any of these third parties could bring an infringement claim against us with respect to our products, services or technology. We may also be subject to third-party infringement, misappropriation, breach or other claims with respect to copyright, trademark, license usage or other intellectual property rights. In addition, in recent years, individuals and groups, including patent holding companies, have been purchasing intellectual property assets in order to make claims of infringement and attempt to extract settlements from companies in the banking and financial services industry. Any litigation or claims brought by or against us, whether with or without merit, could result in substantial costs to us and divert the attention of our management, which could harm our business and results of operations. In addition, any intellectual property litigation or claims against us could result in the loss or compromise of our intellectual property and proprietary rights, subject us to significant liabilities including damage awards, result in an injunction prohibiting us from marketing or selling certain of our products or services, require us to redesign affected products or services, or require us to seek licenses and pay royalties which may only be available on unfavorable terms, if at all, any of which could harm our business and results of operations.

Changes in accounting standards could materially impact how we report our financial results.

The Financial Accounting Standards Board, the Securities and Exchange Commission ("SEC") and other bodies that establish and/or interpret accounting standards periodically change the financial accounting and reporting standards that govern the preparation of our consolidated financial statements or may change prior interpretations or positions on how these standards should be applied. These changes may be difficult to predict and may materially affect how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, which would result in changes to previously reported financial results.

Our concentration in CRE lending may subject us to additional scrutiny.

The federal banking agencies, including the FDIC, have promulgated guidance on sound risk management practices for financial institutions with concentrations in CRE lending. The guidance provides that a bank may have a concentration in CRE lending if (i) total reported loans for construction, land development and other land represent 100% or more of total risk-based capital or (ii) total reported loans secured by multifamily and non-owner occupied, non-farm/non-residential properties and loans for construction, land development and other land represent 300% or more of total risk-based capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months. Based on these criteria, we have a concentration in CRE lending as total loans for construction, land development and other land loans represented 190% of our total risk-based capital at December 31, 2020 (165% at December 31, 2019). Additionally, while our ratio of total loans for multifamily and non-owner occupied, non-farm/non-residential and loans for construction, land development and other land to total risk-based capital of 293% at December 31, 2020 (276% at December 31, 2019) does not exceed regulatory guidance, this ratio has exceeded such regulatory guidance in prior years. The guidance states that if a concentration is present, management must employ heightened risk management practices that address key elements, including board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of CRE lending. While we believe we have implemented policies, procedures and appropriate risk management practices with respect to our CRE loan portfolio consistent with this guidance, bank regulators could require us to implement additional policies, procedures or risk management practices, or require us to maintain increased capital levels, consistent with their interpretation of the guidance that may result in additional costs to us.

Increases in FDIC insurance premiums may adversely impact our earnings and financial condition.

Our deposits are insured by the FDIC up to legal limits and, accordingly, we are subject to FDIC deposit insurance assessments. We generally cannot control the amount of premiums we will be required to pay for FDIC insurance, with such premiums being based on our risk classification under an FDIC risk-based assessment system. Our assessments are based on our average consolidated total assets minus our average tangible equity. To determine our initial assessment rate, the FDIC uses a performance score and a loss-severity score, and in calculating these scores the FDIC uses our capital level, supervisory ratings and certain financial measures to assess our ability to withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score based upon significant risk factors that the FDIC determines are not adequately captured in these calculations. Changes to our assessment base or assessment rate, which are determined on a quarterly basis, could result in an increase in our FDIC insurance premiums. In addition, unfavorable economic conditions, increased bank failures or other events causing the DIF to suffer losses may cause the FDIC to charge additional special assessments. Future increases of FDIC insurance premiums or special assessments could have a material adverse effect on our business, financial condition or results of operations.

Existing and proposed legislation and regulations may affect our operations and growth.

To address turbulence in the U.S. economy and the banking and financial markets, the U.S. government has enacted a series of laws, regulations, guidelines and programs, many of which are discussed under the section Item 1. Business–Supervision and Regulation in this Annual Report on Form 10-K. The changes resulting from the Dodd-Frank Act may continue to affect the profitability of our business activities, require additional changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. In particular, the potential effect of the Dodd-Frank Act on our operations and activities, both currently and prospectively, may include the following risks, among others:

- a reduction in our ability to generate or originate revenue-producing assets as a result of compliance with heightened capital standards;
- an increased cost of operations due to greater regulatory oversight, supervision and examination of banks;
- limitation on our ability to raise qualifying regulatory capital through the use of trust preferred securities or subordinated notes as these securities and notes are no longer included in Tier 1 capital; and
- limitations on our ability to offer certain consumer products and services due to anticipated stricter consumer protection laws and regulations.

We have been and will continue investing significant management attention and resources to evaluate and make changes necessary to comply with new statutory and regulatory requirements under the Dodd-Frank Act. The Dodd-Frank Act created the CFPB, which is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The CFPB has rulemaking authority over many of the statutes governing products and services offered to bank consumers. For banking organizations with assets of $10 billion or more, the CFPB has exclusive rulemaking and examination authority, and primary enforcement authority for most federal consumer financial laws. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB. Compliance with any such new regulations will likely increase our cost of operations. Failure to comply with these new requirements, among others, may adversely affect our results of operations and financial condition.

Additionally, in the routine course of regulatory oversight, proposals to change the laws and regulations governing the operations of banks and other financial institutions are frequently raised in the U.S. Congress, state legislatures and before bank regulatory authorities. The likelihood of significant changes in laws and regulations in the future and the effect that such changes might have on our operations are impossible to determine. Similarly, proposals to change the accounting and financial reporting requirements applicable to banks and other depository institutions are frequently raised by the SEC, the federal banking agencies and other authorities. Further, federal intervention in financial markets and the commensurate effect on financial institutions may adversely affect our rights under contracts with such other institutions and the way in which we conduct business in certain markets. The likelihood and impact of any future changes in these accounting and financial reporting requirements and the effect these changes might have on our business and operations are also impossible to determine at this time.

We are subject to changes in federal and state tax laws, interpretation of existing laws and examinations and challenges by taxing authorities.

Our financial performance is impacted by federal and state tax laws. Given the current economic and political environment, and ongoing budgetary pressures, the enactment of additional new federal or state tax legislation may occur or interpretations of existing tax laws could change. The enactment of such legislation or changes in the interpretation of existing law may have a material adverse effect on our financial condition, results of operations and liquidity.

In the normal course of business, we are routinely subjected to examinations and audits from federal and state taxing authorities regarding tax positions taken by us and the determination of the amount of tax due. These examinations may relate to income, franchise, gross receipts, payroll, property, sales and use, unclaimed property or other tax returns filed, or not filed, by us. The challenges made by taxing authorities may result in adjustments to the amount of taxes due, and may result in the imposition of penalties and interest. If any such challenges are not resolved in our favor, they could have a material adverse effect on our financial condition, results of operations and liquidity.

Certain state and/or federal laws may deter potential acquirers and may depress our stock price.

Certain provisions of federal and state laws may have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of us. Under certain federal and state laws, a person, entity, or group must give notice to applicable regulatory authorities before acquiring a significant amount, as defined by such laws, of the outstanding voting stock of a bank, including shares of our common stock. Regulatory authorities review a potential acquisition to determine if it will result in a change of control. The applicable regulatory authorities will then act on the notice, taking into account the resources of the potential acquirer, the potential antitrust effects of the proposed acquisition and numerous other factors. As a result, these statutory provisions may delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider to be in such shareholder's best interest, including those attempts that might result in payment of a premium over the market price for the shares held by shareholders.

LIQUIDITY AND MARKET RISKS

We may not be able to meet the cash flow requirements of our depositors, borrowers, or creditors, or the cash needs for expansion or other corporate activities.

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 is the potential that we will be unable to meet our obligations as they become due because of an inability to liquidate assets or obtain adequate funding (referred to as "funding liquidity risk") or that we cannot easily unwind or offset specific expenses without significantly lowering market prices because of inadequate market depth or market disruptions (referred to as "market liquidity risk"). Our ALCO Committee ("ALCO"), which reports to the Board, has primary responsibility for oversight of our liquidity, funds management, asset/liability (interest rate risk) position, investment portfolio, and capital.

The objective of managing liquidity risk is to ensure that our cash flow requirements resulting from depositor, borrower (including our ability to fund our significant balance of closed but unfunded loans), and other creditor demands are met, as well as our operating cash needs, and that our 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 and monitoring liquidity risk. Generally, we rely on deposits, repayments of loans and cash flows from our investment securities as our primary sources of funds. Our principal deposit sources include consumer and commercial customers in our markets. We have used these funds, together with public funds customers, FHLB advances and secondary funding sources, including wholesale deposit sources such as brokered deposits, federal funds purchased and other sources of short-term borrowings to make loans, acquire investment securities and other assets and to fund continuing operations.

Deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, returns available to customers on alternative investments, general economic and market conditions and other factors. Loan repayments are generally a relatively stable source of funds but are subject to the borrowers' ability to repay loans, which can be adversely affected by a number of factors including changes in general economic conditions, adverse trends or events affecting business industry groups or specific businesses, declines in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and other factors. Furthermore, loans may not be readily convertible to cash.

We anticipate we will continue to rely primarily on deposits, loan repayments, and cash flows from our investment securities, as well as other funding sources as appropriate, to provide liquidity. Additionally, where necessary, the secondary sources of borrowed funds described above will be used to augment our primary funding sources. If we are unable to access any of these secondary funding sources when needed, or if we otherwise experience an increase in funding liquidity risk or an increase in market liquidity risk, we might be unable to meet our depositors', borrowers' or creditors' needs, which would adversely affect our financial condition, results of operations and liquidity.

If we lose a significant portion of our core deposits or our cost of funding deposits increases, our liquidity and/or profitability could be adversely impacted.

Our profitability depends in part on successfully attracting and retaining a stable base of relatively low-cost deposits, as deposits have traditionally served as our largest, least costly source of funding. The competition for these deposits in our markets is strong, and deposit trends can shift with economic conditions. Our deposit levels might fall if an improving economy, rising market rates, or increased competition causes depositors to become more comfortable with risk and to demand higher interest rates on their deposits or seek other investments or vehicles offering higher rates of return.

We sometimes offer credit enhancements to depositors, such as FHLB letters of credit and, for certain deposits of public monies, pledges of collateral in the form of readily marketable securities. Any event or circumstance that interferes with or limits our ability to offer these products to customers that require greater security for their deposits, such as a significant regulatory enforcement action or a significant decline in our capital levels, could negatively impact our ability to attract and retain deposits. If we were to lose a significant portion of our low-cost deposits, we would be required to borrow from other sources at higher rates and our liquidity and profitability could be adversely impacted.

We use brokered deposits which may be an unstable and/or expensive deposit source to fund earning asset growth.

We use brokered deposits, subject to certain limitations and requirements, as a source of funding to augment deposits generated from our branch network. Our Board has established policies and procedures with respect to the use of brokered deposits. Such policies and procedures require, among other things, that (i) we limit the amount of brokered deposits as a percentage of total deposits and (ii) our ALCO monitor our use of brokered deposits on a regular basis, including interest rates and the total volume of such deposits in relation to our total deposits. At December 31, 2020 we had $1.60 billion in brokered deposits ($2.12 billion at December 31, 2019). In the event that our funding strategies call for the use of brokered deposits, there can be no assurance that such sources will be available, or will remain available, or that the cost of such funding sources will be reasonable. Additionally, should we no longer be considered well-capitalized, our ability to access new brokered deposits or retain existing brokered deposits could be adversely affected by market conditions, regulatory requirements or a combination thereof, which could result in most, if not all, brokered deposit sources being unavailable. The inability to utilize brokered deposits as a source of funding could have an adverse effect on our financial position, results of operations and liquidity.

We may need to raise additional capital in the future to continue to grow, but that capital may not be available when needed.

Federal and state bank regulators require us to maintain adequate levels of capital to support operations. At December 31, 2020, our regulatory capital ratios were at "well-capitalized" levels under regulatory guidelines. However, our business strategy calls for continued growth in our existing banking markets and to expand into new markets as appropriate opportunities arise. Growth in assets at rates in excess of the rate at which our capital is increased through retained earnings will reduce our capital ratios unless we continue to increase capital through other means. If our capital ratios were to fall below "well-capitalized" levels, the FDIC insurance assessment rate would increase until capital is restored and maintained at a "well-capitalized" level. Additionally, should our capital ratios fall below "well-capitalized" levels, certain funding sources could become more costly or could cease to be available to us until such time as capital is restored and maintained at a "well-capitalized" level. A higher assessment rate resulting in an increase in FDIC insurance premiums, increased cost of funding or loss of funding sources could have an adverse effect on our financial condition, results of operations and liquidity.

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 company, a likely source of additional funds is the capital markets, accomplished generally through the issuance of equity, including common stock, preferred stock, warrants, depository shares, stock purchase contracts or stock purchase units, and the issuance of senior debt or subordinated debentures. Our ability to raise additional capital, including senior debt or subordinated debentures, if needed, will depend, among other things, on conditions in the equity and/or debt markets at that time, which are outside of our control, and our financial performance. In addition, any issuance of preferred stock or debt by us will require the prior approval of the ASBD and may be accompanied by time delays associated with obtaining such approval. If market conditions change during any time delays associated with obtaining regulatory approval, we may not be able to issue equity or debt on as favorable terms as were contemplated at the time of commencement of the process, or at all.

We cannot assure you that access to additional capital will be available to us on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, our depositors or counterparties participating in the capital markets, may materially and adversely affect our capital costs and our ability to raise capital and/or debt and, in turn, our liquidity. If we cannot raise additional capital when needed, our ability to continue to grow in our existing banking markets and to expand into new markets could be impaired.

We cannot guarantee that we will pay dividends to common shareholders in the future.

Our shareholders are only entitled to receive dividends on our common stock as our Board may declare out of funds legally available for such payments. Although we have historically declared such dividends, we are not required to do so and may reduce or eliminate our common stock dividend in the future. Our ability to pay dividends on our common stock to our shareholders is subject to the restrictions set forth in Arkansas law, by our federal regulator, and by certain covenants contained in the indentures governing our trust preferred securities, our subordinated debentures and our subordinated notes. For example, in the event we become subject to an enforcement action or depending upon our regulatory status, our regulators may prevent us from paying dividends to our shareholders. Further, any lenders making loans to us may impose financial covenants that may be more restrictive than regulatory requirements with respect to our payment of dividends to common shareholders. Accordingly, there can be no assurance that we will continue to pay dividends to our common shareholders in the future. See note 18 of the consolidated financial statements under Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K for a discussion of dividend restrictions.

Our operations are significantly affected by interest rate levels.

Our profitability is dependent to a large extent on net interest income, which is the difference between interest income earned on loans and investment securities and interest expense paid on deposits, other borrowings, subordinated debentures and subordinated notes. Our business is affected by changes in general interest rate levels and changes in the differential between short-term and long-term interest rates, both of which are beyond our control. An increase in market interest rates on loans is generally associated with a lower volume of loan originations, which may reduce earnings. Following an increase in the general level of interest rates, our ability to maintain a positive net interest spread is dependent on our ability to increase our loan offering rates, replace loan maturities with new originations, minimize increases on our deposit rates, and maintain an acceptable level and mix of funding. Although we have implemented procedures we believe will reduce the potential effects of changes in interest rates on our net interest income, these procedures may not always be successful. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest income and our net interest margin, asset quality, loan origination volume, liquidity, and overall profitability. We cannot assure you that we can minimize our interest rate risk.

We rely primarily on an earnings simulation model and economic value of equity (“EVE”) to analyze our interest rate risk and our sensitivity to interest rate changes. This earnings simulation model projects a baseline net interest income and estimated changes to such baseline from changes in interest rates and incorporates a number of assumptions, including, among others, (i) the expected exercise of call features on various assets and liabilities, (ii) the expected rates at which rate sensitive assets and rate sensitive liabilities will reprice, (iii) the expected growth in various interest earning assets and interest bearing liabilities and the expected interest rates on such new assets and liabilities, (iv) the expected relative movements in different interest rate indices which are used as the basis for pricing or repricing various assets and liabilities, (v) existing and expected contractual ceiling and floor rates on various assets and liabilities, (vi) 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, (vii) the timing and amount of cash flows expected to be received on investment securities and purchased loans, (viii) the timing and amount of prepayments that are anticipated from our loan portfolio, (ix) the need, if any, for additional capital and/or debt to support continued growth, and (x) other relevant factors. EVE, which measures the expected change in the fair value of equity, is calculated as the fair value of all assets minus the fair value of liabilities and incorporates a number of assumptions including (i) the timing and amount of cash flows expected to be received or paid on various assets and liabilities, (ii) the expected exercise of call features on various assets and liabilities, (iii) estimated discount rates and (iv) other relevant factors. These assumptions and inputs into our interest simulation model and EVE are difficult to accurately predict. Should these assumptions prove to be inaccurate, our interest simulation model and EVE results may not accurately project our interest rate risk and our sensitivity to interest rate changes. As a result, we may incur increased or unexpected losses due to changes in interest rates which could materially and adversely affect our net interest income, our net interest margin and our results of operations.

We and/or the holders of certain classes of our securities could be adversely affected by unfavorable ratings from rating agencies.

The ratings agencies regularly evaluate us, and their ratings of our long-term debt are based on a number of factors, including our financial strength, as well as factors not entirely within our control, including conditions affecting the financial services industry in general. There can be no assurance that we will not receive adverse changes in our ratings in the future, which could adversely affect the cost and other terms upon which we are able to obtain funding, and the way in which we are perceived in the capital markets. Actual or anticipated changes, or downgrades in our credit ratings, including any announcement that our ratings are under review for a downgrade, could adversely affect the market value and liquidity of our securities, increase our borrowing costs and negatively impact our profitability. Additionally, a downgrade of the credit rating of any particular security issued by us could negatively affect the ability of the holders of that security to sell the securities and the prices at which any such securities may be sold.

The performance of our investment securities portfolio is subject to fluctuation due to changes in interest rates and market conditions, including credit deterioration of the issuers of individual securities.

ALCO has primary responsibility for oversight of our investment portfolio functions. Changes in interest rates can negatively affect the performance of most of our investment securities. Interest rate volatility can reduce unrealized gains or increase unrealized losses in our portfolio. Interest rates are highly sensitive to many factors including monetary policies, domestic and international economic and political issues, and other factors beyond our control. Fluctuations in interest rates can materially affect both the returns on and market value of our investment securities. Additionally, actual investment income and cash flows from investment securities that carry prepayment risk, such as mortgage-backed securities and callable securities, may materially differ from those anticipated at the time of investment or subsequently as a result of changes in interest rates and market conditions.

Our investment securities portfolio consists of several securities whose trading markets are “not active.” As a result, we utilize alternative methodologies for pricing these securities that include various estimates and assumptions. There can be no assurance that we can sell these investment securities at the price derived by these methodologies, or that we can sell these investment securities at all, which could have an adverse effect on our financial position, results of operations and liquidity.

We monitor the financial position of the various issues of investment securities in our portfolio, including each of the state and local governments and other political subdivisions where we have exposure. To the extent we have securities in our portfolio from issuers that have experienced a deterioration of financial condition, or that may experience future deterioration of financial condition, the value of such securities may decline and could result in the need to establish an ACL recorded as a provision for credit loss, which could have an adverse effect on our financial condition, results of operations and liquidity.

We currently invest in bank owned life insurance (“BOLI”) and may continue to do so in the future.

We had $758 million in general, hybrid and separate account BOLI contracts at December 31, 2020. BOLI is an illiquid long-term asset that provides tax savings because cash value growth and life insurance proceeds are not taxable. However, if we needed additional liquidity and converted the BOLI to cash, such transaction would be subject to ordinary income tax and applicable penalties. We are also exposed to the credit risk of the underlying securities in the investment portfolio and to the insurance carrier’s credit risk (in a general account contract). If BOLI was exchanged to another carrier, additional fees would be incurred and a tax-free exchange could only be done for insureds that were still actively employed by us at that time. There is also interest rate risk relating to the market value of the underlying investment securities associated with the BOLI in that there is no assurance that the market value of these securities will not decline. Investing in BOLI exposes us to liquidity, credit and interest rate risk, among other risks, which could adversely affect our financial condition, results of operation and liquidity.

Uncertainty related to the LIBOR calculation process and potential phasing out of LIBOR may adversely affect our results of operations.

On July 27, 2017, the Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the LIBOR administrator. The announcement indicates that the continuation of LIBOR on the current basis will not be guaranteed after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the LIBOR administrator, whether LIBOR will cease to be published or supported before or after 2021 or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. In June 2017, the FRB’s Alternative Reference Rates Committee selected the Secured Overnight Financing Rate (“SOFR”) as the preferred alternative to LIBOR and began publication of SOFR in April 2018. However, uncertainty remains as to whether SOFR may become an accepted alternative to LIBOR and it is impossible to predict the effect of SOFR or any other alternatives on the value of LIBOR-based securities and variable rate loans, subordinated debentures, or other securities or financial arrangements, given LIBOR’s role in determining market interest rates globally.

The market transition away from LIBOR to an alternative reference rate, including SOFR, is complex and could have a range of adverse effects on the Bank’s business, financial condition, and results of operations. In particular, any such transition could:

- adversely affect the interest rates paid or received on, the revenue and expenses associated with, and the value of the Bank’s floating rate obligations, loans, deposits and other financial instruments tied to LIBOR rates, or other securities or financial arrangements given LIBOR’s role in determining market interest rates globally;
- prompt inquiries or other actions from regulators in respect of the Bank’s preparation and readiness for the replacement of LIBOR with an alternative reference rate;

- result in disputes, litigation or other actions with customers or counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR-based securities and/or LIBOR-based loan agreements or the appropriateness or comparability to LIBOR of any substitute indices; and
- require the transition to or development of appropriate systems and analytics to effectively transition our risk management processes from LIBOR-based products to those based on the applicable alternative pricing benchmark.

In addition, the implementation of LIBOR reform proposals may result in increased compliance costs and operational costs, including costs related to continued participation in LIBOR and the transition to a replacement reference rate or rates. Included in Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Elements – Market and Interest Rate Risk Management – LIBOR Transition of this Annual Report on Form 10-K is a discussion of our efforts to address the possible elimination of LIBOR.

The holders of our subordinated debentures and subordinated notes have rights that are senior to those of our common shareholders, and any future debt or preferred equity securities we may offer may adversely affect the market price of our common stock.

At December 31, 2020, we had an aggregate principal amount of $118 million of floating rate and trust preferred securities outstanding. We guarantee payment of the principal and interest on the trust preferred securities, and the subordinated debentures are senior to shares of our common stock. As a result, we must make payments on the subordinated debentures (and the related trust preferred securities) before any dividends can be paid on shares of our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the subordinated debentures would receive a distribution from our available assets before any distributions could be made to the holders of common stock. We have the right to defer distributions on our subordinated debentures and the related trust preferred securities for up to five years, during which time no dividends may be paid to holders of our common stock.

At December 31, 2020, we had an aggregate principal amount of $225 million of subordinated notes which are senior to shares of our common stock. In the event of our bankruptcy, dissolution or liquidation, the holders of the subordinated notes would receive a distribution from our available assets before any distribution could be made to the holders of common stock.

We may from time to time issue debt securities, which would be senior to our common stock upon liquidation, and/or preferred equity securities, which may be senior to our common stock for purposes of dividend distributions or upon liquidation, borrow money through other means, or issue preferred stock. Our Board is authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of our shareholders, so long as we obtain regulatory approval prior to issuing such securities. Our Board also has the power, without shareholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over our common stock with respect to dividends or upon our dissolution, winding-up and liquidation and other terms. If we issue preferred stock in the future that has a preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution, or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

The price of our common stock is affected by a variety of factors, many of which are outside our control.

Stock price volatility may make it more difficult for investors to sell shares of our common stock at times and prices they find attractive. Our common stock price can fluctuate significantly, over a short period of time, in response to a variety of factors, including, among other things:

- actual or anticipated variations in quarterly results of operations;
- recommendations or changes in recommendations by securities analysts regarding our securities;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry;
- perceptions in the marketplace about us and/or our competitors;
- new technology used, or products and services offered, by competitors;
- changes in the political climate, including any changes from the recent U.S. elections;
- changes in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates, stock, commodity or real estate valuations or volatility and other geopolitical, regulatory or judicial events;
- significant acquisitions or business combinations, strategic partnerships, joint ventures, or capital commitments by or involving us or our competitors; and
- changes in, or proposed changes to, governmental regulations.

General market fluctuations, industry factors and general economic and political conditions and events such as economic slowdowns, expected or incurred interest rate changes, credit loss trends, and various other factors and events could adversely affect the price of our common stock.

Our common stock trading volume may not provide adequate liquidity for investors.

Although shares of our common stock are listed on the Nasdaq Global Select Market, the average daily trading volume in the common stock may be less than that of larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of a sufficient number of willing buyers and sellers of the common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Significant sales of our common stock in a brief period of time, or the expectation of these sales, could cause a decline in the price of our common stock.

Future issuances of additional equity securities could result in dilution of existing shareholders' equity ownership and may adversely affect the market price of our stock.

We have issued, and may issue in the future, shares of our common stock in connection with our acquisition of other financial institutions or to support expected growth. We may determine from time to time to issue additional equity securities to raise additional capital, support growth, or to make acquisitions. Further, we have, and may continue to, issue stock options, grant restricted stock awards or other stock grants, awards or units in order to retain, compensate and/or motivate our employees and directors. These issuances of our securities could dilute the voting and economic interests of existing shareholders. In addition, resales of substantial amounts of common stock in the public market and the potential of such sales could adversely affect the prevailing market price of our common stock and impair our ability to raise additional capital through the sale of equity securities.

Our common stock is not an insured deposit.

Shares of our common stock are not a bank deposit and, therefore, losses in value are not insured by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in shares of our common stock is inherently risky for the reasons described in this "Risk Factors" section of this Annual Report on Form 10-K, and is subject to the same market forces and investment risks that affect the price of common stock in any other company, including the possible loss of some or all principal invested.

STRATEGIC, REPUTATIONAL AND OTHER RISKS

Our recent results may not be indicative of our future results.

We may not be able to grow our business at the same rate of growth achieved in recent years or even grow our business at all. Additionally, in the future we may not have the benefit of several factors that have been favorable to our business in past years, such as an interest rate environment where changes in rates occur at a relatively orderly and modest pace, the ability to find suitable expansion opportunities, or otherwise to capitalize on opportunities presented by economic turbulence, or other factors and conditions.

Numerous factors, such as weakening or deteriorating economic conditions, regulatory restrictions or actions, legislative considerations, and competition may impede or restrict our ability to expand our market presence and could adversely affect our future operating results.

We have made, and are continuing to make, significant changes and enhancements to our infrastructure in a number of important areas. The ultimate success and completion of these changes may vary significantly from initial planning, which could materially affect our control environment, operating efficiency, and results of operations.

Over the last several years, we have completed numerous strategic initiatives and improvement projects, including the merger of our bank holding company into the Bank, our name change and strategic rebranding, and expansion and enhancement of our infrastructure for a number of key areas, including expanding our human and physical infrastructure. Ongoing investment will continue with respect to expansion and enhancements to our infrastructure, implementation of various customer-facing digital capabilities, and a variety of other projects to enhance, automate or otherwise create efficiencies in how we do business.

These changes continue to be implemented; some of the projects are fully completed, and some projects are in their early stages. By their very nature, projections of duration, cost, expected savings, expected efficiencies and related items are subject to change and significant variability. We may encounter significant adverse developments in the completion and implementation of these changes. These may include significant time delays, cost overruns, loss of key people, technological problems, processing failures and other adverse developments. Any or all of these issues could result in disruptions to our systems, processes, control environment, procedures and employees, which may adversely impact our customers and our ability to conduct business.

We have plans, policies and procedures designed to prevent or limit the negative effect of these potential adverse developments. However, there can be no assurance that any such adverse developments will not occur or, if they do occur, that they will be adequately remediated. The ultimate effect of any adverse development could subject us to additional regulatory scrutiny or expose us to civil litigation and possible financial liability, any of which could materially affect our control environment, operating efficiency and results of operations.

If we do not manage our growth effectively, our business, future prospects, financial condition, results of operations and liquidity could be adversely affected.

Our reputation, expertise and banking model enable us to build and expand our banking relationships with customers in the markets we serve. We remain committed to growing our business in a disciplined manner. Our growth prospects must be considered in light of the risks, expenses and difficulties frequently encountered by banking companies pursuing such strategies. In order to successfully expand our banking relationships in our current or new markets, we must, among other things:

- attract and retain qualified bank management and staff;
- build a substantial customer base;
- expand our loan portfolio while maintaining credit quality;
- attract sufficient deposits and capital to fund anticipated loan growth;
- identify and expand into suitable markets;
- identify and acquire suitable sites for new banking offices;
- obtain regulatory and other approvals;
- maintain adequate common equity and regulatory capital;
- sustain employee productivity while pursuing various organizational initiatives; and
- maintain sufficient qualified staffing, infrastructure and organizational capacity to support growth and compliance with increasing regulatory requirements.

In addition to the foregoing factors, there are considerable costs involved in opening banking offices, and such new offices generally do not generate sufficient revenues to offset their costs until they have been in operation for some time. Therefore, any new banking offices we open can be expected to negatively affect our operating results until those offices reach a size at which they become profitable. We could also experience an increase in expenses if we encounter delays in opening any new banking offices.

Moreover, we cannot give any assurances that any new banking offices we open will be successful, even after they have become established, or that we can hire and retain qualified bank management and staff to achieve our growth and profitability goals. If we do not manage our growth effectively, our business, future prospects, financial condition, results of operations and liquidity could be adversely affected.

We may be adversely affected by risks associated with completed or any potential future acquisition.

We plan to continue to grow our business organically. However, we have pursued and may continue to pursue additional acquisition opportunities in the future that we believe support our business strategy and may enhance our profitability. Acquisitions involve numerous risks, including, among others:

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in our attention being diverted from the operation of our existing business;
- using inaccurate estimates, assumptions and judgments to evaluate credit, operations, management and market risks with respect to the target institution or assets;
- the risk that the acquired business will not perform to our expectations;
- difficulties, inefficiencies or cost overruns in integrating and assimilating the organizational cultures, operations, technologies, products and services of the acquired business with ours;
- the risk of key vendors not fulfilling our expectations or not accurately converting data or operating systems;
- entering geographic and product markets in which we have limited or no direct prior experience;
- the potential loss of key employees, vendors, customers and depositors of the acquired business;
- the potential for liabilities, claims and/or other contingencies arising out of the acquired business; and
- the risk of not receiving required regulatory approvals or such approvals being restrictively conditional.

Acquisitions of financial institutions also involve operational risks and uncertainties, and acquired companies may have unknown or contingent liabilities with no corresponding accounting reserve or allowance, exposure to unexpected asset quality problems that require write downs or write-offs (as well as restructuring and impairment or other charges), difficulty retaining key employees and customers and other issues that could negatively affect our business. We may not be able to realize any projected cost savings, synergies or other benefits associated with any such acquisition we complete. Any acquisition may involve the payment of a premium over book and/or market value and, therefore, some dilution of our tangible book value and diluted earnings per common share may occur in connection with any such future acquisition. Failure to successfully integrate the entities we acquire into our existing operations could significantly increase our operating costs and have a material adverse effect on our business, financial condition and results of operations.

We must generally satisfy a number of meaningful conditions prior to completing any acquisition, including, in certain cases, federal and state regulatory approval. Bank regulators consider a number of factors when determining whether to approve a proposed transaction, including the effect of the transaction on financial stability and the ratings and compliance history of all institutions involved, including the CRA examination results and BSA/AML compliance records of all institutions involved. The process for obtaining required regulatory approvals may be difficult. We may fail to pursue, evaluate or complete strategic acquisition opportunities as a result of our inability, or our perceived inability, to obtain any required regulatory approvals in a timely manner or at all.

In addition, we face significant competition from numerous other financial services institutions, some of which will have greater financial resources than we do, when considering acquisition opportunities. Accordingly, attractive acquisition opportunities may not be available to us. There can be no assurance that we will be successful in identifying or completing any potential future acquisitions.

Reputational risk and social factors may impact our results.

Our ability to originate and maintain accounts is highly dependent upon consumer and other external perceptions of our business practices and/or our financial health. Adverse perceptions regarding our business practices and/or financial health could damage our reputation, leading to difficulties in originating and retaining loans and deposits. Adverse developments, consumer sentiment, or other external perceptions regarding the practices of competitors, or the industry as a whole, may also adversely impact our reputation and business prospects. These perceptions could stem from a variety of sources, including negative posts or communications about us on a social media website or the disclosure of non-public information or negative comments regarding us or our business from employees or others on social media or other websites. In addition, adverse reputational effects on third parties with whom we have important relationships may also adversely affect our reputation. Adverse effects on our reputation, or the reputation of the industry, may also result in greater regulatory and/or legislative scrutiny, which may lead to laws or regulations that may change or constrain the manner in which we engage with our customers and the products and services we offer. Adverse reputational effects or events may also increase litigation risk. Any of these factors could have an adverse effect on our ability to achieve our business objectives, which could have an adverse effect on our financial conditions, results of operations and liquidity.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions, or inactions, and financial stability of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to various counterparties, including brokers and dealers, commercial and correspondent banks, and others. As a result, defaults by, or rumors or questions about, one or more other financial services institutions, or the financial services industry generally, may result in market-wide liquidity problems and could lead to losses or defaults by such other institutions. Such occurrences could expose us to credit risk in the event of default of one or more counterparties and could have a material adverse effect on our financial position, results of operations and liquidity.

If our goodwill becomes impaired, we could be required to record impairment charges.

Goodwill represents the amount by which the acquisition cost exceeds the fair value of net assets we acquire in an acquisition. We review goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate the carrying value might be impaired. At December 31, 2020 our goodwill totaled $661 million. While our previous evaluations of goodwill, including our evaluation as of December 31, 2020, have not resulted in any impairment charges or write downs of our goodwill, there can be no assurance that future evaluations of goodwill will not result in findings of impairment and related write downs, which could have a material adverse effect on our financial condition and results of operations.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our principal executive office is located in Little Rock, Arkansas. At December 31, 2020, we conducted banking operations in 255 offices in nine states, including 240 banking offices and 15 loan production offices. Such offices include both owned and leased facilities.

The following table sets forth specific information about our facilities, by state, at December 31, 2020.

	Banking Facility		
State	Owned	Leased	Total
Arkansas	74 (1)	7 (3)	81
Georgia	61	9 (4)	70
Florida	32	14 (5)	46
North Carolina	24	3 (6)	27
Texas	20	4 (7)	24
South Carolina	2 (2)	—	2
California	—	3 (8)	3
New York	—	1	1
Mississippi	—	1 (9)	1
Total	213	42	255

(1) Includes our principal executive office in Little Rock.
(2) The Bank has entered into a purchase and assumption agreement to sell both of its South Carolina branches. This transaction is expected to close in March 2021.
(3) Includes one loan production office in Jonesboro.
(4) Includes one loan production office each in Atlanta and Alpharetta.
(5) Includes one loan production office each in Orlando, Jacksonville Beach, Aventura and Clearwater.
(6) Consists of one loan production office each in Raleigh, Greenville and Charlotte.
(7) Includes a loan production office in Tyler.
(8) Consists of one loan production office each in Los Angeles, San Francisco and Irvine.
(9) Consists of a loan production office in Brookhaven.

Item 3. LEGAL PROCEEDINGS

On October 26, 2018, a purported class action complaint alleging violations of federal securities laws was filed against Bank OZK in the United States District Court for the Eastern District of Arkansas, captioned Jordan Colbert et al. v. Bank OZK et al., case number now 4:18-cv-793-DPM. Under applicable federal law, the federal district court in the Colbert Case named Strathclyde Pension Fund as the lead class plaintiff. The Colbert complaint, as first amended on June 21, 2019, alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, by the Bank, its CEO, George Gleason, and its CFO, Greg McKinney, for making allegedly false and misleading statements and allegedly failing to disclose material facts relating to the risk of loss regarding two commercial real estate loans. The first amended complaint alleged essentially that the Bank lacked adequate internal controls to assess credit risk; as a result, such loans, which were classified as substandard, posed an increased risk of loss and were reasonably likely to lead to charge-offs, which actually occurred in the third quarter of 2018; and consequently, defendants' public statements during the class period about the Bank's business, operations, and prospects were materially misleading and/or lacked a reasonable basis. The first amended complaint identified the proposed class period as encompassing persons who purchased the Bank's common stock between February 19, 2016 and October 18, 2018, and sought damages against the Bank and the individual defendants. On April 3, 2020, the Court ruled on the Bank's and the individual defendants' motion to dismiss the action, granting the motion in part, dismissing all claims against Mr. McKinney, and denying the motion in part, allowing certain of the claims against the Bank and Mr. Gleason to move forward. On October 8, 2020, lead plaintiff filed a second amended complaint to reassert certain of the claims that had been dismissed, but not to reassert claims against Mr. McKinney. On January 29, 2021, the Court ruled on the Bank's and Mr. Gleason's motion to dismiss the second amended complaint, confirming dismissal of the previously dismissed claims and allowing the claims previously allowed to move forward against the Bank and Mr. Gleason. The Bank and Mr. Gleason intend to vigorously defend against the alleged claims.

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

On August 14, 2019, a shareholder derivative complaint was filed in the United States District Court for the Eastern District of Arkansas, case number 4:19-cv-567-KGB, by Barbara Bonessi as plaintiff, against the Bank, as nominal defendant, the current members of the board of directors, and certain current and former officers and directors of the Bank. As amended on January 20, 2020, the complaint alleged claims against the current members of the board of directors of breach of fiduciary duty, waste of corporate assets, unjust enrichment, failing to prevent other officers and directors from alleged insider trading in the Bank's stock, and violation of Section 14(a) of the Securities Exchange Act of 1934, as amended, and Rule 14a-9 promulgated thereunder, all in the context of the same factual circumstances recited in the actions noted in the two preceding paragraphs. Based on the same factual circumstances, the amended complaint also alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, and unlawful sales of Bank stock against certain current and former directors and officers of the Bank while in possession of non-public material adverse information. Under the amended complaint, the plaintiff sought damages against the individual defendants and disgorgement of any profits, benefits and other compensation received by them. The Bank opposed the ability of the plaintiff to proceed in a derivative capacity, and on September 4, 2020 the United States District Court granted the defendants' motion to dismiss the amended complaint and dismissed the amended complaint in its entirety without prejudice. On October 2, 2020, the plaintiff moved to alter or amend the judgment and for leave to further amend the amended complaint. On February 23, 2021, the Court issued an order denying plaintiff's motion to amend the judgment and the plaintiff's motion to further amend the complaint.

Certain case proceedings that have been previously disclosed may no longer be reported because, as a result of rulings in some of the cases, changes in our business or other developments, in our judgment they are no longer believed to be material to our financial condition or operating results.

In the ordinary course of business, we are or may be involved in various legal or regulatory proceedings, claims, including claims related to employment, wage-hour and labor law claims, consumer and privacy claims, lender liability claims, breach of contract, and other similar lending-related claims encountered on a routine basis, some of which may be styled as "class action" or representative cases. While the ultimate resolution of these ordinary course claims and proceedings cannot be determined at this time, management believes that such claims and proceedings, individually or in the aggregate, will not have a material adverse effect on the Bank's financial condition or results of operations.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

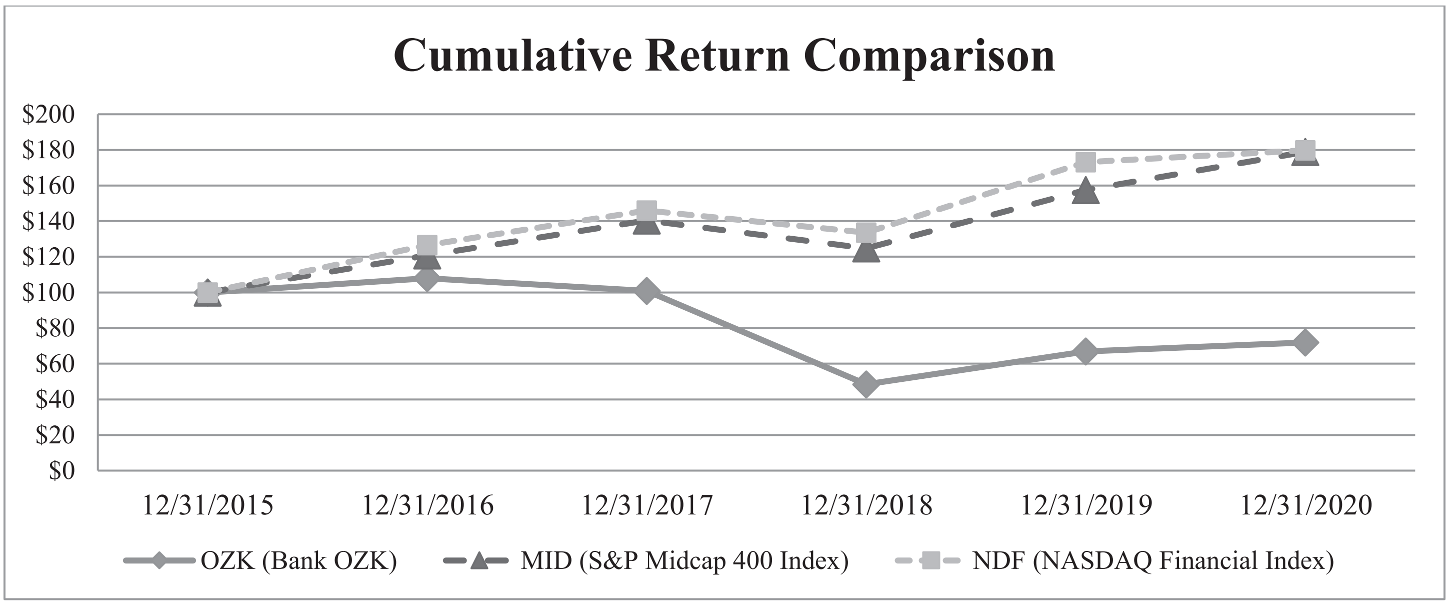
Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Bank's common stock is listed on the Nasdaq Global Select Market under the symbol "OZK" and at December 31, 2020, the Bank had approximately 1,462 shareholders of record. On December 31, 2020, the closing price of our common stock was $31.27 per share.

During the fourth quarter of 2020, the Bank issued 39,900 shares of common stock in connection with the exercise of stock options issued to certain participants under the Bank's Stock Option Plans. The shares were issued in reliance on the exemption provided by Section 3(a)(2) of the Securities Act of 1933, because the sales involved securities issued by a bank.

During the fourth quarter of 2020, we had no repurchases of shares of our common stock.

The graph below shows a comparison for the period commencing December 31, 2015 through December 31, 2020 of the cumulative total stockholder returns (assuming reinvestment of dividends) for our common stock, the S&P Midcap 400 Index and the Nasdaq Financial Index, assuming a $100 investment on December 31, 2015.



	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
OZK (Bank OZK)	$ 100	$ 108	$ 101	$ 48	$ 67	$ 72
MID (S&P Midcap 400 Index)	$ 100	$ 121	$ 140	$ 125	$ 157	$ 179
NDF (NASDAQ Financial Index)	$ 100	$ 126	$ 146	$ 134	$ 173	$ 180

Item 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data is derived from our audited financial statements as of and for each of the years indicated and should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

	Year Ended December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands, except per share amounts)				
Income statement data:					
Interest income	$ 1,080,781	$ 1,162,541	$ 1,100,820	$ 932,593	$ 662,555
Interest expense	192,157	278,360	209,387	115,164	61,050
Net interest income	888,624	884,181	891,433	817,429	601,505
Provision for credit losses	203,639	26,241	64,398	28,092	23,792
Non-interest income	104,608	107,527	107,775	123,858	102,399
Non-interest expense	413,413	401,130	380,752	332,672	255,754
Net income available to common stockholders	291,898	425,906	417,106	421,891	269,979
Common share and per common share data:					
Earnings – diluted	$ 2.26	$ 3.30	$ 3.24	$ 3.35	$ 2.58
Book value	33.03	32.19	29.32	26.98	23.02
Tangible book value[(1)]	27.81	26.88	23.90	21.45	17.08
Dividends	1.0775	0.94	0.795	0.71	0.63
Weighted-average diluted shares outstanding (thousands)	129,435	129,006	128,740	125,809	104,700
End of period shares outstanding (thousands)	129,350	128,951	128,611	128,288	121,268
Balance sheet data at period end:					
Total assets	$ 27,162,596	$ 23,555,728	$ 22,388,030	$ 21,275,647	$ 18,890,142
Total loans	19,209,168	17,532,043	17,117,823	16,043,029	14,563,115
Non-purchased loans	18,401,495	16,224,539	15,073,791	12,733,937	9,605,093
Purchased loans	807,673	1,307,504	2,044,032	3,309,092	4,958,022
Allowance for loan losses	295,824	108,525	102,264	94,120	76,541
Foreclosed assets	11,085	19,096	16,171	25,357	43,702
Investment securities – AFS	3,405,351	2,277,389	2,862,340	2,593,873	1,464,391
Goodwill and other intangible assets	675,458	684,542	696,461	709,040	720,950
Deposits	21,450,356	18,474,259	17,938,415	17,192,345	15,574,878
Repurchase agreements with customers	8,013	11,249	20,564	69,331	65,110
Other borrowings	750,928	351,387	96,692	22,320	41,903
Subordinated notes	224,047	223,663	223,281	222,899	222,516
Subordinated debentures	120,475	119,916	119,358	118,800	118,242
Unfunded balance of closed loans	11,847,117	11,325,598	11,364,975	13,192,439	10,070,043
Reserve for losses on unfunded loan commitments	81,481	—	—	—	—
Total common stockholders' equity	4,272,271	4,150,351	3,770,330	3,460,728	2,791,607
Loan, including purchased loans, to deposit ratio	89.55%	94.90%	95.43%	93.31%	93.50%
Average balance sheet data:					
Total average assets	$ 25,768,172	$ 22,759,370	$ 21,911,255	$ 19,654,664	$ 14,270,078
Total average common stockholders' equity	4,149,123	3,971,952	3,598,628	3,127,576	2,068,328
Average common equity to average assets	16.10%	17.45%	16.42%	15.91%	14.49%
Performance ratios:					
Return on average assets	1.13%	1.87%	1.90%	2.15%	1.89%
Return on average common stockholders' equity	7.04	10.72	11.59	13.49	13.05
Return on average tangible common stockholders' equity[(1)]	8.41	12.98	14.41	17.49	16.25
Net interest margin – FTE	3.81	4.34	4.59	4.85	4.92
Efficiency ratio	41.37	40.27	37.93	34.88	35.84
Common stock dividend payout ratio	47.85	28.44	24.51	21.03	23.03
Asset quality ratios:					
Net charge-offs to average non-purchased loans[(2)]	0.09%	0.09%	0.38%	0.06%	0.06%
Net charge-offs to average total loans	0.16	0.11	0.34	0.07	0.07
Nonperforming loans to total loans[(3)]	0.25	0.15	0.23	0.10	0.15
Nonperforming assets to total assets[(3)]	0.21	0.18	0.23	0.18	0.31
Allowance for loan losses as a percentage of:					
Total loans[(4)]	1.54%	0.62%	0.60%	0.59%	0.53%
Nonperforming loans[(3)(4)]	415%	231%	165%	233%	193%
Capital ratios:					
Common equity tier 1	13.36%	13.76%	12.56%	11.17%	9.99%
Tier 1 risk-based capital	13.36	13.76	12.56	11.17	9.99
Total risk-based capital	15.84	15.57	14.37	12.94	11.99
Tier 1 leverage	13.70	15.36	14.25	13.83	11.99

(1) The calculations of tangible book value per common share and return on average tangible common stockholders' equity and the reconciliations to U.S. generally accepted accounting principles are included in Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations – Capital Management of this Annual Report on Form 10-K.
(2) Excludes purchased loans and net charge-offs related to such loans.
(3) Excludes purchased loans, except for their inclusion in total assets.
(4) Excludes reserve for losses on unfunded loan commitments.

Selected Quarterly Financial Data

The following tables are summaries of quarterly results of operations for the periods indicated and should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

	2020 – Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(Dollars in thousands, except per share amounts)			
Interest income	$ 271,973	$ 267,134	$ 268,281	$ 273,394
Interest expense	(62,198)	(50,541)	(43,624)	(35,794)
Net interest income	209,775	216,593	224,657	237,600
Provision for credit losses	(117,663)	(72,026)	(7,200)	(6,750)
Non-interest income	27,680	21,591	26,676	28,661
Non-interest expense	(103,425)	(100,953)	(105,641)	(103,394)
Income before taxes	16,367	65,205	138,492	156,117
Income taxes	(4,509)	(14,948)	(29,251)	(35,607)
Noncontrolling interest	8	9	12	3
Net income available to common stockholders	$ 11,866	$ 50,266	$ 109,253	$ 120,513
Basic earnings per common share	$ 0.09	$ 0.39	$ 0.84	$ 0.93
Diluted earnings per common share	$ 0.09	$ 0.39	$ 0.84	$ 0.93

	2019 – Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(Dollars in thousands, except per share amounts)			
Interest income	$ 295,243	$ 296,819	$ 289,517	$ 280,963
Interest expense	(69,355)	(72,283)	(70,737)	(65,986)
Net interest income	225,888	224,536	218,780	214,977
Provision for credit losses	(6,681)	(6,769)	(7,854)	(4,938)
Non-interest income	24,072	26,603	26,446	30,406
Non-interest expense	(96,678)	(99,131)	(100,914)	(104,406)
Income before taxes	146,601	145,239	136,458	136,039
Income taxes	(35,889)	(34,726)	(32,574)	(35,240)
Noncontrolling interest	(6)	(10)	7	7
Net income available to common stockholders	$ 110,706	$ 110,503	$ 103,891	$ 100,806
Basic earnings per common share	$ 0.86	$ 0.86	$ 0.81	$ 0.78
Diluted earnings per common share	$ 0.86	$ 0.86	$ 0.81	$ 0.78

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The following is a discussion of our financial condition at December 31, 2020 and 2019 and our results of operations for each of the years in the three-year period ended December 31, 2020. The purpose of this management's discussion and analysis of financial condition and results of operations ("MD&A") is to focus on information about our financial condition and results of operations that is not otherwise apparent from the consolidated financial statements and footnotes. This discussion should be read in conjunction with the disclosure regarding "Forward-Looking Information" in Part I as well as the risks discussed under Part I, Item 1A. Risk Factors, and our consolidated financial statements and notes thereto included under Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Bank OZK (the "Bank") is subject to regulation by the Arkansas State Bank Department ("ASBD"). 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 not 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). Shares of the Bank's common stock are listed in the Nasdaq Global Select Market under the symbol "OZK."

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

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

Critical Accounting 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 credit losses ("ACL"), (ii) the fair value of our investment securities portfolio, and (iii) accounting for our income taxes all involve a higher degree of judgment and complexity than our other significant accounting policies. Accordingly, we consider each of these to be critical accounting policies.

Provisions to and adequacy of the ACL. Effective January 1, 2020, we adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This guidance replaced the incurred loss method that was utilized in estimating our allowance for loan losses ("ALL") as of December 31, 2019 with a methodology that requires us to estimate credit losses expected to occur over the life of the financial instrument and to recognize those estimated losses at the time of loan origination or, for loans and loan commitments outstanding at January 1, 2020, upon adoption of ASU 2016-13. This revised methodology is what FASB describes as the current expected credit loss ("CECL") method.

We adopted ASU 2016-13 using the modified retrospective method; therefore, results for reporting periods beginning on or after January 1, 2020 are presented in accordance with ASU 2016-13 while prior period results are reported in accordance with the previously applicable GAAP. The adoption of ASU 2016-13 on January 1, 2020 resulted in a $39.6 million increase in our ALL for outstanding loans and the establishment of a $54.9 million reserve for losses on unfunded loan commitments, resulting in a total increase in our allowance for credit losses ("ACL") of $94.5 million. These transition adjustments, net of related tax effects, were recorded as a cumulative effect from the change in accounting principle and reduced our retained earnings by $75.3 million. As required by ASU 2016-13, the portion of the ACL for the outstanding balance of our loan portfolio is reported as ALL on our consolidated balance sheet and the reserve for losses on unfunded loan commitments is reported as a liability on our consolidated balance sheet.

Additionally, all purchased loans that were previously accounted for and reported as loans with credit deterioration at the date of acquisition, or purchased credit impaired ("PCI") loans, are now considered purchased credit deteriorated ("PCD") loans. For periods prior to January 1, 2020, PCI loans were carried at their net present value of future expected cash flows. For periods subsequent to January 1, 2020, PCD loans are carried at their amortized cost basis less a non-credit discount. Upon adoption of, and as provided for under ASU 2016-13, we utilized the “gross up” approach whereby we adjusted PCD loans by their respective CECL ALL of $5.9 million, which became part of the revised amortized cost basis of such loans. The remaining difference of $14.6 million between the PCD loans’ amortized cost basis and the par value of such loans is a non-credit discount that is being amortized into interest income over the remaining life of the loans.

Our ACL under the CECL methodology is established through a provision for credit losses charged against income. All, or portions of, loans deemed to be uncollectible are charged against the ACL when we believe that collectability of all, or some portion of, outstanding amortized cost is unlikely. Subsequent recoveries, if any, of loans previously charged off are credited to the ACL. For credit risk related to a contractual obligation to extend credit, we estimate expected credit losses over the contractual period considering the likelihood that funding will occur.

In conjunction with the adoption of ASU 2016-13, we implemented a dual risk rating scale that utilizes quantitative models and qualitative factors (“score cards”) in determining the risk rating for our commercial loans. This dual risk rating methodology incorporates an obligor risk rating (“ORR”) and a facility risk rating (“FRR”) which are combined to create a two-dimensional risk rating for commercial loans. The ORR is influenced by a loan’s probability of default (“PD”) as determined from the score cards, with such score card PDs affected by various financial metrics, such as projected cash flow, loan-to-value (“LTV”), property and/or market characteristics, borrower financial strength and other financial and loan characteristics. Thus, the higher a loan’s PD, the more adverse the loan’s ORR. The FRR is influenced by a loan’s loss given default (“LGD”) as determined from the score cards. Score card LGDs are affected by the estimated loss when a borrower cannot or will not repay the loan. Estimated losses take into consideration our underwriting standards and protections including collateral and collateral margin requirements, lien position, compliance with any loan covenants, support required from guarantors, insurance and other factors. The higher a loan’s LGD, the more adverse the loan’s FRR. The combined dual risk rating provides an annualized expected loss estimate for each commercial loan and based on such loss estimates a risk rating is assigned. Additionally, we may apply risk rating “overrides” whereby management may further downgrade a loan to the extent it believes there is additional information about a loan or a borrower that is not fully reflected in the ORR and/or FRR.

We separate loans into similar risk characteristics in determining our ACL. In determining the ACL, we utilize score card estimates of credit loss that categorize loans based on loan type. The loan types segregated by score card are as follows:

- Construction Real Estate – In assessing estimated credit losses on construction real estate loans, we utilize various project and borrower metrics, including, but not limited to, projected cash flow, LTV, property and/or market characteristics, and borrower financial strength.
- Commercial and Industrial – In assessing estimated credit losses on commercial and industrial loans, we utilize various borrower and loan metrics, including, but not limited to, borrower’s financial position and results from operations, LTV, and borrower and/or guarantor financial strength.
- Consumer Mortgages – In assessing estimated credit losses on consumer mortgage loans, we utilize borrower information such as borrower’s cash flow, credit score and LTV, among others.
- Consumer Recreational Vehicle (“RV”) and Marine – In assessing estimated credit losses on RV and marine loans, we utilize various borrower information such as payment-to-income, credit score and LTV, among others.
- Other Consumer – In assessing estimated credit losses on other consumer loans, we utilize various borrower origination information such as vintage, credit score and product, among others.

We utilize risk ratings in assigning and evaluating our credit quality; and output from the score cards is utilized in determining the necessary ACL for risk rated loans. Our consumer loans are not risk rated in the same manner as are our commercial loans. Instead, consumer loans are risk rated based on performance and past due status. While our consumer loans are not risk rated, we utilize output from the score cards on consumer loans for purposes of determining the necessary ACL for consumer loans. We obtain an estimate of credit loss for all loans from the applicable score card, unless we determine that the loan does not share risk characteristics similar to those contained within its respective loan segment and an individual loan assessment is performed.

The score cards utilized in determining the ACL use quantitative data related to our loans and unfunded loan commitments. In determining the estimated loss, the quantitative data utilized by the score card models includes, but is not limited to, estimated debt service coverage ratios, LTV ratios, total assets, total revenue and margin, and for consumer loans, individual credit scores. In addition, the score cards and our CECL platform incorporate varying future economic forecasts in estimating our ACL. While our score card models and CECL platform produce an estimated lifetime loss for all loans not individually evaluated, the score card models and CECL platform may have certain limitations. To address potential limitations, our methodology considers additional qualitative adjustments that are applied to our CECL calculations. In determining the ACL, we utilize a reasonable and supportable forecast period which, as of December 31, 2020, was two years followed by a reversion, on a systematic basis, of estimated losses back to our historical mean. Expected credit losses are estimated over the contractual term of the loan, adjusted for anticipated or expected prepayments. The contractual term of the loan excludes expected extensions or modifications unless we have a reasonable expectation that a troubled debt restructuring will be executed with the expected extension or modification.

The ACL is maintained at a level that we believe will be adequate to absorb expected credit losses in future periods associated with our loan portfolio and unfunded loan commitments. Provisions to and the adequacy of the ACL are based on evaluations of the loan portfolio utilizing objective and subjective criteria. The objective criteria primarily includes estimated losses that are modeled from the respective score cards and the outputs from our CECL platform. In addition to these objective criteria, we subjectively assesse the adequacy of the ACL and the need for changes thereto, with consideration given to the nature and mix of the portfolio, national, regional and local business and economic conditions that may affect borrowers' ability to pay, concentrations of credit, changes in the experience, ability and depth of lending management and other relevant staff, changes in the nature and volume of the portfolio and in the terms of the loans, overall portfolio quality, historical loss experience and other relevant factors. Changes in these criteria or the availability of new information could require adjustment of the ACL in future periods. In addition, for loans that do not share risk characteristics similar to those contained within their respective loan segments, we may perform an individual assessment of the ACL utilizing expected cash flows, collateral values or a combination thereof. On an ongoing basis, we evaluate the underlying collateral on collateral dependent nonperforming loans and, if needed, due to changes in market or property conditions, the underlying collateral is reassessed and the estimated fair value is revised. The determination of collateral value includes any adjustments considered necessary related to estimated holding periods and estimated selling costs. While an individual assessment and related ACL has been calculated for certain nonperforming loans, no portion of our ACL is restricted to any individual loan or group of loans, and the entire ACL is available to absorb losses from any and all loans, including unfunded loan commitments.

Changes in the criteria used in this evaluation or the availability of new information could cause the ACL to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require adjustments to the ACL based on their judgment and estimates.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. We generally place a loan on nonaccrual status when such loan is (i) nonperforming or (ii) 90 days or more past due, or earlier when doubt exists as to the ultimate collection of payments. We may continue to accrue interest on certain loans contractually past due 90 days or more if such loans are both well secured and in the process of collection. At the time a loan is placed on nonaccrual status, interest previously accrued but uncollected is reversed and charged against interest income. Nonaccrual loans are generally returned to accrual status when payments are no longer past due, the loan has performed in accordance with its contractual terms for a reasonable period of time (generally at least six months), and is expected to continue to perform in accordance with its contractual terms. If a loan is determined to be uncollectible, the portion of the amortized cost determined to be uncollectible is charged against the ACL. Loans for which the terms have been modified and for which (i) the borrower is experiencing financial difficulties and (ii) a concession has been granted to the borrower by us, are considered troubled debt restructurings ("TDRs") and are included in nonperforming loans. Income on nonaccrual loans, including nonperforming loans, is recognized on a cash basis when and if actually collected. Income on TDRs is recognized on a cash basis until such time as the TDR has performed in accordance with its modified terms for a reasonable period of time (generally at least six months) and is expected to continue to perform. Once such performance and expected performance conditions are met, the TDR is returned to accrual status but continues to be reported as a nonperforming loan.

Fair value of the investment securities portfolio. We determine the appropriate classification of investment securities at the time of purchase and reevaluate such designation as of each balance sheet date. At December 31, 2020 and 2019, we have classified all of our investment securities as available for sale ("AFS").

Investment securities AFS are reported at estimated fair value, with the unrealized gains and losses determined on a specific identification basis. We utilize independent third parties as our principal pricing sources for determining fair value of investment securities which are measured on a recurring basis. As a result, we consider estimates of fair values from at least two independent pricing sources for the majority of our individual securities in our 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 or comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities that are not traded or that are traded in a market that is not active, fair value is determined using unobservable inputs. Additionally, the valuation of investment securities acquired in an acquisition may include certain unobservable inputs. All fair value estimates received for our investment securities are reviewed on a quarterly basis.

Investment Securities AFS with unrealized gains are reported as a separate component of stockholders' equity, included in other comprehensive income (loss), are adjusted for changes in unrealized gains, net of related income tax, and are included in accumulated other comprehensive income (loss), on a specific identification basis. Investment securities AFS with unrealized losses require us to evaluate our intent or likelihood of disposing of such investment securities. If we intend to sell an investment security AFS in an unrealized loss position, or if it is more likely than not that we will be required to sell an investment security AFS in an unrealized loss position before recovery of its amortized cost basis, the investment security's amortized cost basis is written down to fair value through current period expense. If we do not intend to sell an investment security AFS in an unrealized loss position, or if it is more likely than not that we will not sell an investment security AFS that is in an unrealized loss position, we are required to assess whether the decline in fair value has resulted from credit losses or non-credit factors. Factors considered during such review include the credit quality, finance condition and near term prospects of the issuer, the nature and cause of the unrealized loss and various other factors. If our assessment determines a credit loss exists, the present value of cash flows expected to be collected from the investment security AFS is compared to the amortized cost basis of the security and if the present value of cash flows expected to be collected is less than amortized cost, an allowance for credit losses and a provision for credit loss expense is recorded. If our assessment determines that a credit loss does not exist, we record the decline in fair value through other comprehensive income (loss), net of related income tax effects, with such decline included in accumulated other comprehensive income (loss).

The fair values of our investment securities traded in both active and inactive markets can be volatile and may be influenced by a number of factors including market interest rates, prepayment speeds, discount rates, credit quality of the issuer, general market conditions including market liquidity conditions and other factors. Factors and conditions are constantly changing and fair values could be subject to material variations that may significantly affect our financial condition, results of operations and liquidity.

At December 31, 2020 and 2019, we owned shares in the Federal Home Loan Bank of Dallas ("FHLB"), First National Banker's Bankshares, Inc. and certain other bankers' bank stock, which do not have readily determinable fair values and are carried at cost.

Interest and dividends on investment securities, including the amortization of premiums and accretion of discounts are included in interest income. Any discount or premium on investment securities is accreted or amortized through maturity, through the earliest call date for investment securities that are callable, or in the case of mortgage-backed securities, over the estimated life of the security. Realized gains or losses on the sale of investment securities are recognized on the specific identification method at the time of sale and are included in non-interest income. Purchases and sales of investment securities are recorded on a trade-date basis.

Accounting for income taxes. We utilize the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based upon the difference between the values of the assets and liabilities as reflected in the financial statements and their related tax basis using enacted tax rates in effect for the year or years in which the differences are expected to be recovered or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

As a result of recording, at fair value, acquired assets and assumed liabilities pursuant to business combinations, differences in amounts reported for financial statement purposes and their related basis for federal and state income tax purposes are created. Such differences are recorded as deferred tax assets and liabilities using enacted tax rates in effect for the year or years in which the differences are expected to be recovered or settled. To the extent that information becomes available that results in a change in management's estimates and assumptions, an increase or decrease of the deferred tax asset valuation allowance will be recorded as an adjustment to deferred income tax expense (benefit).

We recognize a tax position as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that has a greater than 50% likelihood of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

We file consolidated tax returns. We and our other consolidated entities provide for income taxes on a separate return basis and remit to us amounts determined to be currently payable. We recognize interest related to income tax matters as interest income or expense, and penalties related to income tax matters are recognized as non-interest expense. We are no longer subject to income tax examinations by U.S. federal, state and local tax authorities for years prior to 2017.

Recent Developments Related To COVID-19

Overview. We continue to be impacted by the ongoing outbreak of COVID-19, which in March 2020, was declared a global pandemic by the World Health Organization and a national emergency by the President of the United States. This ongoing global and national health emergency has caused significant disruption in the United States and international economies and financial markets. Efforts to limit the spread of COVID-19 included shelter-in-place orders and quarantines, the closure of schools and non-essential businesses, travel restrictions and prohibitions on public gatherings, among other things, throughout many parts of the United States and, in particular, the markets in which we do business. The pandemic has also caused and continues to cause a reduction in commercial activity, supply chain interruptions, increased unemployment, and overall economic and financial market instability. Several states have seen increases in the number of cases of COVID-19, as well as new strains of the virus, which could lead these states to re-impose previous restrictions or adopt new ones in an attempt to contain further spread. As a financial institution, we are considered an essential business and therefore have continued to operate in compliance with governmental restrictions and public health authority guidelines. COVID-19 has adversely affected and is expected to continue to adversely affect our business, financial condition and results of operations. While at this time it is difficult to ascertain the ultimate adverse impact of the pandemic, it has been and is expected to continue to be material. For a discussion of the risks we face with respect to COVID-19, the steps taken to mitigate the pandemic and the economic disruption resulting therefrom, see Part I. Item 1A – Risk Factors in this Annual Report on Form 10-K.

Impact on Our Operations. Most states in which we operate, including Arkansas, where we are headquartered, have declared states of emergency. The resulting closures of non-essential businesses during significant portions of 2020 and related economic disruption have impacted our operations as well as the operations of our customers. Through this time of disruption, we have remained open for business and focused on supporting our employees, customers and communities, as well as maintaining our asset quality and balance sheet strength, including the following actions:

- Providing loans through the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). At December 31, 2020, we had approximately 6,124 outstanding PPP loans totaling approximately $0.43 billion.
- Implementing our Disaster Relief Loan Program which, as of December 31, 2020, provided short-term payment deferrals on approximately 3,231 loans totaling approximately $1.11 billion, of which, we had approximately 230 loans totaling approximately $0.13 billion that remained on a first or second deferral.
- Using our liquidity to purchase approximately $2.5 billion in high-quality, short-term municipal and U.S. Government agency securities.
- Maintaining a broad-based risk management strategy, including adjusting loan pricing and certain underwriting standards and achieving enhancements in the mix, duration and stability of our deposit base.
- Expanding customer care center hours and enhancing our online CD-opening process and mobile banking platforms.
- Enhancing our corporate infrastructure and adapting our technology and remote-access availability to support more than 1,500 employees and enable them to work from home or other remote locations, all in accordance with our compliance and information security policies and procedures designed to ensure proper safeguarding of customer data and other information.
- Adding a new COVID-19 paid leave policy for our employees.
- Restricting all non-essential business travel and instituting a mandatory quarantine period for anyone that has traveled to or from an impacted area.
- Redesigning customer and branch interactions to maximize social distancing while continuing to provide quality personal service and increasing health and safety protocols for those employees working in our offices.

Notwithstanding the actions that we have taken to increase the safety for our customers and employees, COVID-19 could still greatly affect our essential operations due to staff absenteeism, particularly among key personnel; further limited access to or result in closures of our branch facilities and other physical offices; operational, technical or security-related risks arising from a remote workforce; and government or regulatory agency orders, among other things. The business and operations of our third party vendors, many of whom perform critical services for our business, could also be significantly impacted, which in turn could affect us. As a result, we are currently unable to fully assess or predict the extent of the effects of COVID-19 on our operations, as the ultimate impact will depend largely on factors that are currently unknown and/or out of our control.

Impact on our Financial Condition and Results of Operations. Our financial condition and results of operations have been significantly affected by COVID-19. The economic environment and uncertainty related to the pandemic coupled with the adoption of the new CECL accounting standard contributed to the $203.6 million of provision expense recognized during 2020. The continued uncertainty regarding the severity and duration of the pandemic and related economic effects will continue to affect our estimate of our ACL and resulting provision for credit losses. To the extent the impact of the pandemic is prolonged and economic conditions worsen or persist longer than forecast, such estimates may be insufficient and change significantly in the future. Our interest income may also be negatively impacted in future periods as we may find the need to increase our efforts to work with our affected borrowers to defer payments, interest and fees. Additionally, net interest margin may be reduced generally as a result of the low-rate environment. If these uncertainties and the adverse economic environment continue, our earnings and growth may continue to be impacted and we may experience a deterioration in asset quality within certain segments of our loan portfolio.

Lending Operations and Accommodations to Borrowers. The Coronavirus Aid, Relief and Economic Security Act (the "CARES" Act) that was signed into law on March 27, 2020 created a new guaranteed, unsecured loan program under the SBA called the PPP, which we participated in, to fund operational costs of eligible businesses, organizations and self-employed persons during the pandemic period. On June 5, 2020, the Paycheck Protection Program Flexibility Act was signed into law, which made significant changes to the PPP to provide additional relief for small businesses, including increased flexibility for small businesses that have been unable to rehire employees due to lack of employee availability or have been unable to operate as normal due to COVID-19 related restrictions, an extension of the period during which businesses can use PPP funds to qualify for loan forgiveness, a relaxation of the requirements that loan recipients must adhere to in order to qualify for loan forgiveness, and an extension of the payment deferral period for PPP loans. Nearly $660 billion in funds have been authorized for the PPP, which the SBA will use to guarantee the amounts loaned under the PPP by lenders to eligible small businesses, nonprofits, veterans' organizations, and tribal businesses. One of the notable features of the PPP is that borrowers are eligible for loan forgiveness if borrowers maintain their staff and payroll and if loan amounts are used to cover payroll, mortgage interest, rents and utilities payments. These loans have a two-year term and a contractual interest rate of 1%. During much of the second quarter of 2020, we actively assisted our customers with applications for resources through the program. Recently, we have begun working with our customers to apply for loan forgiveness under the program and during the fourth quarter of 2020, we received payments of approximately $32 million from the SBA for forgiveness of PPP loans that we originated during the year. While the timing for forgiveness and repayment is not clear, currently, based on existing program requirements, we would expect the vast majority of our existing PPP loans to be forgiven and repaid by the SBA by the first half of 2021.

In addition to the above, a second round of PPP funding was appropriated by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act ("Economic Aid Act") that was signed into law on December 27, 2020. The Economic Aid Act authorizes $28 billion in funds to be distributed by the SBA, extends the SBA's authority to make PPP loans through March 31, 2021, and revises certain PPP requirements. Eligible applicants that did not receive a PPP loan prior to August 8, 2020 will have the ability to apply for a PPP first draw loan until March 31, 2021. Borrowers that received a PPP loan under the CARES Act may apply for a second draw loan of up to $2 million with the same general terms as their initial PPP loan. However, to be eligible for a second draw loan, borrowers must demonstrate at least a 25% reduction in gross receipts between 2019 and 2020, have no more than 300 employees and have or will use the full first draw loan amount only for eligible expenses before the second draw loan is disbursed. The Economic Aid Act expands the existing expenses eligible for loan forgiveness to include operation expenses, property damage costs, supplier costs and worker protective expenditures. In January 2021, the SBA began accepting first draw and second draw PPP loan requests. We are participating in this second round of PPP funding for borrowers that have a qualifying relationship with us.

Regulatory. The federal government has taken extraordinary and unprecedented steps, such as the CARES Act and Economic Aid Act, to support the U.S. economy and partially mitigate the effects of the pandemic and the impact of measures taken to slow its spread. The government has provided, among other things, regulatory relief to financial institutions, liquidity to capital markets and direct support to businesses and consumers. The FRB has taken decisive and sweeping actions as well. Since March 15, 2020, these have included a reduction in the target range for the federal funds rate to 0.0%-0.25%, a program to purchase an indeterminate amount of U.S. Treasury securities and U.S. Government agency mortgage-backed securities, and numerous facilities to support the flow of credit to households and businesses. Additional actions are being considered at the federal and state levels. It is too early to determine the overall effectiveness of actions that have been taken and their ultimate impact on our financial condition and results of operations.

Analysis of Results of Operations

General

The table below shows total assets, investment securities AFS, total loans, deposits, common stockholders' equity, net income available to common stockholders, diluted earnings per common share, book value per common share and tangible book value per common share as of and for the years indicated and the percentage of change year over year.

	December 31,			% Change	
	2020	2019	2018	2020 from 2019	2019 from 2018
	(Dollars in thousands, except per share amounts)				
Total assets	$27,162,596	$23,555,728	$22,388,030	15.3%	5.2%
Investment securities AFS	3,405,351	2,277,389	2,862,340	49.5	(20.4)
Total loans	19,209,168	17,532,043	17,117,823	9.6	2.4
Deposits	21,450,356	18,474,259	17,938,415	16.1	3.0
Common stockholders' equity	4,272,271	4,150,351	3,770,330	2.9	10.1
Net income available to common stockholders	291,898	425,906	417,106	(31.5)	2.1
Diluted earnings per common share	2.26	3.30	3.24	(31.5)	1.9
Book value per common share	33.03	32.19	29.32	2.6	9.8
Tangible book value per common share(1)	27.81	26.88	23.90	3.5	12.5

(1) The calculation of our tangible book value per common share and the reconciliation to GAAP is included under the section "Capital Management" in this MD&A.

Highlights of 2020 include the following:

- Growth in total assets of 15.3% to $27.16 billion at December 31, 2020;
- Growth in total loans of 9.6% to $19.21 billion at December 31, 2020;
- Growth in investment securities AFS of 49.5% to $3.41 billion;
- Growth in deposits of 16.1% to $21.45 billion;
- Provision for credit losses of $203.6 million, a 676.0% increase in provision expense for 2020 compared to 2019. Our provision of credit expenses was significantly impacted by the economic downturn due to the COVID-19 pandemic in tandem with the adoption of CECL on January 1, 2020;
- Net income available to common stockholders of $291.9 million for 2020, a 31.5% decrease for 2020 compared to 2019;
- Pre-tax pre-provision net revenue ("PPNR") of $579.8 million for 2020, a 1.8% decrease compared to 2019. The calculation of our PPNR and the reconciliation to GAAP is included under the section "Pre-Tax Pre-Provision Net Revenue" in this MD&A;
- Return on average assets of 1.13% for 2020;
- Returns on average common stockholders' equity and average tangible common stockholders' equity of 7.04% and 8.41%, respectively, for 2020 (the calculation of our return on average tangible common stockholders' equity and the reconciliation to GAAP are included in this MD&A under the section "Capital Management");
- Net interest margin, on a fully taxable equivalent ("FTE") basis, of 3.81% for 2020;
- An efficiency ratio (non-interest expense divided by the sum of net interest income, on an FTE basis, and non-interest income) of 41.37% for 2020;
- A net charge-off ratio for total loans of 0.16% for 2020; and
- Excluding purchased loans, our ratio of nonperforming loans to total loans was 0.25% at December 31, 2020, and our ratio of nonperforming assets to total assets was 0.21% at December 31, 2020.

The COVID-19 pandemic significantly affected the U.S. and global economies. The sudden and severe economic downturn, in tandem with the adoption of CECL on January 1, 2020, resulted in our incurring provision for credit losses of $117.7 million in the first quarter, $72.0 million in the second quarter, $7.2 million in the third quarter and $6.7 million in the fourth quarter, totaling $203.6 million for the year ended December 31, 2020. Most of the increase in our ACL was recorded as provision expense during the first and second quarters of 2020, resulting in lower provision expense during the third and fourth quarters of 2020. At December 31, 2020, our ALL was $295.8 million, our reserve for losses on unfunded loan commitments was $81.5 million and our total ACL was $377.3 million. Our ACL and provision for credit losses are tied, in part, to our reasonable and supportable forecast which is related to future economic estimates and perceived economic outlook. Thus, if our reasonable and supportable forecast in future periods suggests economic conditions are expected to deteriorate, we may experience further increases in our ACL. However, if our reasonable and supportable forecast in future periods suggest economic conditions are expected to improve, we may experience decreases in our ACL.

Net Interest Income

Net interest income is our largest source of revenue and represents the amount by which interest income on interest earning assets exceeds the interest expense paid on interest bearing liabilities. Net interest income is affected by many factors, including our volume and mix of average earning assets; our volume and mix of deposits and other interest bearing liabilities; our net interest margin; our core spread, which is how we describe the difference between the yield on our non-purchased loans and our cost of interest bearing deposits; and other factors.

Net interest income and net interest margin are analyzed in this discussion on an FTE basis. The adjustment to convert net interest income to an FTE basis consists of dividing tax-exempt interest income by one minus the statutory federal income tax rate of 21%. The FTE adjustments to net interest income were $6.0 million in 2020, $4.4 million in 2019 and $4.7 million in 2018. No adjustments have been made in this analysis for income exempt from state income taxes or for interest expense deductions disallowed under the provisions of the IRC as a result of investments in certain tax-exempt securities.

2020 compared to 2019

Net interest income for 2020 increased to $894.7 million compared to $888.6 million for 2019. Net interest margin decreased 53 basis points ("bps") to 3.81% for 2020 compared to 4.34% for 2019. The increase in net interest income was primarily the result of the increase in average earning assets, which increased 14.7% to $23.48 billion for 2020 compared to $20.46 billion for 2019. The decrease in net interest margin for 2020 compared to 2019 was primarily due to the 107 bps decrease in yield on average earning assets, partially offset by a 68 bps decrease in rates paid on interest bearing liabilities.

Yields on average earning assets were 4.63% for 2020 compared to 5.70% for 2019. The yield on our non-purchased loan portfolio decreased 88 bps to 5.31% for 2020 compared to 6.19% for 2019. This decrease was primarily due to decreases in the federal funds target rate, Wall Street Journal Prime Rate ("WSJ Prime") and London Interbank Offered Rates ("LIBOR") that occurred during 2020. At December 31, 2020, approximately 77% of our non-purchased loans were variable interest rate loans and generally reprice with movements in LIBOR or WSJ Prime. Additionally, our loan yields include accretion of deferred loan fees and discounts and amortization of deferred loan costs, along with various minimum interest and fees that vary period to period. The yield on our purchased loan portfolio increased 18 bps to 6.62% for 2020 compared to 6.44% for 2019. The yield on our purchased loan portfolio is significantly affected by both the volume and timing of early payoffs and paydowns which typically result in any remaining purchase accounting valuation amounts treated as yield adjustments, as well as collections on loans charged-off prior to our acquisition of such loans ("pre-acquisition charge-offs"). Because the volume and timing of purchased loan payoffs and paydowns, including collections on pre-acquisition charge-offs, may vary significantly from period to period, the yield on such loans will also vary from period to period. At December 31, 2020, approximately 37% of our purchased loan portfolio contained loans with variable interest rates. Additionally, concurrent with the adoption of ASU 2016-13, effective January 1, 2020, income previously reported as "other income from purchased loans" is now included as interest income on purchased loans. The yield on our aggregate investment securities portfolio for 2020 decreased 62 bps to 2.12% compared to 2.74% for 2019. During 2020, we significantly increased our on-balance sheet liquidity through the purchase of approximately $2.5 billion of high-quality, short-term municipal and U.S. Government agency securities. The yield on such purchases was significantly lower than the yield on our existing investment securities portfolio, resulting in lower yields in 2020 compared to 2019.

To the extent that the FRB increases the federal funds target rate in future periods and LIBOR and/or WSJ Prime also increase, we would expect our yield on both non-purchased and, to a lesser extent, purchased loans to increase, although we may experience some delay before the yield in our variable rate loans would increase until such time as individual loans are able to reprice above their respective floor rates. At December 31, 2020 approximately 99% of our total variable rate loans had floor rates and approximately 93% of our funded balance of total loans within our variable rate portfolio were at their floor rates.

The overall decrease in rates on average interest bearing liabilities, which decreased 68 bps for 2020 compared to 2019, was primarily due to decreases in rates on interest bearing deposits, which decreased 65 bps for 2020 compared to 2019. The decrease in rates on our interest bearing deposits, the largest component of our interest bearing liabilities, was primarily due to decreases in the federal funds target rate and rates paid on time deposits as well as a shift in the composition of our deposit base to include a larger percentage of lower cost consumer and commercial deposits.

At December 31, 2020, we had approximately $8.14 billion of time deposits with a weighted average rate of approximately 1.00% maturing in 2021. To the extent that we can renew or replace those time deposits at rates currently offered on such deposits, we would expect to experience decreases in the rates on our interest bearing deposits in future periods. To the extent there are future increases in the federal funds target rate, we would expect to experience increases in the rates on our interest-bearing deposits in future periods. However, future increases or decreases in our costs of interest bearing deposits may lag future increases or decreases in the federal funds target rate. Additionally, changes in expected deposit levels necessary to fund future potential growth in earning assets, changes in our level of on-balance sheet liquidity, or changes in competitive conditions, among other factors, could significantly affect deposit costs in future periods.

Our other borrowing sources include (i) repurchase agreements with customers ("repos"), (ii) other borrowings comprised primarily of Federal Home Loan Bank of Dallas ("FHLB") advances, and, to a lesser extent, federal funds purchased, (iii) subordinated notes and (iv) subordinated debentures. The rates on repos decreased eight bps in 2020 compared to 2019 primarily due to decreases in our administered rates on these accounts. The rates on our other borrowing sources decreased 118 bps for 2020 compared to 2019. The rates on our other borrowings have been significantly affected by the decreases in the federal funds rate and, to a lesser extent, capitalized interest associated with the construction of a new corporate headquarter facility that was completed during the second quarter of 2020. Additionally, during 2020, we utilized low-cost FHLB term advances to support our funding sources and provide us with additional on-balance sheet liquidity. Our subordinated notes consist of $225 million in aggregate principal amount of 5.50% fixed-to-floating rate subordinated notes. The rate on these subordinated notes includes amortization of debt issuance costs using a level-yield methodology over the estimated holding period of seven years. The rates paid on our subordinated debentures, which are tied to spreads over the 90-day LIBOR and reset periodically, decreased primarily due to decreases in LIBOR on the applicable reset dates, and, to a lesser extent, capitalized interest associated with the construction of our new corporate headquarters.

The increase in average earning assets for 2020 compared to 2019 was due to increases in the average balance of non-purchased loans, interest earning deposits and federal funds sold and investment securities, partially offset by a decrease in the average balance of purchased loans. Average non-purchased loans increased $1.94 billion, or 12.20%, to $17.80 billion for 2020 compared to 2019. The increase in the average balance of our non-purchased loans was due primarily to continued growth in loan fundings, including our participation in the SBA's PPP, as well as a decrease in loan repayments compared to previous periods. Average interest earning deposits and federal funds sold increased $1.18 billion, or 334.47% to $1.54 billion for 2020 compared to 2019. The increase in the average balance of interest earning deposits and federal funds sold at December 31, 2020 compared to December 31, 2019 is due to our maintaining significantly higher levels of on-balance sheet liquidity. Average investment securities increased $0.49 billion, or 18.90%, to $3.07 billion for 2020 compared to 2019. The increase in the balance of average investment securities at December 31, 2020 compared to December 31, 2019 is primarily due to our purchase of high-quality, short-term investment securities during 2020. Average purchased loans decreased $0.59 billion, or 35.63%, to $1.07 billion for 2020 compared to 2019, primarily due to continued paydown and payoff activity in that portfolio.

The increase in average interest bearing liabilities for 2020 compared to 2019 was primarily due to the increase in the average balance of interest bearing deposits and other borrowings. Average interest bearing deposits increased 9.1% to $16.76 billion for 2020 compared to $15.36 billion for 2019. Average other borrowings increased 664.2% to $721.4 million for 2020 compared to $94.4 million for 2019. The increase in the average balance of interest bearing deposits and other borrowings was due to funding needed to support our growth in interest earning assets and our maintaining higher levels of on-balance sheet liquidity compared to previous periods. Also, the increase in the average balance of interest bearing deposits was aided by deposits from PPP loans and government stimulus payments to our customers.

2019 compared to 2018

Net interest income for 2019 decreased to $888.6 million compared to $896.1 million for 2018. Net interest margin decreased 25 bps to 4.34% for 2019 compared to 4.59% for 2018. The decrease in net interest income was primarily the result of the decrease in net interest margin partially offset by growth in average earning assets, which increased 4.9% to $20.46 billion for 2019 compared to $19.52 billion for 2018. The decrease in net interest margin for 2019 compared to 2018 was primarily due to the 40 bps increase in rates paid on interest bearing liabilities, partially offset by a four bps increase in yield on average earning assets.

Yields on average earning assets were 5.70% for 2019 compared to 5.66% for 2018. The yield on our non-purchased loan portfolio increased eight bps to 6.19% for 2019 compared to 6.11% for 2018. This increase was primarily due to increases in the federal funds target rate, WSJ Prime and LIBOR that occurred during 2018. The effect of those higher interest rates was reduced during the second half of 2019 as those interest rates moved lower in response to FRB decreases in the federal funds target rate. At December 31, 2019, approximately 74% of our non-purchased loans were variable interest rate loans and generally reprice with movements in LIBOR or WSJ Prime. Also, during recent quarters, we have experienced high levels of loan repayments in our non-purchased loan portfolio. These payoffs have resulted in various amounts of minimum interest, prepayment penalties and such other items. Additionally, our loan yields include accretion of deferred loan fees and discounts and amortization of deferred loan costs and premiums that vary based on loan prepayments and other factors. The yield on our purchased loan portfolio decreased 15 bps to 6.44% for 2019 compared to 6.59% for 2018. The yield on our purchased loan portfolio is significantly affected by both the volume and timing of early payoffs and paydowns which typically result in any remaining purchase accounting valuation amounts treated as yield adjustments. Because the volume and timing of purchased loan payoffs and paydowns may vary significantly from period to period, the yield on such loans will also vary from period to period. At December 31, 2019, approximately 42% of our purchased loan portfolio contained loans with variable interest rates. At December 31, 2019, approximately 99% of our variable rate non-purchased loans and approximately 47% of our variable rate purchased loans had floor rates. The yield on our aggregate investment securities portfolio for 2019 increased 11 bps to 2.74% compared to 2.63% for 2018. This increase was primarily the result of higher yielding taxable securities that were purchased throughout 2018.

The overall increase in rates on average interest bearing liabilities, which increased 40 bps for 2019 compared to 2018, was primarily due to increases in rates on interest bearing deposits, which increased 42 bps for 2019 compared to 2018. The increase in rates on our interest bearing deposits, the largest component of our interest bearing liabilities, was primarily due to increases in interest rates in 2018 (although the effect of those higher interest rates was reduced during the second half of 2019 as interest rates moved lower in response to FRB decreases in the federal funds target rate) and increased competition for deposits.

Our other borrowing sources include (i) repos, (ii) other borrowings comprised primarily of FHLB advances, and, to a lesser extent, federal funds purchased, (iii) subordinated notes and (iv) subordinated debentures. The rates on repos decreased 40 bps in 2019 compared to 2018 primarily due to decreases in our administered rates on these accounts. The rates on our other borrowing sources decreased 19 bps for 2019 compared to 2018, primarily as a result of an increase in capitalized interest associated with the ongoing construction during 2019 of our new corporate headquarters. Our subordinated notes consist of $225 million in aggregate principal amount of 5.50% fixed-to-floating rate subordinated notes. The rate on these subordinated notes includes the amortization of debt issuance costs over the estimated holding period of seven years. The rates paid on our subordinated debentures, which are tied to a spread over the 90-day LIBOR and reset periodically, decreased 49 bps in 2019 compared to 2018 primarily due to an increase in capitalized interest associated with the ongoing construction during 2019 of our corporate headquarters.

The increase in average earning assets for 2019 compared to 2018 was due to increases in the average balance of non-purchased loans, partially offset by a decrease in the average balance of purchased loans and investment securities. Average non-purchased loans increased $1.82 billion, or 13.0%, to $15.86 billion for 2019 compared to 2018. Average purchased loans decreased $0.97 billion, or 36.9%, to $1.66 billion for 2019 compared to 2018, primarily due to continued paydown and payoff activity in that portfolio. Average investment securities decreased $95.6 million, or 3.6%, to $2.59 billion for 2019 compared to 2018.

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

Average Consolidated Balance Sheets and Net Interest Analysis – FTE

	Year Ended December 31,								
	2020			2019			2018		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
				(Dollars in thousands)					
ASSETS									
Interest earning assets:									
Interest earning deposits and federal funds sold	$ 1,535,977	$ 5,665	0.37%	$ 353,528	$ 6,758	1.91%	$ 160,148	$ 3,039	1.90%
Investment securities:									
Taxable	1,993,667	40,547	2.03	2,099,522	52,812	2.52	2,143,455	50,021	2.33
Tax-exempt – FTE	1,080,459	24,561	2.27	485,946	18,041	3.71	537,616	20,497	3.81
Non-purchased loans – FTE	17,797,684	945,222	5.31	15,861,797	982,430	6.19	14,040,952	858,466	6.11
Purchased loans	1,069,250	70,812	6.62	1,661,205	106,908	6.44	2,633,271	173,465	6.59
Total earning assets – FTE	23,477,037	1,086,807	4.63	20,461,998	1,166,949	5.70	19,515,442	1,105,488	5.66
Non-interest earning assets	2,291,135			2,297,372			2,395,813		
Total assets	$25,768,172			$22,759,370			$21,911,255		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest bearing liabilities:									
Deposits:									
Savings and interest bearing transaction	$ 7,724,528	$ 37,428	0.48%	$ 9,039,984	$ 126,685	1.40%	$ 9,983,075	$ 118,771	1.19%
Time deposits of $100 or more	5,524,751	83,956	1.52	3,449,197	73,336	2.13	3,183,108	47,691	1.50
Other time deposits	3,511,220	50,429	1.44	2,872,676	58,337	2.03	1,651,960	20,155	1.22
Total interest bearing deposits	16,760,499	171,813	1.03	15,361,857	258,358	1.68	14,818,143	186,617	1.26
Repurchase agreements with customers	7,825	23	0.29	13,502	50	0.37	101,682	785	0.77
Other borrowings(1)	721,350	3,179	0.44	94,399	1,531	1.62	166,937	3,017	1.81
Subordinated notes	223,850	12,758	5.70	223,469	12,757	5.71	223,089	12,757	5.72
Subordinated debentures(1)	120,190	4,384	3.65	119,629	5,664	4.73	119,076	6,211	5.22
Total interest bearing liabilities	17,833,714	192,157	1.08	15,812,856	278,360	1.76	15,428,927	209,387	1.36
Non-interest bearing liabilities:									
Non-interest bearing deposits	3,521,066			2,753,634			2,695,623		
Other non-interest bearing liabilities	261,169			217,809			185,035		
Total liabilities	21,615,949			18,784,299			18,309,585		
Common stockholders' equity	4,149,123			3,971,952			3,598,628		
Noncontrolling interest	3,100			3,119			3,042		
Total liabilities and stockholders' equity	$25,768,172			$22,759,370			$21,911,255		
Net interest income – FTE		$ 894,650			$ 888,589			$ 896,101	
Net interest margin – FTE			3.81%			4.34%			4.59%

(1) The interest expense and the rates for "other borrowings" and for "subordinated debentures" were affected by capitalized interest, primarily for our corporate headquarters facility that was completed during 2020. Capitalized interest included in "other borrowings" totaled $0.7 million in 2020, $0.9 million in 2019 and $0.6 million in 2018. Capitalized interest included in "subordinated debentures" totaled $0.2 million in 2020, $0.9 million in 2019 and none in 2018. In the absence of this interest capitalization, these rates on other borrowings would have been 0.53% in 2020, 2.58% in 2019 and 2.19% in 2018 and the rates on subordinated debentures would have been 3.80% in 2020 and 5.48% in 2019.

Average balances in the previous table are derived from daily average balances for such assets and liabilities. The yields and rates are derived by dividing interest income or interest expense by the average balance of the related assets or liabilities, respectively. The average balances of investment securities are computed based on amortized cost adjusted for unrealized gains and losses on investment securities AFS. The yields on investment securities include amortization of premiums and accretion of discounts. The average balance of non-purchased loans and purchased loans includes loans on which we have discontinued accruing interest. The yields on loans include late fees, any prepayment penalties, yield maintenance or minimum interest provisions on loan repayments and amortization or accretion of certain deferred fees, origination costs, dealer fees (for non-purchased indirect marine and recreational vehicles ("RV") loans) and, for purchased loans, accretion or amortization of any purchase accounting yield adjustment and accretion of non-credit discounts on PCD loans. Interest expense and rates on our other borrowing sources and our subordinated debentures are presented net of interest capitalized on construction projects and include the amortization of debt issuance costs, if any. Interest expense on subordinated notes includes amortization of debt issuance costs. The interest expense on the subordinated debentures assumed through an acquisition includes the amortization of any purchase accounting adjustments.

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 years indicated. Information is provided in each category with respect to changes attributable to (1) changes in volume (changes in volume multiplied by prior yield/rate); (2) changes in yield/rate (changes in yield/rate multiplied by prior volume); and (3) changes in both yield/rate and volume (changes in yield/rate multiplied by changes in volume). The changes attributable to the combined impact of yield/rate and volume have all been allocated to the changes due to volume.

Analysis of Changes in Net Interest Income—FTE

	2020 over 2019			2019 over 2018		
	Volume	Yield/ Rate	Net Change	Volume	Yield/ Rate	Net Change
	(Dollars in thousands)					
Increase (decrease) in:						
Interest income – FTE:						
Interest earning deposits and federal funds sold	$ 4,361	$ (5,454)	$ (1,093)	$ 3,696	$ 23	$ 3,719
Investment securities:						
Taxable	(2,152)	(10,113)	(12,265)	(1,105)	3,896	2,791
Tax-exempt – FTE	13,515	(6,995)	6,520	(1,918)	(538)	(2,456)
Non-purchased loans – FTE	102,814	(140,022)	(37,208)	112,776	11,188	123,964
Purchased loans	(39,202)	3,106	(36,096)	(62,557)	(4,000)	(66,557)
Total interest income – FTE	79,336	(159,478)	(80,142)	50,892	10,569	61,461
Interest expense:						
Savings and interest bearing transaction	(6,374)	(82,883)	(89,257)	(13,216)	21,130	7,914
Time deposits of $100 or more	31,541	(20,921)	10,620	5,657	19,988	25,645
Other time deposits	9,171	(17,079)	(7,908)	24,790	13,392	38,182
Repurchase agreements with customers	(16)	(11)	(27)	(324)	(411)	(735)
Other borrowings	2,764	(1,116)	1,648	(1,178)	(308)	(1,486)
Subordinated notes	22	(21)	1	22	(22)	—
Subordinated debentures	20	(1,300)	(1,280)	27	(574)	(547)
Total interest expense	37,128	(123,331)	(86,203)	15,778	53,195	68,973
Increase (decrease) in net interest income – FTE	$ 42,208	$ (36,147)	$ 6,061	$ 35,114	$ (42,626)	$ (7,512)

Non-Interest Income

Our non-interest income consists primarily of, among others, service charges on deposit accounts, trust income, BOLI income, loan service, maintenance and other fees and net gains on investment securities and on sales of other assets.

2020 compared to 2019

Non-interest income for 2020 decreased 2.7% to $104.6 million compared to $107.5 million for 2019.

Service charges on deposit accounts, the largest component of our non-interest income, decreased 9.8% to $37.7 million in 2020 compared to $41.8 million in 2019. This decrease was primarily due to the change in customer activity as a result of the COVID-19 pandemic, which reduced service charges on deposit accounts for 2020 compared to 2019.

Trust income decreased 0.1% to $7.5 million in 2020 compared to $7.6 million in 2019.

BOLI income from the increase in cash surrender value decreased 2.3% to $20.2 million in 2020 compared to $20.7 million in 2019. BOLI income from death benefits was $0.6 million in 2020 compared to $3.2 million in 2019. BOLI income in the form of increases in cash surrender value and death benefits helps to offset a portion of employee benefit costs.

Loan service, maintenance and other fees decreased 20.4% to $14.3 million in 2020 compared to $17.9 million in 2019. Loan service, maintenance and other fees include unused line of credit fees, asset management fees, certain underwriting fees and various other fees on loans that are not considered yield adjustments. While income from these items may vary significantly from period to period, we generally expect the income from these items to continue to decrease in 2021.

We had net gains from the sale of investment securities of $4.5 million in 2020 compared to $0.7 million in 2019. During 2020 we sold approximately $269 million of investment securities AFS compared to approximately $96 million in 2019.

Gains on sales of other assets were $6.9 million in 2020 compared to $2.2 million in 2019. Included in gains on sales of other assets in 2020 were gains of $3.8 million from the sale of our two Alabama branches.

2019 compared to 2018

Non-interest income for 2019 decreased 0.2% to $107.5 million compared to $107.8 million for 2018.

Service charges on deposit accounts increased 5.6% to $41.8 million in 2019 compared to $39.5 million in 2018. This increase was primarily due to net growth in the number of core checking accounts during recent quarters.

Trust income increased 8.9% to $7.6 million in 2019 compared to $6.9 million in 2018. This increase in trust income was primarily due to growth in both corporate trust income and personal trust income.

BOLI income from the increases in cash surrender value was $20.7 million in both 2019 and 2018. BOLI income from death benefits was $3.2 million in both 2019 and 2018.

Loan service, maintenance and other fees decreased 12.0% to $17.9 million in 2019 compared to $20.4 million in 2018. Income from these items may vary significantly from period to period.

Other income from purchased loans decreased 52.7% to $3.7 million in 2019 compared to $7.8 million in 2018. Other income from purchased loans consists primarily of income recognized on purchased loan prepayments and payoffs that are not considered yield adjustments. Because other income from purchased loans may be significantly affected by purchased loan pre-payments and payoffs, this income item may vary significantly from period to period. Concurrent with the adoption of ASU 2016-13, effective January 1, 2020, income previously reported as other income from purchased loans is now included as interest income on purchased loans.

We had net gains from the sale of investment securities of $0.7 million in 2019 compared to essentially no net gains during 2018. Gains on sales of other assets were $2.2 million in both 2019 and 2018.

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

Non-Interest Income

	Year Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Service charges on deposit accounts	$ 37,699	$ 41,774	$ 39,544
Trust income	7,544	7,554	6,935
BOLI income:			
Increase in cash surrender value	20,239	20,715	20,700
Death benefits	608	3,194	3,211
Loan service, maintenance and other fees	14,257	17,917	20,354
Other income from purchased loans, net	—	3,684	7,784
Gains on sales of other assets	6,863	2,233	2,219
Net gains on investment securities	4,467	713	17
Other	12,931	9,743	7,011
Total non-interest income	$ 104,608	$ 107,527	$ 107,775

Non-Interest Expense

Our non-interest expense consists of salaries and employee benefits, net occupancy and equipment and other operating expenses.

2020 compared to 2019

Non-interest expense increased 3.1% to $413.4 million in 2020 compared to $401.1 million in 2019. During 2020, we adjusted certain aspects of our branch operations and staffing, accelerated our emphasis on mobile banking and other technology solutions, adjusted certain product offerings, and made other changes that we feel are appropriate for the current and expected future operating environment. During 2020, we also eliminated dozens of positions that were no longer needed or productive while adding new headcount to address the changing needs and expectations of our customers. We expect to continue evaluating our non-interest expenses in 2021, including the need to add additional resources as we expand capabilities, grow our business, and prepare to become a larger institution.

Salaries and employee benefits, our largest component of non-interest expense, increased 7.3% to $206.8 million in 2020 compared to $192.9 million in 2019. We had 2,652 full-time equivalent employees at December 31, 2020, compared to 2,774 full-time equivalent employees at December 31, 2019. While total full-time equivalent employees were down slightly at December 31, 2020 compared to December 31, 2019, we had net additions of approximately 211 full-time equivalent employees over the course of 2019, which contributed to our increased salaries and benefits expenses in 2020.

Net occupancy and equipment expense increased 7.4% to $63.4 million in 2020 compared to $59.0 million in 2019. During the second quarter of 2020, we opened our new corporate headquarters facility, which has contributed to the increase in net occupancy equipment expense in 2020.

Other operating expenses decreased 4.1% to $143.2 million in 2020 compared to $149.3 million in 2019. The decrease in other operating expense in 2020 compared to 2019 is primarily attributable to decreases in certain non-interest expense, including travel and meals that have been significantly affected by the COVID-19 pandemic.

Our efficiency ratio (non-interest expense divided by the sum of net interest income–FTE and non-interest income) was 41.4% for 2020 compared to 40.3% for 2019.

2019 compared to 2018

Non-interest expense increased 5.4% to $401.1 million in 2019 compared to $380.8 million in 2018. The increase in our non-interest expense in 2019 compared to 2018 was primarily attributable to our continued expansion and enhancement of our infrastructure for information technology, cybersecurity, information systems, business resilience, enterprise risk management, credit risk, internal audit, compliance, Bank Secrecy Act (“BSA”) and anti-money laundering (“AML”) monitoring activities, training and a number of other important areas, including expanding our human and physical infrastructure to serve low-to-moderate income and majority-minority markets and customer segments (collectively, "our infrastructure initiatives").

Salaries and employee benefits, our largest component of non-interest expense, increased 13.1% to $192.9 million in 2019 compared to $170.5 million in 2018. The increase in salaries and benefits for 2019 compared to 2018 is primarily due to employees added as we continue to grow, including our focus on our infrastructure initiatives as discussed above. We had 2,774 full-time equivalent employees at December 31, 2019, compared to 2,563 full-time equivalent employees at December 31, 2018.

Net occupancy and equipment expense increased 4.7% to $59.0 million in 2019 compared to $56.4 million in 2018. At December 31, 2019 we had 254 offices compared to 251 at December 31, 2018.

Other operating expenses decreased 3.0% to $149.3 million in 2019 compared to $153.9 million in 2018. The decrease in other operating expense in 2019 compared to 2018 is primarily attributable to our name change and strategic rebranding initiatives during 2018.

Our efficiency ratio was 40.3% for 2019 compared to 37.9% for 2018. The increase in our efficiency ratio for 2019 compared to 2018 was primarily due to the increase in non-interest expense due to our infrastructure initiatives discussed above, including the increase in the number of full-time equivalent employees, and the decrease in our net-interest income–FTE in 2019 compared to 2018.

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

Non-Interest Expense

	Year Ended December 31,		
	2020	2019	2018
		(Dollars in thousands)	
Salaries and employee benefits	$ 206,834	$ 192,851	$ 170,478
Net occupancy and equipment	63,379	59,018	56,362
Other operating expenses:			
Professional and outside services	30,974	33,030	35,867
Software and data processing	21,279	19,535	13,729
Deposit insurance and assessments	15,247	13,425	14,740
Telecommunication services	9,159	10,583	13,080
Postage and supplies	7,462	8,684	9,144
Advertising and public relations	6,050	7,242	11,557
ATM expense	5,256	4,626	4,227
Travel and meals	4,336	11,230	9,650
Loan collection and repossession expense	3,062	2,818	3,302
Writedowns of foreclosed and other assets	3,669	2,419	7,911
Amortization of intangibles	9,085	11,918	12,579
Other	27,621	23,751	18,126
Total non-interest expense	$ 413,413	$ 401,130	$ 380,752

Pre-Tax Pre-Provision Net Revenue ("PPNR")

As a result of the volatility of our provision for credit losses under CECL, we use PPNR, which is a non-GAAP financial measure, to measure our core earnings and trends thereof. PPNR is a measure of earnings before provision for credit losses and income tax expense. The decrease in PPNR in 2020 compared to 2019 was primarily due to the increase in non-interest expense and the decrease in non-interest income, partially offset by the increase in net interest income. The decrease in PPNR in 2019 compared to 2018 was primarily due to the increase in non-interest expense and the decrease in net interest income. This non-GAAP financial measure should not be viewed as a substitute for financial measures determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP financial measures that may be presented by other companies. The reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure is included in the following table for the years indicated.

Calculation of Pre-Tax Pre-Provision Net Revenue

	Year Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Income before taxes	$ 376,180	$ 564,337	$ 554,058
Provision for credit losses	203,639	26,241	64,398
Pre-tax pre-provision net revenue	$ 579,819	$ 590,578	$ 618,456

Income Taxes

Our provision for income taxes was $84.3 million in 2020 compared to $138.4 million in 2019 and $137.0 million in 2018. Our effective income tax rates were 22.4% for 2020, 24.5% for 2019 and 24.7% for 2018. The decrease in our effective income tax rate for 2020 compared to 2019 and 2018 was primarily due to an increase in various federal tax credits realized during 2020, as well as changes in various other factors, including adjustments to the state income tax apportionment factors based on changes in business activity and lending volumes in states and municipalities with higher income tax rates, changes in non-taxable income associated with changes in our investment securities AFS portfolio and various other factors related to non-taxable income and non-deductible expenses.

Accounting for our income taxes utilizes the criteria discussed in the Critical Accounting Policy section of this MD&A. A reconciliation between the statutory federal income tax rates and our effective income tax rates for 2020, 2019 and 2018 is included in note 13 to the consolidated financial statements included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

RISK ELEMENTS

Risk is inherent in substantially all of the Bank's operations, and our business exposes us to strategic risk, credit risk, market risk, interest rate risk, liquidity risk, operational risk, reputational risk and compliance and regulatory risk. We use an enterprise-wide risk management framework to identify, measure, monitor, manage and report risks that affect or could affect the achievement of our strategic, financial and other goals and objectives. Accordingly, risk management is an essential element in managing our operations and is a key determinant of our overall performance. Our Board of Directors (the "Board") is responsible for approving our overall risk management framework, including setting our risk appetite for the Basel risk categories, and establishing risk tolerances for each of our key risks. The Board Risk Committee ("BRC"), which is a board-level committee, has been assigned oversight responsibility for our risk management processes. The BRC meets at least quarterly to monitor and review our various enterprise risk management policies and activities, review and approve our overall risk posture, and such other actions as detailed in its charter document. The BRC has appointed the Executive Risk Council ("ERC"), which is comprised of senior executives of the Bank and is chaired by the Chief Risk Officer ("CRO"), to assist BRC in the oversight of our enterprise risk management activities. The ERC, pursuant to its charter, has responsibility for review and approval of detailed risk management processes and procedures, monitoring each of our key performance indicators and key risk indicators against our Board-approved risk thresholds, assessing current and emerging risks, monitoring our risk culture, overseeing compliance with regulatory expectations and requirements, and various other risk management functions and activities.

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

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

- First line of defense activities provide for the identification, acceptance and ownership of risks. These defense activities are typically executed by various lines of business personnel and owners.
- Second line of defense activities provide for objective oversight of our risk-taking activities and assessment of our aggregate risk levels. These defense activities are executed under the leadership and guidance of our Corporate Risk Management Group ("CRMG") and our CRO, who reports directly to our BRC.
- Third line of defense activities provide for independent reviews and assessments of risk management practices across the Bank, including those activities of our CRMG. These defense activities are executed by our Internal Audit department, which is led by our Chief Audit Executive, who reports directly to our Audit Committee.

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

Credit Risk Management

Overview. Credit risk is defined as the risk that arises from the potential that a borrower or counterparty will fail to perform its financial or contractual obligations. Credit risk arises primarily from our lending activities, including our off-balance sheet credit instruments comprised primarily of construction loans that have closed but have not yet funded. The Board is responsible for approving overall credit policies relating to the management of credit risk, along with overseeing and monitoring credit risk. Our lending policies also contain various measures to limit concentration exposures, including customer and commercial real estate ("CRE") exposures for both funded balances and unfunded balances in the aggregate, as well as by property type and geography. Our Loan Committee ("LC") has primary responsibility for monitoring our credit approval process. The LC consists of four or more directors and is chaired by our Chief Credit and Administrative Officer ("CCAO"). Loans and aggregate loan relationships exceeding $20 million up to the limits established by our Board must be approved by the LC. At least quarterly, our Board, BRC and/or LC review various reports regarding our credit management activities including, but not limited to, summary reports of past due loans, internally classified and criticized list loans, lending concentration reports, and various other loan and credit management reports.

Credit Management Actions. The daily administration of our lending function is the responsibility of our Chief Executive Officer ("CEO") and our Chief Lending Officer ("CLO"). We maintain a tiered loan limit authorization system. Loan authority is granted to the CEO and CLO by the Board. The loan authorities of other lending officers are granted by the LC on the recommendation of appropriate senior officers in amounts commensurate with the officer's skill level and knowledge.

We have detailed, comprehensive standards for evaluating credit risk, both at the point of origination and thereafter. We utilize a dual risk rating scale that incorporates score cards, which include qualitative models and qualitative factors, in determining the risk rating for our commercial loans. This dual risk rating methodology incorporates an ORR and an FRR which are combined to create a two- dimensional risk rating for commercial loans. The ORR is influenced by a loan's PD as determined from the score cards. The FRR is influenced by a loan's LGD as determined from the score cards. The combined dual risk rating provides an annualized expected loss estimate for each commercial loan and, based on such loss estimates, a risk rating is assigned. Our consumer loans are not risk rated in the same manner as are our commercial loans. Instead, consumer loans are risk rated based on past due status with all such loans that are less than 30 days past due typically assigned a "pass rating" and all loans that are 30 days or more past due assigned a more adverse rating commensurate with each loan's perceived risk. While our consumer loans are not risk rated using a dual risk rating scale that incorporates both an ORR and an FRR, we do utilize output from the score cards on consumer loans for purposes of determining the necessary ACL for consumer loans.

Oversight of credit risk is provided through loan policy and various other credit-related policies, clearly defined processes and detailed procedures. These policies, processes and procedures place emphasis on strong underwriting standards and detection of potential credit problems in order to develop and implement any necessary action plan(s) on a timely basis to mitigate potential losses and are carried out by our lenders and lending support personnel, our credit administration group, our underwriters and various other officers and personnel in the Bank that have credit management responsibilities, including our CCAO. Additionally, our policies, process and procedures are subject to review by our Credit Risk Management ("CRM") group (second line oversight), our BRC and periodic audits by our Internal Audit group (third line oversight).

Our CRM function is separate from our lending function and provides second line oversight. CRM is responsible for providing an independent evaluation of our loan portfolio, including detailed credit reviews performed for the purpose of reviewing the adequacy of documentation, compliance with loan policy and other credit policies, reviewing individual loan grading, evaluating asset quality, performing and reporting to ERC and BRC credit risk analytics (which includes assessing the trend of credit risk metrics, assessing any trends or material transitions of our internal risk ratings or credit grading of individual loan portfolios, and various other risk analytics), and reviewing the effectiveness of credit administration, among other items. CRM prepares reports that document their credit risk oversight activities, including identification of underwriting or other deficiencies in the loan approval or credit monitoring process, establishing recommendations for improvement and outlining management's proposed action plan(s) for curing any identified deficiencies. Internal oversight of the CRM function is provided by the Credit Risk Management Council ("CRMC"), which is comprised of senior officers of the Bank and chaired by the Managing Director of CRM. The reports produced by CRM are provided to and reviewed by CRMC. Additionally, key trends or significant issues identified in such reports that might impact credit risk are reported to ERC, BRC and/or the Board.

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

Loan Portfolio. At December 31, 2020, our total loan portfolio was $19.21 billion, an increase of 9.6% from $17.53 billion at December 31, 2019. At December 31, 2020, our total loan portfolio consisted of 74.1% real estate loans, 4.4% commercial and industrial loans, 12.5% consumer loans and 9.0% other loans. Real estate loans, our largest category of loans, include all loans made to finance the development of real property construction projects, provided such loans are secured by real estate, and all other loans secured by real estate as evidenced by mortgages or other liens.

The amount and type of total loans outstanding, as of the dates indicated, are reflected in the following table.

Total Loan Portfolio

	December 31,				
	2020	**2019**	**2018**	**2017**	**2016**
	(Dollars in thousands)				
Real estate:					
Residential 1-4 family	$ 911,115	$ 998,632	$ 1,049,460	$ 1,174,427	$ 1,259,289
Non-farm/non-residential	4,213,636	3,956,579	4,319,388	4,478,876	4,665,401
Construction/land development	8,046,978	6,391,429	6,562,185	6,648,061	5,295,860
Agricultural	204,868	230,076	165,088	150,003	124,857
Multifamily residential	856,297	1,194,192	1,116,026	508,514	744,005
Total real estate	14,232,894	12,770,908	13,212,147	12,959,881	12,089,412
Commercial and industrial[(1)]	842,206	661,952	823,417	738,225	577,335
Consumer	2,393,964	2,934,534	2,345,863	1,472,593	1,028,991
Other	1,740,104	1,164,649	736,396	872,330	867,377
Total loans	$19,209,168	$17,532,043	$17,117,823	$16,043,029	$14,563,115

(1) Included approximately $0.43 billion of loans at December 31, 2020 provided through the SBA's PPP.

Included in "other" loans at December 31, 2020, 2019, 2018, 2017 and 2016 are loans totaling approximately $1.44 billion, $1.08 billion, $0.66 billion, $0.83 billion and $0.84 billion, respectively, that were originated to acquire promissory notes from non-depository financial institutions and are typically collateralized by an assignment of the promissory note and all related note documents including mortgages, deeds of trust, etc. While such loans are considered "other" loans in accordance with FDIC instructions for the Federal Financial Institutions Examination Council 041 Consolidated Reports of Condition and Income ("Call Report"), we underwrite these lending transactions based on the fundamentals of the underlying collateral, repayment sources and guarantors, among others, consistent with other similar lending transactions.

Our credit risk management strategies include efforts to diversify our loan portfolio and avoid the risk of undue concentrations of credit in a particular collateral type, geography or with an individual customer. While our loan portfolio is diversified, we do have concentrations in CRE lending. Our Board has adopted and we adhere to various concentration limits on CRE lending, including limits on CRE lending in particular collateral types and in various geographies and Metropolitan Statistical Areas ("MSAs"). All of these limits are monitored and revised as necessary based on the results of our CRE stress testing activities and other factors.

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

Top Ten Geographies and MSAs for Real Estate Loans

Geography or MSA	Funded Balance	Unfunded Balance	Total Commitment
		(Dollars in thousands)	
December 31, 2020:			
New York–Newark–Jersey City, NY–NJ–PA MSA	$ 3,481,559	$ 1,473,179	$ 4,954,738
Los Angeles–Long Beach–Anaheim, CA MSA	1,602,817	842,120	2,444,937
Miami–Fort Lauderdale–West Palm Beach, FL MSA	1,166,756	951,134	2,117,890
Tampa–St. Petersburg–Clearwater, FL MSA	530,519	655,332	1,185,851
Chicago–Naperville–Elgin, IL–IN–WI MSA	444,043	639,515	1,083,558
Dallas–Fort Worth–Arlington, TX MSA	509,105	432,887	941,992
Atlanta–Sandy Springs–Roswell, GA MSA	602,036	324,294	926,330
San Francisco–Oakland–Hayward, CA MSA	353,011	405,568	758,579
Washington–Arlington–Alexandria, DC–VA–MD–WV–MSA	303,670	427,314	730,984
Phoenix–Mesa–Scottsdale, AZ MSA	314,720	382,280	697,000
All other geographies	4,924,658	3,810,474	8,735,132
Total real estate loans	$ 14,232,894	$ 10,344,097	$ 24,576,991
December 31, 2019:			
New York–Newark–Jersey City, NY–NJ–PA MSA	$ 3,398,399	$ 2,179,440	$ 5,577,839
Miami–Fort Lauderdale–West Palm Beach, FL MSA	1,047,660	1,059,369	2,107,029
Los Angeles–Long Beach–Anaheim, CA MSA	702,184	762,133	1,464,317
Dallas–Fort Worth–Arlington, TX MSA	809,761	372,700	1,182,461
Tampa–St. Petersburg–Clearwater, FL MSA	407,898	628,637	1,036,535
Chicago–Naperville–Elgin, IL–IN–WI MSA	375,933	550,437	926,370
Atlanta–Sandy Springs–Roswell, GA MSA	606,212	202,125	808,337
Phoenix–Mesa–Scottsdale, AZ MSA	178,756	429,223	607,979
San Francisco–Oakland–Hayward, CA MSA	292,690	308,799	601,489
Washington–Arlington–Alexandria, DC–VA–MD–WV–MSA	220,354	367,928	588,282
All other geographies	4,731,061	2,893,321	7,624,382
Total real estate loans	$ 12,770,908	$ 9,754,112	$ 22,525,020

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

In addition to the top ten geographies and MSAs shown above, as of December 31, 2020, we had 67 additional geographies and MSAs that contain total committed balances (both funded and unfunded) of $10 million or more, compared to 73 additional geographies and MSAs at December 31, 2019.

Given that we have substantial balances of certain categories of CRE lending (i.e., non-farm/non-residential and construction/land development lending), we have provided further detail on these two categories of loans. The funded amount and type of 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

	December 31,			
	2020		2019	
	Amount	%	Amount	%
	(Dollars in thousands)			
Hotels and motels	$ 1,025,674	24.3%	$ 857,276	21.7%
Office, including medical offices	959,462	22.8	949,119	24.0
Mixed use properties	711,197	16.9	295,423	7.5
Retail, including shopping centers and strip centers	337,244	8.0	431,970	10.9
Churches and schools	266,462	6.3	311,027	7.9
Manufacturing and industrial facilities	197,969	4.7	264,048	6.7
Restaurants and bars	150,181	3.6	178,307	4.5
Nursing homes and assisted living centers	107,011	2.5	125,353	3.2
Gasoline stations and convenience stores	64,971	1.5	88,158	2.2
Office warehouse, warehouse and mini-storage	56,998	1.4	69,512	1.8
Golf courses, entertainment and recreational facilities	29,106	0.7	29,165	0.7
Hospitals, surgery centers and other medical	18,391	0.4	29,533	0.7
Other non-farm/non-residential	288,970	6.9	327,688	8.2
Total	$ 4,213,636	100.0%	$ 3,956,579	100.0%

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

Total Construction/Land Development Loans

	December 31,			
	2020		2019	
	Amount	%	Amount	%
	(Dollars in thousands)			
Unimproved land	$ 295,402	3.7%	$ 237,614	3.7%
Land development and lots:				
1-4 family residential and multifamily	431,079	5.4	352,100	5.5
Non-residential	496,225	6.2	532,139	8.3
Construction:				
1-4 family residential:				
Owner occupied	6,045	0.1	5,844	0.1
Non-owner occupied:				
Pre-sold	1,797,958	22.3	2,031,251	31.8
Speculative	111,614	1.4	135,377	2.1
Multifamily	1,483,862	18.4	827,122	12.9
Industrial, commercial and other:				
Mixed use properties	1,677,037	20.8	1,335,959	20.9
Office, including medical offices	749,202	9.3	304,371	4.8
Hotels and motels	650,514	8.1	430,175	6.7
Manufacturing, industrial and warehouse	215,616	2.7	85,268	1.3
Churches and schools	34,752	0.4	24,193	0.4
Agricultural	29,870	0.4	17,156	0.3
Retail, including shopping centers and strip centers	21,914	0.3	19,395	0.3
Restaurants and bars	8,684	0.1	11,859	0.2
Other	37,204	0.4	41,426	0.7
Total	$ 8,046,978	100.0%	$ 6,391,249	100.0%

Many of our construction and development loans provide for the use of interest reserves. When we underwrite construction and development loans, we consider the expected total project costs, including hard costs such as land, site work and construction costs and soft costs such as architectural and engineering fees, closing costs, leasing commissions and construction period interest, among others. For any construction and development loan with interest reserves, we also consider the construction period interest in our underwriting process (otherwise, our underwriting of such loans with and without interest reserves is virtually identical). Based on the total project costs and other factors, we determine the required borrower cash equity contribution and the maximum amount we are willing to lend. In the vast majority of cases, we require that all of the borrower's equity and all other required subordinated elements of the capital structure be fully funded prior to any significant loan advance. As a result of this practice, the borrower's cash equity typically goes toward the purchase of the land and early stage hard costs and soft costs. This results in our funding the loan later as the project progresses, and accordingly, we typically fund the majority of the construction period interest through loan advances.

Generally, as part of our underwriting process, we require the borrower's cash equity to cover a majority, or all, of the soft costs, including an amount equal to construction period interest, and an appropriate portion of the hard costs. While we advance interest reserves as part of the funding process, we believe that the borrowers have in most cases provided for these sums as part of their initial equity contribution. During the years ended December 31, 2020, 2019 and 2018, there were no situations where interest reserves were advanced outside of the terms of the contractual loan agreement to avoid such loan from becoming nonperforming. At December 31, 2020 and 2019, we had no construction and development loans with interest reserves that were nonperforming.

During the years ended December 31, 2020, 2019 and 2018, we recognized approximately $263 million, $292 million and $263 million, respectively, of interest income on construction and development loans from the advance of interest reserves. We advanced construction period interest on construction and development loans totaling approximately $257 million, $297 million, and $254 million, respectively, during the years ended December 31, 2020, 2019 and 2018.

The maximum committed balance of all construction and development loans which provide for the use of interest reserves at December 31, 2020 was approximately $17.03 billion, of which $7.51 billion was outstanding at December 31, 2020 and $9.52 billion remained to be advanced. The weighted-average loan-to-cost ("LTC") on such loans, assuming such loans are ultimately fully advanced, was approximately 50%, which means that the weighted-average cash equity contributed on such loans, assuming such loans are ultimately fully advanced, was approximately 50%. The weighted-average LTV ratio on such loans, based on the most recent appraisals and assuming such loans are ultimately fully advanced, was approximately 44%.

Purchased Loans. Between 2010 and 2016, we made fifteen acquisitions. Purchased loans, which are the remaining loans from those fifteen acquisitions, accounted for 4.2% of our total loan portfolio at December 31, 2020 (7.5% at December 31, 2019), and will continue to decrease as such loans are repaid. For purchased loans, we segregate this portfolio into loans that contain evidence of credit deterioration, which we refer to as PCD loans, and loans that do not contain evidence of credit deterioration. Unless individually evaluated, all purchased commercial loans, including both PCD and non-PCD loans, are dual risk rated through our score cards, which were previously discussed under Credit Risk Management – Credit Management Actions above. While our purchased consumer loans, including both PCD and non-PCD, are not risk rated, we utilize output from the various consumer score cards for purposes of determining the appropriate ACL for such loans.

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

Purchased Loans

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Loans not deemed PCD:		
Unpaid principal balance	$ 760,865	$ 1,243,327
Valuation discount	(10,455)	(17,022)
Carrying value	750,410	1,226,305
PCD loans:(1)		
Unpaid principal balance	65,433	101,741
Valuation discount	(8,170)	(20,542)
Carrying value	57,263	81,199
Total carrying value	$ 807,673	$ 1,307,504

(1) As of December 31, 2019, these loans were classified as PCI.

Nonperforming Assets

*Nonperforming Asset*s. Our nonperforming assets consist of (1) nonaccrual loans, (2) accruing loans 90 days or more past due, (3) certain troubled and restructured loans for which a concession has been granted by us to the borrower because of a deterioration in the financial position of the borrower and (4) real estate or other assets that have been acquired in partial or full satisfaction of loan obligations or upon foreclosure.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. We generally place a loan on nonaccrual status when such loan is (i) deemed nonperforming or (ii) 90 days or more past due, or earlier when doubt exists as to the ultimate collection of payments. We may continue to accrue interest on certain loans contractually past due 90 days or more if such loans are both well secured and in the process of collection. At the time a loan is placed on nonaccrual status, interest previously accrued but uncollected is reversed and charged against interest income. Nonaccrual loans are generally returned to accrual status when payments are no longer past due, the loan has performed in accordance with its contractual terms for a reasonable period of time (generally at least six months), and is expected to continue to perform in accordance with its contractual terms. If a loan is determined to be uncollectible, the portion of the principal determined to be uncollectible is charged against the ACL. Loans for which the terms have been modified and for which (i) the borrower is experiencing financial difficulties and (ii) we have granted a concession to the borrower are considered troubled debt restructurings ("TDRs") and are included in nonperforming loans. Income on nonaccrual loans, including nonperforming loans, is recognized on a cash basis when and if actually collected. Income on TDRs is recognized on a cash basis until such time as the TDR has performed in accordance with its modified terms for a reasonable period of time (generally at least six months) and is expected to continue to perform. Once such performance and expected performance conditions are met, the TDR is returned to accrual status but continues to be reported as a nonperforming loan.

During 2020 we implemented our Disaster Relief Loan Program which, as of December 31, 2020, provided short-term payment deferrals on approximately 3,231 loans totaling approximately $1.11 billion, of which, we had approximately 230 loans totaling approximately $0.13 billion that continued to be subject to such short-term deferrals. In accordance with applicable guidance, loans subject to such deferrals are not considered TDRs.

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

Nonperforming Assets

	December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands)				
Nonaccrual loans(1)	$ 40,093	$ 19,337	$ 30,884	$ 12,899	$ 14,371
Accruing loans 90 days or more past due	—	—	—	—	—
TDRs – nonaccruing(1)	4,309	3,884	3,878	—	—
TDRs – accruing(1)	1,483	656	627	—	—
Total nonperforming loans, excluding purchased loans	45,885	23,877	35,389	12,899	14,371
Nonperforming purchased loans	25,335	23,201	26,418	27,495	25,346
Total nonperforming loans	71,220	47,078	61,807	40,394	39,717
Foreclosed assets	11,085	19,096	16,171	25,357	43,702
Total nonperforming assets	$ 82,305	$ 66,174	$ 77,978	$ 65,751	$ 83,419
Nonperforming loans to total loans, excluding purchased loans(2)	0.25%	0.15%	0.23%	0.10%	0.15%
Nonperforming loans to total loans	0.37	0.27	0.36	0.25	0.27
Nonperforming assets to total assets, excluding purchased loans(2)	0.21	0.18	0.23	0.18	0.31
Nonperforming assets to total assets	0.30	0.28	0.35	0.31	0.44

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

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

At December 31, 2020 and 2019, we had reduced the carrying value of our nonperforming loans to the estimated fair value of such loans of $59.1 million and $45.2 million, respectively. The adjustment to reduce the carrying value of nonperforming loans to estimated fair value at December 31, 2020 and 2019 consisted of $12.1 million and $1.9 million, respectively, of loan loss allocations. Nonperforming non-purchased loans at December 31, 2020 and 2019 included $1.5 million and $0.7 million, respectively, of accruing loans that were determined to be TDRs.

At December 31, 2020 and 2019 substandard loans, excluding purchased loans, not designated as nonperforming, nonaccrual or 90 days past due, totaled $49.9 million and $71.2 million, respectively. No loans were designated as doubtful or loss at December 31, 2020 and 2019. Included in substandard loans not deemed as nonperforming, nonaccrual or 90 days past due at December 31, 2020 and 2019 is a single credit at our Real Estate Specialty Group that was downgraded to substandard during the fourth quarter of 2019. This credit, which is collateralized by a lot development and townhouse construction project near Lake Tahoe, California, had an outstanding balance of $33.0 million at December 31, 2020 and $57.0 million at December 31, 2019. This credit was not past due at December 31, 2020 or 2019.

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

Foreclosed Assets

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Real estate:		
Residential 1-4 family	$ 253	$ 2,201
Non-farm/non-residential	5,244	3,989
Construction/land development	4,683	12,153
Agricultural	497	—
Total real estate	10,677	18,343
Commercial and industrial	—	4
Consumer	408	749
Foreclosed assets	$ 11,085	$ 19,096

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

Activity Within Foreclosed Assets

	Year Ended December 31, 2020	2019	2018
		(Dollars in thousands)	
Balance – beginning of year	$ 19,096	$ 16,171	$ 25,357
Loans and other assets transferred into foreclosed assets	21,703	31,709	11,540
Sales of foreclosed assets	(26,045)	(26,365)	(17,891)
Writedowns of foreclosed assets	(3,669)	(2,419)	(2,835)
Balance – end of year	$ 11,085	$ 19,096	$ 16,171

The following table presents information concerning the geographic location of nonperforming assets at December 31, 2020. Nonperforming loans are reported in the physical location of the principal collateral. Foreclosed assets are reported in the physical location of the asset. Repossessions are reported at the physical location where the borrower resided or had its principal place of business at the time of repossession.

Geographic Distribution of Nonperforming Assets

	Nonperforming Loans	Foreclosed Assets and Repossessions	Total Nonperforming Assets
		(Dollars in thousands)	
Georgia	$ 17,141	$ 2,153	$ 19,294
Florida	14,379	2,065	16,444
Arkansas	6,632	2,355	8,987
North Carolina	4,756	3,481	8,237
Texas	5,685	269	5,954
New York	3,917	—	3,917
Mississippi	957	497	1,454
South Carolina	746	—	746
All other	17,007	265	17,272
Total	$ 71,220	$ 11,085	$ 82,305

Allowance for Credit Losses

Effective January 1, 2020, we adopted the provisions of ASU 2016-13. This guidance replaced the incurred loss method that was utilized in estimating our ALL at December 31, 2019 with a methodology that requires us to estimate credit losses expected to occur over the life of the financial instrument and to recognize those estimated losses at the time of the loan origination or, for loans and loan commitments outstanding on January 1, 2020, upon adoption of this guidance. This revised methodology is what FASB describes as the CECL method.

The adoption of CECL on January 1, 2020 resulted in a $39.6 million increase in our ALL for outstanding loans and the establishment of a $54.9 million reserve for unfunded loan commitments, resulting in a total increase to our ACL of $94.5 million. These transition adjustments, net of related tax effects, were recorded as a cumulative effect of a change in accounting principle and reduced our retained earnings by $75.3 million. For regulatory reporting purposes, we are utilizing the three-year phase-in method of inclusion of the adoption of CECL. As required by ASU 2016-13, the portion of the ACL for the outstanding balance of our loan portfolio is reported as ALL on our consolidated balance sheet and the reserve for losses on unfunded loan commitments is reported as a liability on our consolidated balance sheet.

Our total provision for credit losses for 2020 was $203.6 million, including $177.1 million related to our ALL for outstanding loans and $26.5 million related to our reserve for losses on unfunded loan commitments. Our provision for credit losses for 2019, all of which was for our outstanding loans, was $26.2 million. The sudden and severe economic downturn as a result of the COVID-19 pandemic, combined with the implementation of CECL and uncertain future economic projections, resulted in the significant increase in our provision for credit losses in 2020 compared to 2019. Our provision for credit losses recorded during the year ended December 31, 2020 increased our ALL for outstanding loans to $295.8 million, or 1.54% of total loans, and increased our reserve for losses on unfunded loan commitments to $81.5 million, or 0.69% of unfunded loan commitments, bringing our total ACL to $377.3 million at December 31, 2020. Our ALL for outstanding loans was $108.5 million, or 0.62% of total loans at December 31, 2019. At December 31, 2019, we had no reserve for losses on unfunded loan commitments. Also, concurrent with the adoption of CECL, our income previously reported as “Other income from purchased loans” is now included in interest income on purchased loans.

The calculations of our provision for credit losses for 2020 and our total ACL at December 31, 2020 were based on a number of key estimates, assumptions and economic forecasts. Management utilized several economic forecasts provided by Moody’s, including their baseline forecast that was updated on January 12, 2021 and certain of their other economic scenarios. In selecting the weightings for the various economic scenarios for purposes of determining our ACL at December 31, 2020, we assigned the largest weighting to the Moody’s S3 (Moderate Recession) and Moody’s S4 (Protracted Slump) scenarios and assigned lesser weighting to the Moody’s baseline scenario. Our selection and weightings of these scenarios reflected the uncertainty about the course and duration of the COVID-19 pandemic, the timing and magnitude of additional U.S. fiscal policy actions, global trade and geopolitical matters, and various other factors. These forecasts included a number of economic variables, including gross domestic product (“GDP”), unemployment rates, and commercial and residential real estate prices, among others. For purposes of the forecasts used in our CECL methodology, management utilized a reasonable and supportable forecast period of two years, followed by a reversion, on a systematic basis, of estimated losses back to our historical mean. Management also utilized certain qualitative adjustments to increase our ACL estimates at December 31, 2020 in order to capture items that management believed were not fully reflected in our modeled results.

CECL has and is expected to continue to increase the volatility from quarter to quarter in our provision for credit losses and associated ACL. The current situation surrounding the COVID-19 pandemic continues to evolve, and the ultimate depth and duration of resulting economic impacts are not yet fully known.

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

	Allowance for Loan Losses	Reserve for Losses on Unfunded Loan Commitments	Total Allowance for Credit Losses
		(Dollars in thousands)	
Year ended December 31, 2020:			
Balances – December 31, 2019	$ 108,525	$ —	$ 108,525
Adoption of CECL methodology	39,588	54,924	94,512
Balances – January 1, 2020	148,113	54,924	203,037
Net charge-offs	(29,371)	—	(29,371)
Provision for credit losses	177,082	26,557	203,639
Balances – December 31, 2020	$ 295,824	$ 81,481	$ 377,305
Year ended December 31, 2019:			
Balances – December 31, 2018	$ 102,264	$ —	$ 102,264
Net charge-offs	(19,980)	—	(19,980)
Provision for credit losses	26,241	—	26,241
Balances – December 31, 2019	$ 108,525	$ —	$ 108,525
Year ended December 31, 2018:			
Balances – December 31, 2017	$ 94,120	$ —	$ 94,120
Net charge-offs	(56,254)	—	(56,254)
Provision for credit losses	64,398	—	64,398
Balances – December 31, 2018	$ 102,264	$ —	$ 102,264

The amount of and provision to the ACL is based on our analysis of the adequacy of the ACL utilizing the criteria discussed in the Critical Accounting Policies caption of this MD&A.

The following table is an analysis of the ACL for the years indicated.

Analysis of the ACL

	Year Ended December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands)				
Balance, beginning of period	$ 108,525	$ 102,264	$ 94,120	$ 76,541	$ 60,854
Adoption of CECL methodology	94,512	—	—	—	—
Balance, beginning of period, as adjusted	203,037	102,264	94,120	76,541	60,854
Loans charged off:					
Real estate:					
Residential 1-4 family	(411)	(514)	(220)	(340)	(406)
Non-farm/non-residential	(12,353)	(4,590)	(20,540)	(881)	(323)
Construction/land development	(25)	(528)	(25,584)	(1,020)	(42)
Agricultural	(39)	(46)	(97)	(2)	(37)
Total real estate	(12,828)	(5,678)	(46,441)	(2,243)	(808)
Commercial and industrial	(6,002)	(2,194)	(3,139)	(3,440)	(3,261)
Consumer	(11,518)	(12,836)	(7,096)	(6,808)	(5,903)
Other	(3,044)	(3,635)	(3,332)	(2,282)	(1,744)
Total loans charged off	(33,392)	(24,343)	(60,008)	(14,773)	(11,716)
Recoveries of loans previously charged off:					
Real estate:					
Residential 1-4 family	939	174	169	11	52
Non-farm/non-residential	330	38	169	594	10
Construction/land development	468	117	59	86	68
Agricultural	69	7	30	43	—
Multifamily residential	146	—	—	—	14
Total real estate	1,952	336	427	734	144
Commercial and industrial	535	301	157	171	114
Consumer	798	2,983	2,402	2,693	2,820
Other	736	743	768	662	533
Total recoveries	4,021	4,363	3,754	4,260	3,611
Net charge-offs – total loans	(29,371)	(19,980)	(56,254)	(10,513)	(8,105)
Provision for loans and losses on unfunded loan commitments:					
Loans	177,082	26,241	64,398	28,092	23,792
Unfunded loan commitments	26,557	—	—	—	—
Total provision	203,639	26,241	64,398	28,092	23,792
Balance, end of period	$ 377,305	$ 108,525	$ 102,264	$ 94,120	$ 76,541
ALL	$ 295,824	$ 108,525	$ 102,264	$ 94,120	$ 76,541
Reserve for losses on unfunded loan commitments	81,481	—	—	—	—
Total ACL	$ 377,305	$ 108,525	$ 102,264	$ 94,120	$ 76,541

The following is a summary of our net charge-off and various ALL ratios as of and for the years indicated.

Net Charge-Off and ALL Ratios

	As of and for the Year Ended December 31,				
	2020	2019	2018	2017	2016
Net charge-offs of non-purchased loans to total average non-purchased loans[(1)]	0.09%	0.09%	0.38%	0.06%	0.06%
Net charge-offs of total loans to total average loans	0.16	0.11	0.34	0.07	0.07
ALL to total loans[(2)]	1.54	0.62	0.60	0.59	0.53
Reserve for losses on unfunded loan commitments to total unfunded loan commitments	0.69	—	—	—	—
ACL to total loans	1.97	0.62	0.60	0.59	0.53
ACL to total loans and unfunded loan commitments	1.22	0.38	0.36	0.32	0.31
ALL to nonperforming loans[(2)]	415%	231%	165%	233%	193%

(1) Excludes purchased loans and net charge-offs related to such loans.
(2) Excludes reserve for losses on unfunded loan commitments.

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

Allocation of the ALL

	December 31,									
	2020		2019		2018		2017		2016	
	Allowance	% of Loans	Allowance	% of Loans	Allowance	% of Loans	Allowance	% of Loans	Allowance	% of Loans
	(Dollars in thousands)									
ALL for total loans:										
Real estate:										
Residential 1-4 family	$ 26,655	4.7%	$ 14,008	5.7%	$ 13,754	6.1%	$ 12,829	7.3%	$ 10,225	8.6%
Non-farm/non-residential	93,173	21.9	17,289	22.6	18,456	25.2	26,855	27.9	21,555	32.0
Construction/land development	72,500	41.9	26,295	36.5	27,103	38.3	27,422	41.4	20,673	36.4
Agricultural	3,064	1.1	1,719	1.3	1,343	1.0	1,093	0.9	2,787	0.9
Multifamily residential	12,352	4.5	5,477	6.8	6,208	6.5	2,395	3.2	2,447	5.1
Commercial and industrial	13,758	4.4	5,961	3.8	9,256	4.8	10,448	4.6	13,043	4.0
Consumer	45,657	12.5	32,466	16.7	21,982	13.7	10,458	9.2	3,545	7.1
Other	28,665	9.0	5,310	6.6	4,162	4.4	2,620	5.5	2,266	5.9
Total ALL	$295,824		$108,525		$102,264		$ 94,120		$ 76,541	

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

Allocation of ACL

	ALL	Reserve for Losses on Unfunded Loan Commitments	Total ACL
		(Dollars in thousands)	
December 31, 2020:			
Real estate:			
Residential 1-4 family	$ 26,655	$ 1,521	$ 28,176
Non-farm/non-residential	93,173	2,026	95,199
Construction/land development	72,500	65,022	137,522
Agricultural	3,064	82	3,146
Multi-family residential	12,352	641	12,993
Commercial and industrial	13,758	1,832	15,590
Consumer	45,657	190	45,847
All other	28,665	10,167	38,832
Total	$ 295,824	$ 81,481	$ 377,305
December 31, 2019:			
Real estate:			
Residential 1-4 family	$ 14,008	$ —	$ 14,008
Non-farm/non-residential	17,289	—	17,289
Construction/land development	26,295	—	26,295
Agricultural	1,719	—	1,719
Multi-family residential	5,477	—	5,477
Commercial and industrial	5,961	—	5,961
Consumer	32,466	—	32,466
All other	5,310	—	5,310
Total	$ 108,525	$ —	$ 108,525

Liquidity Risk Management

Overview. Liquidity risk is the potential that we will be unable to meet our obligations as they come due because of an inability to liquidate assets or obtain adequate funding (referred to as “funding liquidity risk”) or that we cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions (referred to as “market liquidity risk”). Our ALCO Committee (“ALCO”) has primary responsibility for oversight of our liquidity, funds management, asset/liability (interest rate risk) position, capital and our investment portfolio functions.

The objective of managing liquidity risk is to ensure the cash flow requirements resulting from depositor, borrower (including our ability to fund our significant balance of closed but unfunded loans) and other creditor demands are met, as well as our operating cash needs, and the cost of funding such requirements and needs is reasonable. We maintain an asset/liability and interest rate risk policy and liquidity and funds management policy, including a contingency funding plan that, among other things, include policies and procedures for managing and monitoring liquidity risk. On a quarterly basis, we perform a comprehensive liquidity stress test. This stress test is intended to identify and quantify sources of potential liquidity strain and vulnerabilities related to liquidity and to analyze possible impacts on our Bank for a variety of institution-specific and market-wide events across multiple time horizons. Also, pursuant to these various liquidity and funds management policies, we maintain a buffer of highly liquid assets to protect against cash outflows in the event of a liquidity crisis.

Liquidity Management Actions. Generally, we rely on deposits, repayments of loans, and cash flows from our investment securities as our primary sources of funds. Our principal deposit sources include consumer and commercial customers in our markets. We have used these funds, together with public funds customers, FHLB advances and secondary funding sources, including wholesale deposit sources such as brokered deposits and federal funds purchased and other sources of short-term borrowings to make loans, acquire investment securities and other assets and to fund continuing operations.

Deposits. Given that our lending and investing activities are funded primarily by deposits, we continue to focus substantial efforts in order to grow our existing deposit base. Our deposits increased $2.98 billion in 2020 and $0.54 billion in 2019. The increase in deposits during 2020 was a result of the funding needed to support our growth of earning assets. Additionally, our deposit growth in 2020 was aided by deposits from PPP loans and government stimulus payments to customers. The amount of deposits by account type as of the dates indicated and their respective percentage of total deposits are reflected in the following table.

Deposits – By Account Type

	December 31,			
	2020		2019	
	(Dollars in thousands)			
Non-interest bearing	$ 3,996,546	18.6%	$ 2,795,251	15.1%
Interest bearing:				
Transaction (NOW)	3,124,007	14.6	2,706,426	14.7
Savings and money market	5,036,975	23.5	5,601,181	30.3
Time deposits less than $100	3,075,845	14.3	3,321,446	18.0
Time deposits of $100 or more	6,216,983	29.0	4,049,955	21.9
Total deposits	$ 21,450,356	100.0%	$ 18,474,259	100.0%

During 2020, we continued our efforts to enhance the quality of our deposit base by growing our consumer and commercial deposits while reducing our public funds, brokered and reciprocal deposits. The amount of deposits by customer type as of the dates indicated and their respective percentage of total deposits are reflected in the following table.

Deposits – By Customer Type

	December 31,			
	2020		2019	
	(Dollars in thousands)			
Consumer	$ 11,165,603	52.1%	$ 7,526,014	40.7%
Commercial	6,056,536	28.2	4,334,366	23.5
Public Funds	2,111,971	9.8	3,782,415	20.5
Brokered	1,600,116	7.5	2,115,193	11.4
Reciprocal	516,130	2.4	716,271	3.9
Total deposits	$ 21,450,356	100.0%	$ 18,474,259	100.0%

At December 31, 2020, we had outstanding brokered deposits of $1.60 billion, or approximately 7.5% of total deposits, compared to $2.12 billion, or approximately 11.4% of total deposits at December 31, 2019. We use brokered deposits, subject to certain limitations and requirements, as a source of funding to augment deposits generated from our branch network, which are our principal source of funding. Our Board has established policies and procedures with respect to the use of brokered deposits. Such policies and procedures require, among other things, that (i) we limit the amount of brokered deposits as a percentage of total deposits and (ii) ALCO monitors our use of brokered deposits on a regular basis, including interest rates and the volume of such deposits in relation to our total deposits.

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

Average Deposit Balances and Rates

	Year Ended December 31,					
	2020		2019		2018	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(Dollars in thousands)					
Non-interest bearing	$ 3,521,066	—	$ 2,753,634	—	$ 2,695,623	—
Interest bearing:						
Transaction (NOW)	2,906,816	0.39%	2,571,389	1.02%	3,385,298	1.08%
Savings and money market	4,817,712	0.54	6,468,595	1.55	6,597,777	1.25
Time deposits less than $100	3,511,220	1.44	2,872,676	2.03	1,651,960	1.22
Time deposits of $100 or more	5,524,751	1.52	3,449,197	2.13	3,183,108	1.50
Total deposits	$20,281,565	1.03	$18,115,491	1.68	$17,513,766	1.26

The calculation of the average rate paid on total interest bearing deposits of 1.03% for 2020, 1.68% for 2019 and 1.26% for 2018 includes interest paid and average balances of all categories of interest bearing deposits. The average rate paid for all deposits, including both interest bearing and non-interest bearing deposits, was 0.85% for 2020, 1.43% for 2019 and 1.07% for 2018.

We expect our average rate paid on total interest bearing deposits to decrease over the next few quarters. At December 31, 2020, we had approximately $8.14 billion of time deposits maturing in 2021 that we expect to replace at lower rates. The following table sets forth time deposits by time remaining to maturity as of the date indicated.

Maturity Distribution of Time Deposits

	Time Deposits Under $100	Time Deposits $100 - $250	Time Deposits Over $250	Total Time Deposits
	(Dollars in thousands)			
December 31, 2020:				
3 months or less	$ 642,127	$ 466,857	$ 491,152	$ 1,600,136
Over 3 to 6 months	1,081,830	1,267,012	814,335	3,163,177
Over 6 to 12 months	1,003,642	1,456,822	915,135	3,375,599
Over 12 months	348,246	442,858	362,812	1,153,916
Total	$ 3,075,845	$ 3,633,549	$ 2,583,434	$ 9,292,828

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

	December 31,			
	2020		2019	
Deposits Attributable to Offices In	Amount	%	Amount	%
	(Dollars in thousands)			
Arkansas	$ 7,063,100	33.0%	$ 7,054,860	38.2%
Georgia	5,545,658	25.9	3,967,304	21.5
Florida	3,776,212	17.6	2,391,056	12.9
Texas	2,735,106	12.8	2,411,661	13.1
North Carolina	1,598,745	7.5	1,123,269	6.1
New York	608,151	2.8	1,350,774	7.3
South Carolina	123,384	0.4	84,530	0.4
Alabama	—	—	90,805	0.5
Total	$ 21,450,356	100.0%	$ 18,474,259	100.0%

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

Loan Portfolio. In addition to customer deposits, cash flows from our loan portfolio provide us with a significant source of liquidity. The following table reflects total loans grouped by remaining maturities at December 31, 2020 by type and by fixed or floating interest rates. This table is based on actual maturities and does not reflect amortizations, projected paydowns or the earliest repricing for floating rate loans. Many loans have principal paydowns scheduled in periods prior to the period in which they mature. In addition, many floating rate loans are subject to repricing in periods prior to the period in which they mature.

Loan Maturities

	1 Year or Less	Over 1 Through 5 Years	Over 5 Years	Total
	(Dollars in thousands)			
Real estate	$ 6,456,467	$ 6,049,011	$ 1,727,416	$ 14,232,894
Commercial and industrial	54,302	742,193	45,711	842,206
Consumer	11,726	33,394	2,348,844	2,393,964
Other	821,066	904,664	14,374	1,740,104
Total	$ 7,343,561	$ 7,729,262	$ 4,136,345	$ 19,209,168
Fixed rate	$ 391,004	$ 1,515,958	$ 2,745,438	$ 4,652,400
Floating rate (not at a floor or ceiling rate) (1)	411,316	89,231	477,731	978,278
Floating rate (at floor rate) (1)	6,540,877	6,124,029	913,127	13,578,033
Floating rate (at ceiling rate)	364	44	49	457
Total	$ 7,343,561	$ 7,729,262	$ 4,136,345	$ 19,209,168

(1) We have included a floor rate in many of our floating rate loans. As a result of such floor rates, floating rate loans may not immediately reprice in a rising rate environment if the interest rate index and margin on such loans continue to result in a computed interest rate less than the applicable floor rate.

Loan repayments are generally a relatively stable source of funds but are subject to the borrowers' ability to repay the loans, which can be adversely affected by a number of factors including changes in general economic conditions, adverse trends or events affecting business industry groups or specific businesses, declines in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and other factors. Furthermore, loans generally are not readily convertible to cash.

During 2020 we originated approximately 6,350 loans totaling approximately $0.46 billion under the SBA's PPP. At December 31, 2020, we had approximately 6,124 loans totaling approximately $0.43 billion that were outstanding. All loans we originated under the PPP were structured to be fully guaranteed by the SBA. Our current expectation is that the majority of our PPP loans that remain outstanding will be forgiven and repaid by the SBA in the first half of 2021.

At December 31, 2020, we had $11.85 billion in unfunded balances on loans already closed, the vast majority of which is attributable to construction and development loans for which construction has commenced. In most cases the borrower's equity and all other required subordinated elements of the capital structure must be fully funded before we advance funds. Typically we are the last to advance funds and the first to be repaid. In many cases we do not advance funds on loans for many months after closing because the borrower's equity and other funding sources must fund first. This conservative practice for handling construction loans has led to the large unfunded balance of closed loans. As a result, we maintain a detailed 36-month forward funding forecast projecting all loan fundings and loan pay downs and pay offs. Our ability to project monthly net portfolio growth with a substantial degree of accuracy is an important part of our liquidity management process.

Investment Securities AFS. Cash flows from our investment securities portfolio also provide us with an additional source of liquidity. The following table reflects the expected maturity distribution of our investment securities, at estimated fair value, at December 31, 2020 and weighted-average yields (for tax-exempt obligations on an FTE basis) of such securities.

Expected Maturity Distribution of Investment Securities

	1 Year Or Less	Over 1 Through 5 Years	Over 5 Through 10 Years	Over 10 Years	Total
			(Dollars in thousands)		
Obligations of states and political subdivisions	$ 429,832	$ 241,642	$ 106,920	$ 953,491	$ 1,731,885
U.S. Government agency mortgage-backed securities	541,573	923,766	119,288	12,971	1,597,598
Other U.S. Government agency securities	—	75,868	—	—	75,868
Total	$ 971,405	$ 1,241,276	$ 226,208	$ 966,462	$ 3,405,351
Percentage of total	28.5%	36.5%	6.6%	28.4%	100.0%
Cumulative percentage of total	28.5%	65.0%	71.6%	100.0%	
Weighted-average yield – FTE	1.64%	1.75%	2.85%	1.44%	1.70%

The maturity for all investment securities is shown based on each security's contractual maturity date, except (1) mortgage-backed securities, which are allocated among various maturities based on an estimated repayment schedule utilizing Bloomberg median prepayment speeds or other estimates of prepayment speeds and interest rate levels at December 31, 2020 and (2) callable investment securities for which we have received notification of call, which are included in the maturity category in which the call occurs or is expected to occur. Actual maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. The weighted-average yields – FTE are calculated based on the coupon rate and amortized cost for such securities and do not include any projected discount accretion or premium amortization.

At December 31, 2020, we had approximately $600 million of variable rate demand notes ("VRDNs") included in the "Obligations of states and political subdivisions" category in the above table. While most of these VRDNs have a final maturity that results in the inclusion of those securities in the "over ten years" category, these securities are subject to weekly puts, at our option, and individual securities may be put, by us, back to the issuer prior to the maturity date of such securities. Subsequent to December 31, 2020, we put substantially all of our VRDNs back to the issuer.

Other Interest Bearing Liabilities. Given that deposit levels, loan repayments and cash flow from our investment securities portfolio may be affected by a number of factors, we may be required from time to time to rely on other sources of liquidity to meet growth in loans and deposit withdrawal demands or otherwise fund operations. Such other sources include, among others, repurchase agreements with customers, secured and unsecured federal funds lines of credit from correspondent banks, other borrowings (primarily FHLB advances and, to a lesser extent, federal funds purchased), FRB borrowings, subordinated notes, subordinated debentures and/or accessing the capital markets.

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

Average Balances and Rates of Other Interest Bearing Liabilities

	Year Ended December 31,					
	2020		2019		2018	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(Dollars in thousands)					
Repurchase agreements with customers	$ 7,825	0.29%	$ 13,502	0.37%	$ 101,682	0.77%
Other borrowings [(1)]	721,350	0.44	94,399	1.62	166,937	1.81
Subordinated notes	223,850	5.70	223,469	5.71	223,089	5.72
Subordinated debentures [(1)]	120,190	3.65	119,629	4.73	119,076	5.22
Total other interest bearing liabilities	$1,073,215	1.90	$ 450,999	4.44	$ 610,784	3.73

(1) The interest expense and rates for "other borrowings" and "subordinated debentures" were impacted by interest capitalized. Capitalized interest included in "other borrowings" totaled $0.7 million in 2020, $0.9 million in 2019 and $0.6 million in 2018. Capitalized interest included in "subordinated debentures" totaled $0.2 million in 2020, $0.9 million in 2019 and none in 2018. In the absence of this interest capitalization, these rates on other borrowings would have been 0.53% in 2020, 2.58% in 2019 and 2.19% in 2018 and the rates on subordinated debentures would have been 3.80% for 2020 and 5.48% for 2019.

During 2020, we utilized FHLB advances to support our funding sources and provide additional on-balance sheet liquidity. Details of those FHLB advances, at December 31, 2020, are shown in the following table.

FHLB Advances

Borrowing Type	Balance	Interest Rate	Maturity Date	Expiration of Lockout Term
		(Dollars in thousands)		
Fixed-rate FOTO advance[(1)]	$ 500,000	0.48%	February 28, 2035	February 28, 2021
Fixed-rate FOTO advance[(1)]	250,000	0.65	February 28, 2035	February 28, 2022
Other FHLB advances[(2)]	928	Various	Various	N/A
Total	$ 750,928	0.54%		

(1) These borrowings are FHLB advances where the FHLB owns the option ("FOTO"), at its sole discretion, to terminate the advance on a quarterly basis after expiration of the lockout term.
(2) These other FHLB advances have rates ranging from 1.30% to 4.54% and a weighted-average rate of 3.45%. Final maturity dates on these advances range from January 2021 to March 2023.

At December 31, 2020, we had substantial unused borrowing availability. This availability was primarily comprised of the following four options: (1) $4.82 billion of available blanket borrowing capacity with the FHLB, (2) $2.57 billion of investment securities available to pledge for federal funds or other borrowings, (3) $1.08 billion of available unsecured federal funds borrowing lines and (4) up to $0.60 billion of available borrowing capacity from borrowing programs of the FRB.

We anticipate we will continue to rely primarily on deposits, repayments of loans and cash flows from our investment securities to provide liquidity, as well as other funding sources as appropriate. Additionally, where necessary, the other funding sources described above, including the use of FHLB advances, will be used to augment our primary funding sources.

Sources and Uses of Funds. Operating activities provided net cash of $552 million in 2020, $425 million in 2019 and $705 million in 2018. Net cash provided by operating activities is comprised primarily of net income, adjusted for certain non-cash items and for changes in various operating assets and liabilities.

Investing activities used net cash of $2.97 billion in 2020, provided net cash of $0.12 billion in 2019 and used net cash of $1.53 billion in 2018. The increase in net cash used by investing activities in 2020 compared to 2019 was primarily the result of changes in the level of net purchases in our investment securities portfolio, which used $1.13 billion in 2020 and provided $0.65 billion in 2019, and growth of our total loans, which used $1.72 billion in 2020 and used $0.44 billion in 2019. The decrease in net cash used by our investing activities from 2018 to 2019 was primarily the result of a lower level of net purchases in our investment securities portfolio, which used net cash of $0.32 billion in 2018 and provided net cash of $0.65 billion in 2019, and lower growth in our total loans, which used net cash of $1.11 billion in 2018 and used $0.44 billion in 2019.

Financing activities provided net cash of $3.32 billion in 2020, $0.66 billion in 2019 and $0.67 billion in 2018. The increase in the net cash provided by financing activity in 2020 compared to 2019 was primarily the result of growth of our deposits, which provided $3.06 billion during 2020 compared to $0.54 billion in 2019, and proceeds from callable FHLB advances which provided $0.75 billion during 2020 compared to none during 2019, partially offset by net cash used/provided by other borrowings which used net cash of $0.35 billion in 2020 and provided net cash of $0.25 billion in 2019. While the net cash provided by financing activities was relatively unchanged from 2019 to 2018, we did experience less growth in deposits in 2019 compared to 2018, primarily in an effort to reduce our use of higher cost wholesale deposits that are typically more rate sensitive than our retail deposits.

Contractual Obligations. The following table presents, as of December 31, 2020, significant fixed and determinable contractual obligations to third parties by contractual date with no consideration given to earlier call or prepayment features. Other obligations consist primarily of contractual obligations for capital expenditures, software contracts and various other contractual obligations.

Contractual Obligations

	1 Year or Less	Over 1 Trough 3 Years	Over 3 Through 5 Years	Over 5 Years	Total
			(Dollars in thousands)		
Time deposits[1]	$ 8,183,163	$ 1,118,330	$ 40,796	$ 264	$ 9,342,553
Deposits without a stated maturity[2]	12,156,830	—	—	—	12,156,830
Repurchase agreements with customers[1]	8,013	—	—	—	8,013
Other borrowings[1]	4,755	8,258	8,050	786,885	807,948
Subordinated notes[1]	12,397	24,794	24,794	254,832	316,817
Subordinated debentures[1]	3,270	6,540	6,540	156,572	172,922
Lease obligations	8,877	17,452	13,328	59,703	99,360
Other obligations	78,571	14,353	1,362	13,026	107,312
Total contractual obligations	$20,455,876	$ 1,189,727	$ 94,870	$ 1,271,282	$23,011,755

(1) Includes unpaid interest through the contractual maturity on both fixed and variable rate obligations. The interest included on variable rate obligations is based upon interest rates in effect at December 31, 2020. The contractual amounts to be paid on variable rate obligations are affected by changes in interest rates. Future changes in interest rates could materially affect the contractual amounts to be paid.
(2) Includes interest accrued and unpaid through December 31, 2020.

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 16 to the consolidated financial statements included in Item 8. Financial Statements and Supplementary Data of the Annual Report on Form 10-K for further discussion of off-balance sheet commitments. The following table details the amounts and expected maturities of significant off-balance sheet commitments as of December 31, 2020. Commitments to extend credit do not necessarily represent future cash requirements as these commitments may expire without being drawn.

Off-Balance Sheet Commitments

	1 Year or Less	Over 1 Through 3 Years	Over 3 Through 5 Years	Over 5 Years	Total
			(Dollars in thousands)		
Commitments to extend credit	$ 1,936,056	$ 6,158,159	$ 3,558,705	$ 194,197	$11,847,117
Standby letters of credit	7,025	2,063	100	—	9,188
Total commitments	$ 1,943,081	$ 6,160,222	$ 3,558,805	$ 194,197	$11,856,305

Market and Interest Rate Risk Management

Overview. Market risk is the risk to a financial institution's condition resulting from adverse movements in market rates or prices, including, but not limited to, interest rates, foreign exchange rates, commodity prices, or equity prices. We are exposed to both interest rate risk and equity price risk. Interest rate risk is the risk that arises from increased volatility in net interest income due to a change of interest rates. There are different types of risk exposures that can arise when there is a change of interest rates, such as basis risk, options risk, term structure and repricing risk. Equity price risk is the risk that arises from security price volatility – the risk of a decline in the value of a security or a portfolio. Equity price risk can be either systematic or unsystematic risk. Unsystematic risk can be mitigated through diversification, whereas systematic cannot be. In a global economic crisis, equity price risk is systematic because it affects multiple asset classes.

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

The consolidated financial statements and related notes presented in Item 8. Financial Statements and Supplementary Data in this Annual Report on Form 10-K have been prepared in accordance with GAAP. This requires the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike industrial companies, the vast majority of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Interest Rate Risk Management Actions. ALCO regularly reviews our exposure to changes in interest rates. Among the factors considered are changes in the mix of interest earning assets and interest bearing liabilities, interest rate spreads and repricing periods. ALCO uses an earnings simulation model, which analyzes the expected change in near term (one year) net interest income in response to changes in interest rates, and economic value of equity ("EVE"), which measures the expected change in the fair value of equity in response to changes in interest rates, to analyze our interest rate risk and interest rate sensitivity.

Earnings Simulation Model. Our earnings simulation modeling process projects a baseline net interest income (assuming no changes in interest rate levels) and estimates changes to that baseline net interest income resulting from changes in interest rate levels. We rely primarily on the results of this model in evaluating our interest rate risk. This model incorporates a number of additional factors including: (1) the expected exercise of call features on various assets and liabilities, (2) the expected rates at which various rate sensitive assets and rate sensitive liabilities will reprice, (3) the expected growth in various interest earning assets and interest bearing liabilities and the expected interest rates on new assets and liabilities, (4) the expected relative movements in different interest rate indices which are used as the basis for pricing or repricing various assets and liabilities, (5) existing and expected contractual ceiling and floor rates on various assets and liabilities, (6) expected changes in administered rates on interest bearing transaction, savings, money market and time deposit accounts and the expected impact of competition on the pricing or repricing of such accounts, (7) the timing and amount of cash flows expected to be received on investment securities and purchased loans, (8) the timing and amount of prepayments that are anticipated from our loan portfolio, (9) the need, if any, for additional capital and/or debt to support continued growth and (10) other relevant factors. Inclusion of these factors in the model is intended to more accurately project our expected changes in net interest income resulting from interest rate changes. We typically model our change in net interest income assuming interest rates go up 100 bps, up 200 bps, up 300 bps, down 100 bps, down 200 bps, and down 300 bps. Based on current conditions, we believe that modeling our change in net interest income assuming interest rates go down 200 bps or down 300 bps is not meaningful. For purposes of this model, we have assumed that the change in interest rates phases in over a 12-month period. While we believe this model provides a reasonably accurate projection of our interest rate risk, the model includes a number of assumptions and predictions which may or may not be correct and may impact the model results. These assumptions and predictions include inputs to compute baseline net interest income, growth rates, prepayment assumptions, expected changes in administered rates on interest bearing deposit accounts, competition and a variety of other factors that are difficult to accurately predict. Accordingly, there can be no assurance the earnings simulation model will accurately reflect future results.

The following table presents the earnings simulation model's projected impact of a change in interest rates on the projected baseline net interest income for the 12-month period commencing January 1, 2021. This change in interest rates assumes parallel shifts in the yield curve and does not take into account changes in the slope of the yield curve.

Earnings Simulation Model Results

Change in Interest Rates (in bps)	% Change in Projected Baseline Net Interest Income
+300	7.7%
+200	4.0
+100	1.3
-100	(3.0)
-200	Not meaningful
-300	Not meaningful

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

EVE Model. EVE is calculated as the fair value of all assets minus the fair value of liabilities and incorporates a number of assumptions including (1) the timing and amount of cash flows expected to be received or paid on various assets and liabilities, (2) the expected exercise of call features on various assets and liabilities, (3) estimated discount rates and (4) other relevant factors. We measure changes in the dollar amount of EVE for parallel shifts in interest rates. Due to embedded optionality and asymmetric rate risk, changes in EVE can be useful in quantifying risks not apparent for small rate changes. We typically run our EVE model assuming interest rates go up 100 bps, up 200 bps, down 100 bps and down 200 bps. Based on current conditions, we believe modeling our EVE assuming rates go down 200 bps is not meaningful.

The following table presents our EVE results as of December 31, 2020.

EVE Model Results

Change in Interest Rates (in bps)	% Change in Projected Baseline EVE
+200	6.3%
+100	3.3
-100	(8.4)
-200	Not meaningful

Variable Rate Loans and Loan Repricing. At December 31, 2020, approximately 76% of our total loans had variable rates. Additionally, approximately 99% of our variable rate loans had floor rates. The following table reflects a summary, at December 31, 2020, of the percentage of our variable rate loans currently at a floor and changes in such percentage of variable rate loans at a floor given changes in interest rates.

Variable Rate Loan Analysis

Changes in Interest Rate	Percentage of Variable Rate Loans at Floor
Up 200 bps	14%
Up 150 bps	35
Up 100 bps	56
Up 75 bps	67
Up 50 bps	74
Up 25 bps	87
Currently at floor	93
Down 25 bps	97
Down 50 bps	97
Down 75 bps	97
Down 100 bps	98

The following table reflects total loans as of December 31, 2020 grouped by expected amortizations, expected paydowns or the earliest repricing opportunity for floating rate loans. This cash flow or repricing schedule approximates our ability to reprice the outstanding principal of loans either by adjusting rates on existing loans or reinvesting principal cash flow into new loans.

Loan Cash Flows or Repricing

	1 Year or Less	Over 1 Through 2 Years	Over 2 Through 3 Years	Over 3 Through 5 Years	Over 5 Years	Total
			(Dollars in thousands)			
Fixed rate	$ 1,367,892	$1,085,146	$624,641	$ 811,486	$763,235	$ 4,652,400
Floating rate (not at a floor or ceiling rate)(1)	716,553	112,941	68,395	74,312	6,077	978,278
Floating rate (at floor rate)(1)	13,072,969	196,529	133,897	159,507	15,131	13,578,033
Floating rate (at ceiling rate)	414	2	2	39	—	457
Total	$15,157,828	$1,394,618	$826,935	$1,045,344	$784,443	$19,209,168
Percentage of total	78.9%	7.3%	4.3%	5.4%	4.1%	100.0%
Cumulative percentage of total	78.9%	86.2%	90.5%	95.9%	100.0%	

(1) We have included a floor rate in many of our floating rate loans. As a result of such floor rates, floating rate loans may not immediately reprice in a rising rate environment if the interest rate index and margin on such loans continue to result in a computed interest rate less than the applicable floor rate.

Most of our floating rate loans are tied to three major benchmark interest rates, the 1-month LIBOR, 3-month LIBOR and WSJ Prime. The following table is a summary of our floating rate loan portfolio and contractual interest rate indices at December 31, 2020.

Contractual Indices of Floating Rate Loans

Contractual Interest Rate Index	Floating Rate (at floor rate)	Floating Rate (not at a floor or ceiling rate)	Floating Rate (at ceiling rate)	Total Floating Rate
		(Dollars in thousands)		
1-month LIBOR	$ 11,570,020	$ 441,424	$ —	$ 12,011,444
3-month LIBOR	174,866	—	—	174,866
Wall Street Journal Prime	1,668,544	485,439	457	2,154,440
Other contractual interest rate indices	164,603	51,415	—	216,018
Total	$ 13,578,033	$ 978,278	$ 457	$ 14,556,768

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

LIBOR Transition. Our subordinated debentures and related trust preferred securities, our subordinated notes and significant portions of our loan portfolio are tied to LIBOR benchmark interest rates. The LIBOR index is expected to be phased-out by the end of 2021. The FRB formed the Alternative Reference Rates Committee ("ARRC") to guide the transition process in the United States. ARRC has issued a number of recommendations including the adoption of the Secured Overnight Financing Rate ("SOFR") as a replacement for LIBOR. We created an internal working group that is managing our transition away from LIBOR. This working group is a cross-functional team composed of representatives from credit, lending, deposits, retail, investment securities, loan administration, operations, compliance, legal and other support functions to address issues related to the LIBOR transition and phase-out. We are in the process of reviewing loan documentation, along with the procedures we will need to implement for the transition. The majority of our loans that are tied to LIBOR benchmark interest rates include fallback language in the event that LIBOR becomes unstable or ceases to exist. For our loans that are tied to LIBOR benchmark interest rates that do not include fallback language, we identified loans that will mature prior to 2021 and we expect to be able to change the reference rate if those loans are renewed, and for the loans that mature after 2021, we are currently developing plans for modifying these loans prior to the end of 2021. The financial impact regarding pricing, valuation and operations of the transition is not yet known. For further details regarding the risk associated with the phase-out of LIBOR, see Part I. Item 1A — Risk Factors — Market and Liquidity Risks — Uncertainty related to the LIBOR calculation process and potential phasing out of LIBOR may adversely affect our results of operations.

Market Risk Management Actions. We are exposed to market risk primarily through changes in fair value of our fixed income investment securities portfolio. Investment portfolio strategies are set by senior management and are subject to the oversight and direction of ALCO. At December 31, 2020 and 2019, we classified all of our investment securities portfolio as AFS. Accordingly, our investment securities are reported at estimated fair value with the unrealized gains and losses, net of related income tax, reported as a separate component of stockholders' equity and included in other comprehensive income. At December 31, 2020, we had $77.4 million of net unrealized gain in our investment securities portfolio that was reported, net of applicable income taxes, in AOCI.

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

Investment Securities – AFS

	December 31,			
	2020		2019	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
Obligations of states and political subdivisions	$ 1,703,967	$ 1,731,885	$ 503,399	$ 521,630
U.S. Government agency mortgage-backed securities	1,548,101	1,597,598	1,732,671	1,750,361
Other U.S. Government agency securities	75,872	75,868	—	—
Corporate obligations	—	—	5,229	5,398
Total	$ 3,327,940	$ 3,405,351	$ 2,241,299	$ 2,277,389

Our investment securities portfolio is reported at estimated fair value, which included gross unrealized gains of $78.4 million and gross unrealized losses of $1.0 million at December 31, 2020 and gross unrealized gains of $37.6 million and gross unrealized losses of $1.5 million at December 31, 2019. We believe that all of the unrealized losses on individual investment securities at December 31, 2020 and 2019 are the result of fluctuations in interest rates and do not reflect deterioration in the credit quality of these investments. The calculations and accounting of the fair value of our investment securities AFS is determined in accordance with the criteria discussed in the Critical Accounting Policies section of this MD&A.

The CECL standard replaced the previous other-than-temporary valuation methodology with a methodology that requires us to evaluate the intent or likelihood of disposing of securities that are in an unrealized loss position. Under the current methodology, if we intend to sell an investment security AFS in an unrealized loss position, or if it is more likely than not that we will be required to sell an investment security AFS in an unrealized loss position before recovery of its amortized cost basis, the investment security's amortized cost basis is written down to fair value through current period expense. If we do not intend to sell an investment security AFS in an unrealized loss position, or if it is more likely than not that we will not sell an investment security AFS in an unrealized loss position, we are required to assess whether the decline in fair value has resulted from credit losses or non-credit factors. Factors considered during such review include the credit quality, financial condition and near term prospects of the issue, the nature and causes of the unrealized loss and various other factors. If our assessment determines a credit loss exists, the present value of cash flows expected to be collected from the investment security AFS is compared to the amortized cost basis of the security and if the present value cash flows expected to be collected is less than amortized cost, an allowance for credit losses and a provision for credit loss expense is recorded. If our assessment determines that a credit loss does not exist, we record the decline in fair value through other comprehensive income, net of related tax effects, with such decline included in accumulated other comprehensive income.

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

Unaccreted Discount and Unamortized Premium

	Amortized Cost	Unaccreted Discount	Unamortized Premium	Par Value
		(Dollars in thousands)		
December 31, 2020:				
Obligations of states and political subdivisions	$ 1,703,967	$ 1,141	$ (30,702)	$ 1,674,406
U.S. Government agency mortgage-backed securities	1,548,101	161	(36,359)	1,511,903
Other U.S. Government agency securities	75,872	—	—	75,872
Total	$ 3,327,940	$ 1,302	$ (67,061)	$ 3,262,181
December 31, 2019:				
Obligations of states and political subdivisions	$ 503,399	$ 1,260	$ (18,241)	$ 486,418
U.S. Government agency mortgage-backed securities	1,732,671	254	(33,131)	1,699,794
Corporate obligations	5,229	93	—	5,322
Total	$ 2,241,299	$ 1,607	$ (51,372)	$ 2,191,534

We recognized premium amortization, net of discount accretion, of $30.7 million during 2020, $17.8 million during 2019 and $22.1 million during 2018. Any premium amortization or discount accretion is considered an adjustment to the yield of our investment securities.

We had net gains of $4.5 million from the sale of approximately $269 million of investment securities AFS in 2020, compared to net gains of $0.7 million from the sale of approximately $96 million of investment securities AFS in 2019 and essentially no net gains from the sale of investment securities AFS in 2018. Investment securities AFS totaling $1.11 billion in 2020, $0.55 billion in 2019 and $0.50 billion in 2018 matured, were called or were otherwise paid down by the issuer. We purchased approximately $2.50 billion of investment securities AFS in 2020, compared to none in 2019 and approximately $0.82 billion in 2018.

We invest in securities we believe offer good relative value at the time of purchase, and we will, from time to time, reposition our investment securities portfolio. In making decisions to sell or purchase securities, we consider credit quality, call features, maturity dates, relative yields, corporate tax rates, current market factors, interest rate risk and interest rate environment, current and projected liquidity needs and other relevant factors. During 2020 our investment securities AFS portfolio increased $1.13 billion primarily from purchases of high quality, short-term municipal and U.S. Government agency securities.

At December 31, 2020, approximately 96% of our investment securities had an investment grade credit rating (i.e., the equivalent of a rating of BBB- or better) and approximately 4% of our investment securities were not rated. For those securities that were not rated, we have performed our own evaluation of the security and/or the underlying issuer and believe that such security or its issuer has credit characteristics equivalent to those which would warrant an investment grade credit rating.

Capital Management

Overview. The primary function of capital is to support our operations, including growth expectations, and act as a cushion to absorb unanticipated losses. Accordingly, our management has developed and our Board has approved a detailed capital policy that addresses, among other things, capital adequacy, considers capital planning strategies for expected future growth, provides plans and actions for capital contingency needs, provides a capital distribution strategy and includes provisions and procedures for developing, reviewing and modifying our capital strategy and our internal capital guidelines and limits based on the results of budgeting and forecasting activities, capital stress testing results and other factors. Oversight of our capital management plan and capital monitoring activities has been delegated to our ALCO.

Capital Management Actions. We primarily rely on our common stockholders' equity, comprised of common stock, additional paid-in capital, our retained earnings and our accumulated other comprehensive income (loss) to support our operations and act as a cushion to absorb unanticipated losses. Our common stockholders' equity totaled $4.27 billion at December 31, 2020 compared to $4.15 billion at December 31, 2019. Effective January 1, 2020 we adopted CECL, which resulted in day-one transition adjustments that were recorded as a cumulative effect of a change in accounting principle. The effect of those transition adjustments, net of related tax effects, reduced our retained earnings by $75.3 million. Additionally, our common stockholders' equity is augmented by our subordinated notes, our subordinated debentures, and our ALL.

Subordinated Notes. On June 23, 2016, we completed an underwritten public offering of $225 million in aggregate principal amount of our 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 interest 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. Debt issuance costs of $2.7 million are being amortized, using a level-yield methodology over the estimated holding period of seven years, as an increase in interest expense on the Notes. Unamortized debt issuance costs totaled $1.0 million at December 31, 2020 and $1.3 million at December 31, 2019.

As previously discussed, LIBOR is expected to be phased out after 2021. See Risk Elements – Market and Interest Rate Risk Management – LIBOR Transition, in this MD&A for a full discussion of the phase out of LIBOR and the expected effect such phase out might have on our financial instruments tied to LIBOR, including the Notes.

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

Subordinated Debentures. We own eight 100%-owned finance subsidiary business trusts–Ozark Capital Statutory Trust II ("Ozark II"), Ozark Capital Statutory Trust III ("Ozark III"), Ozark Capital Statutory Trust IV ("Ozark IV"), Ozark Capital Statutory Trust V ("Ozark V"), Intervest Statutory Trust II ("Intervest II"), Intervest Statutory Trust III ("Intervest III"), Intervest Statutory Trust IV ("Intervest IV") and Intervest Statutory Trust V ("Intervest V") (collectively, the "Trusts"). At December 31, 2020, we had the following issues of trust preferred securities and subordinated debentures owed to the Trusts.

	Subordinated Debentures Owed to Trust	Unamortized Discount	Carrying Value of Subordinated Debentures	Trust Preferred Securities of the Trusts	Contractual Interest Rate	Final Maturity Date
			(Dollars in thousands)			
Ozark II	$ 14,433	$ —	$ 14,433	$ 14,000	3.15%	September 29, 2033
Ozark III	14,434	—	14,434	14,000	3.19	September 25, 2033
Ozark IV	15,464	—	15,464	15,000	2.43	September 28, 2034
Ozark V	20,619	—	20,619	20,000	1.82	December 15, 2036
Intervest II	15,464	(188)	15,276	15,000	3.18	September 17, 2033
Intervest III	15,464	(218)	15,246	15,000	3.02	March 17, 2034
Intervest IV	15,464	(395)	15,069	15,000	2.64	September 20, 2034
Intervest V	10,310	(376)	9,934	10,000	1.87	December 15, 2036
Total	$ 121,652	$ (1,177)	$ 120,475	$ 118,000		

Our subordinated debentures and trust preferred securities are tied to a spread over the 90-day LIBOR. As previously discussed, LIBOR is expected to be phased out after 2021. See Risk Elements – Market and Interest Rate Risk Management – LIBOR Transition for the full discussion of the phase out of LIBOR and the expected effect such phase out might have on our financial instruments tied to LIBOR, including our trust preferred securities and subordinated debentures.

Our subordinated debentures and trust preferred securities generally mature 30 years after issuance and may be prepaid at par, subject to regulatory approval. These subordinated debentures and the related trust preferred securities provide us additional Tier 2 regulatory capital to support our expected future growth.

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

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

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

	December 31, 2020	2019	2018
		(Dollars in thousands)	
Total common stockholders' equity before noncontrolling interest	$ 4,272,271	$ 4,150,351	$ 3,770,330
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangibles, net of accumulated amortization	(14,669)	(23,753)	(35,672)
Total intangibles	(675,458)	(684,542)	(696,461)
Total tangible common stockholders' equity	$ 3,596,813	$ 3,465,809	$ 3,073,869
Total assets	$ 27,162,596	$ 23,555,728	$ 22,388,030
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangibles, net of accumulated amortization	(14,669)	(23,753)	(35,672)
Total intangibles	(675,458)	(684,542)	(696,461)
Total tangible assets	$ 26,487,138	$ 22,871,186	$ 21,691,569
Ratio of total common stockholders' equity to total assets	15.73%	17.62%	16.84%
Ratio of total tangible common stockholders' equity to total tangible assets	13.58%	15.15%	14.17%

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

	December 31, 2020	2019	2018	2017	2016
	(In thousands, except per share amounts)				
Total common stockholders' equity before noncontrolling interest	$ 4,272,271	$ 4,150,351	$ 3,770,330	$ 3,460,728	$ 2,791,607
Less intangible assets:					
Goodwill	(660,789)	(660,789)	(660,789)	(660,789)	(660,119)
Core deposit and other intangibles, net of accumulated amortization	(14,669)	(23,753)	(35,672)	(48,251)	(60,831)
Total intangibles	(675,458)	(684,542)	(696,461)	(709,040)	(720,950)
Total tangible common stockholders' equity	$ 3,596,813	$ 3,465,809	$ 3,073,869	$ 2,751,688	$ 2,070,657
Shares of common stock outstanding	129,350	128,951	128,611	128,288	121,268
Book value per common share	$ 33.03	$ 32.19	$ 29.32	$ 26.98	$ 23.02
Tangible book value per common share	$ 27.81	$ 26.88	$ 23.90	$ 21.45	$ 17.08

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

	Year Ended December 31, 2020	2019	2018	2017	2016
	(Dollars in thousands)				
Net income available to common stockholders	$ 291,898	$ 425,906	$ 417,106	$ 421,891	$ 269,979
Average common stockholders' equity before noncontrolling interest	$ 4,149,123	$ 3,971,952	$ 3,598,628	$ 3,127,576	$ 2,068,328
Less average intangible assets:					
Goodwill	(660,789)	(660,789)	(660,789)	(660,632)	(363,324)
Core deposit and other intangibles, net of accumulated amortization	(18,741)	(29,784)	(42,315)	(54,702)	(43,623)
Total average intangibles	(679,530)	(690,573)	(703,104)	(715,334)	(406,947)
Average tangible common stockholders' equity	$ 3,469,593	$ 3,281,379	$ 2,895,524	$ 2,412,242	$ 1,661,381
Return on average common stockholders' equity	7.04%	10.72%	11.59%	13.49%	13.05%
Return on average tangible common stockholders' equity	8.41%	12.98%	14.41%	17.49%	16.25%

Goodwill. Between 2010 and 2016, we have made fifteen acquisitions, including seven FDIC-assisted transactions and eight traditional merger and acquisition ("M&A") transactions. In conjunction with several of the traditional M&A transactions, our purchase price exceeded the fair value of the net assets acquired, resulting in the recording of goodwill. At December 31, 2020 and 2019, we had goodwill totaling $661 million. This resultant goodwill is the most significant intangible asset we have and is the largest item in adjusting our total common stockholders' equity before noncontrolling interest to our tangible common stockholders' equity. The Bank reviews goodwill annually, or more frequently if events or changes in circumstances indicate the carrying value might be impaired. This impairment analysis compares the estimated fair value of the Bank's operations (the reporting unit) with net book value. We performed our annual impairment test of goodwill as of September 30, 2020. Subsequent to the September 30, 2020 annual impairment test, the Bank performed an additional goodwill impairment test as of December 31, 2020. Both impairment tests included various valuation considerations including comparable peer data, comparable precedent transactions, overall financial performance, share price of our common stock and other factors. Neither the September 30, 2020 nor the December 31, 2020 impairment test indicated any impairment of goodwill.

Common Stock Dividend Policy. In 2020 we paid dividends of $1.0775 per common share, compared to $0.94 per common share in 2019 and $0.795 per common share in 2018. On January 4, 2021, our Board approved a dividend of $0.2775 per common share that was paid on January 22, 2021 to shareholders of record on January 15, 2021. The determination of future dividends on our common stock will depend on conditions existing at that time and approval of our Board. In addition, our ability to pay dividends to our shareholders is subject to the restrictions set forth in Arkansas law, by our federal regulators, and by certain covenants contained in the indentures governing the trust preferred securities, the subordinated debentures and the subordinated notes. See Note 18 to the consolidated financial statements included in Item 8. Financial Statement and Supplementary Data of this Annual Report on Form 10-K for a discussion of dividend restrictions.

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

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

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

Tier 1 capital includes common equity tier 1 capital and certain additional tier 1 items as provided under the Basel III Rules. At December 31, 2020 and 2019, we had no additional tier 1 items that were included in common equity tier 1 capital.

Basel III Rules allowed for insured depository institutions to make a one-time election not to include most elements of AOCI 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 ACL, the trust preferred securities and the subordinated notes.

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

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

The Basel III Rules limit capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" in addition to the amount necessary to meet minimum risk-based capital requirements for common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets. At December 31, 2020 and 2019, the Basel III Rules required us to maintain (i) a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 7.0%, (ii) a minimum ratio of tier 1 capital to risk-weighted assets of at least 6.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 8.5%, (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 10.5%, and (iv) a minimum leverage ratio of 4.0%. Additionally, in order to be considered well-capitalized under the Basel III Rules, we must maintain (i) a ratio of common equity tier 1 capital to risk-weighted assets of at least 6.5%, (ii) a ratio of tier 1 capital to risk-weighted assets of at least 8.0%, (iii) a ratio of total capital to risk-weighted assets of at least 10.0% and (iv) a leverage ratio of at least 5.0%.

The following table presents actual and required capital ratios as of the dates indicated under the Basel III Rules. The minimum required capital amounts presented include the minimum required capital levels, plus the capital conservation buffer. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Rules. At December 31, 2020 and 2019, our capital levels exceed all minimum capital requirements under the Basel III Rules. Additionally, our capital levels at December 31, 2020 and 2019 exceed all capital requirements to be considered well capitalized based upon prompt corrective action regulations, as amended by the Basel III Rules.

	Actual		Minimum Capital Required – Basel III		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
			(Dollars in thousands)			
December 31, 2020:						
Common equity tier 1 to risk-weighted assets	$3,573,471	13.36%	$1,872,748	7.00%	$1,738,980	6.50%
Tier 1 capital to risk-weighted assets	3,573,471	13.36	2,274,051	8.50	2,140,283	8.00
Total capital to risk-weighted assets	4,237,268	15.84	2,809,122	10.50	2,675,354	10.00
Tier 1 leverage to average assets	3,573,471	13.70	1,043,413	4.00	1,304,266	5.00
December 31, 2019:						
Common equity tier 1 to risk-weighted assets	$3,422,832	13.76%	$1,741,897	7.00%	$1,617,475	6.50%
Tier 1 capital to risk-weighted assets	3,422,832	13.76	2,115,160	8.50	1,990,739	8.00
Total capital to risk-weighted assets	3,874,357	15.57	2,612,845	10.50	2,488,424	10.00
Tier 1 leverage to average assets	3,422,832	15.36	891,109	4.00	1,113,887	5.00

Capital Stress Testing. We completed our capital stress tests utilizing multiple economic scenarios, including one or more adverse idiosyncratic scenarios unique to our Bank. The results of the most recent stress test completed in the third quarter of 2020 reflected that we would maintain well-capitalized status for all capital ratios for all scenarios over the stress test time horizon.

Growth. In 2020, we (i) closed our Bellefonte, Arkansas office, (ii) consolidated our leased space in our Riverwood office in Atlanta, Georgia, (iii) relocated our RESG team in Los Angeles, California to new leased space, (iv) opened three loan production offices, including one each in Jonesboro, Arkansas; Aventura, Florida and Clearwater, Florida, (v) opened our new corporate headquarters in Little Rock, Arkansas, (vi) relocated our leased facility in Ft. Lauderdale, Florida, and (vii) vacated excess leased space in Ellijay, Georgia. Additionally, we entered into purchase and assumption agreements in 2020 to sell our two branches in Alabama and our two branches in South Carolina. The sales of our Alabama branches closed in the fourth quarter of 2020. The sale of our two South Carolina branches is expected to close during the first quarter of 2021.

In 2021, among other things, we have replaced a leased facility with a bank-owned facility in Brookhaven, Georgia and expect to open a retail banking office in Decatur, Georgia. We may open additional branches and loan production offices as our needs and resources permit. Additionally, as we have done in recent quarters, we may relocate offices, sell offices and/or close certain offices and consolidate the business of such offices into other offices. Opening new offices is subject to local banking market conditions, availability of satisfactory sites, hiring qualified personnel, obtaining regulatory and other approvals and many other conditions and contingencies that we cannot predict with certainty. We may increase or decrease our expected number of new office openings or relocate, sell or close current offices as a result of a variety of factors including our financial results, changes in economic or competitive conditions, strategic opportunities, individual office profitability metrics or other factors

During 2020, we spent $50 million on capital expenditures for premises and equipment. Our capital expenditures for 2021 are expected to be in the range of $15 million to $25 million, including progress payments on construction projects expected to be completed in 2021 or 2022, furniture and equipment costs and acquisition of sites for future development. Actual expenditures may vary significantly from those expected, depending on the number and cost of additional branch offices acquired or constructed and sites acquired for future development, progress or delays encountered on ongoing and new construction projects, delays in obtaining or inability to obtain required approvals, potential premises and equipment expenditures associated with acquisitions, if any, and other factors.

Operational Risk Management

Overview. Operational risk is the risk to current or anticipated earnings or capital arising from inadequate or failed internal processes or systems, human errors or misconduct, reputational damage or adverse external events. Operational risk is inherent in all of our businesses. To assist in our operational risk management, in addition to monitoring our operational risk appetite using key performance and risk metrics, we utilize risk control and self-assessments across the Bank to identify key operational risks and associated key internal controls. We have in place a number of controls that assist in the management of operational risk including, but not limited to, transactional documentation requirements; systems and procedures to monitor transactions; systems and procedures to detect and mitigate attempts to commit fraud, penetrate our systems, access customer data, and/or deny access to our systems by legitimate customers; regulatory compliance reviews; and periodic reviews by various components of our CRMG and our Internal Audit function. Reconciliation procedures have also been established to ensure that data processing systems accurately capture data and transactions. Further, we have programs and procedures to maintain contingency and business continuity plans for operational support in the event of disruptions to our business, including disruptions during 2020 attributable to the effects of the COVID-19 pandemic. We also mitigate certain operational risks through the purchase of insurance. Our Operational Risk Management group, which reports to our CRO, has responsibilities for assisting the business units in identifying, managing and monitoring operational risks including risks resulting from the use of technology, cyber security risk, third party vendor management risk, risks associated with the introduction of new products and services, and various other operational risks.

Model Risk. Model risk is the risk that the various models and tools utilized throughout the Bank do not provide accurate results, particularly in times of market stress or other unforeseen circumstances, or prove to be inadequate or inaccurate because of flaws in their design or implementation. We have an internal Model Risk Management group (second line oversight), which reports to our CRO, that has developed and implemented a model framework, in compliance with FRB Supervision and Regulation Letter SR 11-7: Guidance on Model Risk Management, whereby all models and tools utilized throughout the Bank are inventoried, assessed, and validated in accordance with this framework. Ownership of our internal models resides with our Analytics and Modeling team (first line oversight), who, along with our business units, manages the use of such models in accordance with our model framework.

Legal Risk. As part of our operational risk management program, we also actively monitor our legal risk exposure. Legal risk arises from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect our operations or condition. These risks are inherent in all of our businesses. Legal risk exposures are actively and primarily managed by our business units in conjunction with our legal department. Our ERC, BRC and our Board oversee our legal risk management.

Reputational Risk Management

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

Strategic Risk Management

Strategic risk is the risk to current or anticipated earnings or capital, or franchise or enterprise value arising from, among other items, adverse business decisions, poor implementation of business decisions, deteriorations in national or regional macro-economic conditions, or lack of responsiveness to changes in the financial services industry and operating environment. This risk is a function of the compatibility of our strategic goals, business strategies, resources, and quality of implementation. The assessment of strategic risk includes more than an analysis of our written strategic plan. It focuses on opportunity costs and how plans, systems, and implementation affect our franchise or enterprise value. It also incorporates how management analyzes external factors, such as economic, technological, competitive, regulatory, and other environmental changes that affect our strategic direction. Our strategic risk exposure is measured against our Board-approved strategic risk appetite by our CRMG, which monitors our performance against our strategic objectives. Also, as part of our strategic risk monitoring process, the current and expected systemic macroeconomic environment is monitored using a combination of metrics, models and various other tools.

Compliance Risk Management

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

Risks related to compliance matters are heightened by the heavily regulated environment in which we operate. We have designed our processes and systems and provided education of applicable regulatory standards to our employees in an effort to comply with these requirements. Our Corporate Compliance group and various other teams throughout the Bank perform various monitoring and testing activities, and our Internal Audit Group performs periodic reviews of our various compliance programs, including reviews of our Corporate Compliance group.

Recently Issued Accounting Standards

See note 1 to the consolidated financial statements included in Item 8. Financial Statements and Supplementary Data in this Annual Report on Form 10-K for a discussion of certain recently issued accounting pronouncements.

Item 7A. **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Information required by this Item is included in Market and Interest Rate Risk Management in MD&A beginning on page 79 and is hereby incorporated by reference.

Item 8. <u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Bank OZK

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Bank OZK and its subsidiaries (the "Bank") as of December 31, 2020 and 2019, and the related consolidated statements of income, of comprehensive income, of stockholders' equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Bank's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Bank changed the manner in which it accounts for credit losses on certain financial instruments in 2020.

Basis for Opinions

The Bank's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the Report of Management on the Bank's Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Bank's consolidated financial statements and on the Bank's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Bank in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses

As described in Notes 1 and 4 to the consolidated financial statements, management assesses the adequacy of the allowance for credit losses ("ACL") based on evaluations of the loan portfolio utilizing objective and subjective criteria. The Bank had a total ACL of $377.3 million on a total loan balance of $19.2 billion as of December 31, 2020. The objective criteria primarily includes estimated losses that are modeled from the respective score cards and the outputs from the Bank's Current Expected Credit Loss ("CECL") platform. The score cards and the Bank's CECL platform incorporate varying future economic forecasts in estimating the Bank's ACL. Management selects and weights several economic forecasts provided by an external vendor for purposes of determining the Bank's ACL. For purposes of the forecasts used in the Bank's CECL methodology, management utilizes a reasonable and supportable forecast period of two years, followed by a reversion of estimated losses on a systemic basis back to the Bank's historical mean. These forecasts include a number of economic variables, including gross domestic product, unemployment rates, and commercial and residential real estate prices, among others. In addition to these objective criteria, management subjectively assesses the adequacy of the Bank's ACL and the need for qualitative adjustments in order to capture items that management believes were not fully reflected in the Bank's modeled results.

The principal considerations for our determination that performing procedures relating to the allowance for credit losses is a critical audit matter are (i) the significant judgment by management in determining the allowance for credit losses, which in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the selection and weightings of economic forecast scenarios and qualitative adjustments; and (ii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the Bank's process for determining the allowance for credit losses, including controls over the selection and weightings of economic forecast scenarios and qualitative adjustments. These procedures also included, among others, testing management's process for determining the allowance for credit losses by (i) evaluating the appropriateness of management's methodology; (ii) testing the data used in the estimate; and (iii) evaluating the reasonableness of the selection and weightings of the economic forecast scenarios and qualitative adjustments, which also involved the use of professionals with specialized skill and knowledge to assist in performing these procedures to test management's process.

/s/ PricewaterhouseCoopers LLP
Little Rock, Arkansas
February 25, 2021

We have served as the Bank's auditor since 2016.

BANK OZK
CONSOLIDATED BALANCE SHEETS

	December 31, 2020	December 31, 2019
	(Dollars in thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 2,393,662	$ 1,495,757
Investment securities – available for sale (“AFS”)	3,405,351	2,277,389
Federal Home Loan Bank of Dallas ("FHLB") and other bankers' bank stocks	38,486	21,855
Non-purchased loans	18,401,495	16,224,539
Purchased loans	807,673	1,307,504
Allowance for loan losses	(295,824)	(108,525)
Net loans	18,913,344	17,423,518
Premises and equipment, net	738,842	711,541
Foreclosed assets	11,085	19,096
Accrued interest receivable	88,077	75,208
Bank owned life insurance (“BOLI”)	758,071	738,860
Goodwill and other intangible assets, net	675,458	684,542
Other, net	140,220	107,962
Total assets	$ 27,162,596	$ 23,555,728
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Deposits:		
Demand non-interest bearing	$ 3,996,546	$ 2,795,251
Savings and interest bearing transaction	8,160,982	8,307,607
Time	9,292,828	7,371,401
Total deposits	21,450,356	18,474,259
Repurchase agreements with customers	8,013	11,249
Other borrowings	750,928	351,387
Subordinated notes	224,047	223,663
Subordinated debentures	120,475	119,916
Reserve for losses on unfunded loan commitments	81,481	—
Accrued interest payable and other liabilities	251,940	221,786
Total liabilities	22,887,240	19,402,260
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock; $0.01 par value; 100,000,000 shares authorized; no shares issued or outstanding at December 31, 2020 or 2019	—	—
Common stock; $0.01 par value; 300,000,000 shares authorized; 129,350,448 and 128,951,024 shares issued and outstanding at December 31, 2020 and 2019, respectively	1,294	1,289
Additional paid-in capital	2,265,850	2,251,824
Retained earnings	1,946,875	1,869,983
Accumulated other comprehensive income	58,252	27,255
Total stockholders’ equity before noncontrolling interest	4,272,271	4,150,351
Noncontrolling interest	3,085	3,117
Total stockholders’ equity	4,275,356	4,153,468
Total liabilities and stockholders’ equity	$ 27,162,596	$ 23,555,728

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2020	2019	2018
	(Dollars in thousands, except per share amounts)		
Interest income:			
Non-purchased loans	$ 944,354	$ 981,811	$ 858,102
Purchased loans	70,812	106,908	173,465
Investment securities:			
Taxable	40,547	52,812	50,021
Tax-exempt	19,403	14,252	16,193
Deposits with banks and federal funds sold	5,665	6,758	3,039
Total interest income	1,080,781	1,162,541	1,100,820
Interest expense:			
Deposits	171,813	258,358	186,617
Repurchase agreements with customers	23	50	785
Other borrowings	3,179	1,531	3,017
Subordinated notes	12,758	12,757	12,757
Subordinated debentures	4,384	5,664	6,211
Total interest expense	192,157	278,360	209,387
Net interest income	888,624	884,181	891,433
Provision for credit losses	203,639	26,241	64,398
Net interest income after provision for credit losses	684,985	857,940	827,035
Non-interest income:			
Service charges on deposit accounts	37,699	41,774	39,544
Trust income	7,544	7,554	6,935
BOLI income:			
Increase in cash surrender value	20,239	20,715	20,700
Death benefits	608	3,194	3,211
Other income from purchased loans	—	3,684	7,784
Loan service, maintenance and other fees	14,257	17,917	20,354
Gains on sales of other assets	6,863	2,233	2,219
Net gains on investment securities	4,467	713	17
Other	12,931	9,743	7,011
Total non-interest income	104,608	107,527	107,775
Non-interest expense:			
Salaries and employee benefits	206,834	192,851	170,478
Net occupancy and equipment	63,379	59,018	56,362
Other operating expenses	143,200	149,261	153,912
Total non-interest expense	413,413	401,130	380,752
Income before taxes	376,180	564,337	554,058
Provision for income taxes	84,314	138,429	136,977
Net income	291,866	425,908	417,081
Earnings attributable to noncontrolling interest	32	(2)	25
Net income available to common stockholders	$ 291,898	$ 425,906	$ 417,106
Basic earnings per common share	$ 2.26	$ 3.30	$ 3.24
Diluted earnings per common share	$ 2.26	$ 3.30	$ 3.24

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2020	2019	2018
		(Dollars in thousands)	
Net income	$ 291,866	$ 425,908	$ 417,081
Other comprehensive income (loss):			
Unrealized gains and losses on investment securities AFS	45,788	81,691	(27,080)
Tax effect of unrealized gains and losses on investment securities AFS	(11,397)	(19,793)	5,687
Reclassification of gains on investment securities AFS included in net income	(4,467)	(713)	—
Tax effect of reclassification of gains on investment securities AFS included in net income	1,073	175	—
Total other comprehensive income (loss)	30,997	61,360	(21,393)
Total comprehensive income	$ 322,863	$ 487,268	$ 395,688

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
	(Dollars in thousands, except per share amounts)					
Balances – December 31, 2017	$ 1,283	$ 2,221,844	$ 1,250,313	$ (12,712)	$ 3,060	$ 3,463,788
Net income	—	—	417,081	—	—	417,081
Earnings attributable to noncontrolling interest	—	—	25	—	(25)	—
Total other comprehensive loss	—	—	—	(21,393)	—	(21,393)
Common stock dividends, \$0.795 per share	—	—	(102,218)	—	—	(102,218)
Issuance of 223,840 shares of common stock for exercise of stock options	2	5,740	—	—	—	5,742
Issuance of 220,326 shares of unvested restricted common stock	2	(2)	—	—	—	—
Repurchase and cancellation of 71,750 shares of common stock	(1)	(3,769)	—	—	—	(3,770)
Stock-based compensation expense	—	14,135	—	—	—	14,135
Forfeitures of 48,917 shares of unvested restricted common stock	—	—	—	—	—	—
Balances – December 31, 2018	$ 1,286	$ 2,237,948	$ 1,565,201	$ (34,105)	$ 3,035	$ 3,773,365

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
	(Dollars in thousands, except per share amounts)					
Balances – December 31, 2018	$ 1,286	$ 2,237,948	$ 1,565,201	$ (34,105)	$ 3,035	$ 3,773,365
Net income	—	—	425,908	—	—	425,908
Earnings attributable to noncontrolling interest	—	—	(2)	—	2	—
Total other comprehensive income	—	—	—	61,360	—	61,360
Common stock dividends, $0.94 per share	—	—	(121,124)	—	—	(121,124)
Noncontrolling interest cash contribution	—	—	—	—	80	80
Issuance of 83,500 shares of common stock for exercise of stock options	1	1,384	—	—	—	1,385
Issuance of 406,074 shares of unvested restricted common stock	4	(4)	—	—	—	—
Repurchase and cancellation of 63,716 shares of common stock	(1)	(1,674)	—	—	—	(1,675)
Stock-based compensation expense	—	14,169	—	—	—	14,169
Forfeitures of 85,883 shares of unvested restricted common stock	(1)	1	—	—	—	—
Balances – December 31, 2019	$ 1,289	$ 2,251,824	$ 1,869,983	$ 27,255	$ 3,117	$ 4,153,468

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
	(Dollars in thousands, except per share amounts)					
Balances – December 31, 2019	$ 1,289	$ 2,251,824	$ 1,869,983	$ 27,255	$ 3,117	$ 4,153,468
Cumulative effect of change in accounting principle	—	—	(75,344)	—	—	(75,344)
Balances – January 1, 2020	1,289	2,251,824	1,794,639	27,255	3,117	4,078,124
Net income	—	—	291,866	—	—	291,866
Earnings attributable to noncontrolling interest	—	—	32	—	(32)	—
Total other comprehensive income	—	—	—	30,997	—	30,997
Common stock dividends, $1.0775 per share	—	—	(139,662)	—	—	(139,662)
Issuance of 44,200 shares of common stock for exercise of stock options	—	1,036	—	—	—	1,036
Issuance of 493,761 shares of unvested restricted common stock	5	(5)	—	—	—	—
Repurchase and cancellation of 61,873 shares of common stock	—	(1,853)	—	—	—	(1,853)
Stock-based compensation expense	—	14,848	—	—	—	14,848
Forfeitures of 76,664 shares of unvested restricted common stock	—	—	—	—	—	—
Balances – December 31, 2020	$ 1,294	$ 2,265,850	$ 1,946,875	$ 58,252	$ 3,085	$ 4,275,356

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2020	2019	2018
		(Dollars in thousands)	
Cash flows from operating activities:			
Net income	$ 291,866	$ 425,908	$ 417,081
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	26,032	22,258	21,920
Amortization	10,028	12,859	13,520
Earnings attributable to noncontrolling interest	32	(2)	25
Provision for credit losses	203,639	26,241	64,398
Provision for losses on foreclosed and other assets	3,669	2,419	3,220
Writedown of signage due to strategic rebranding	—	—	4,915
Net amortization of investment securities AFS	30,712	17,800	22,076
Net gains on investment securities AFS	(4,467)	(713)	(17)
Amortization of operating lease right-of-use assets	7,731	7,392	—
Proceeds from sales of mortgage loans held for sale	—	—	8,313
Accretion of purchased loans	(21,781)	(25,248)	(43,870)
Gains on sales of other assets	(6,863)	(2,233)	(2,219)
Deferred income tax expense (benefit)	53,757	(100,903)	33,057
Increase in cash surrender value of BOLI	(20,239)	(20,715)	(20,700)
BOLI death benefits in excess of cash surrender value	(608)	(3,194)	(3,211)
Stock-based compensation expense	14,848	14,169	14,135
Changes in assets and liabilities:			
Accrued interest receivable	(13,641)	6,710	(17,360)
Other assets, net	14,581	33,003	186,683
Accrued interest payable and other liabilities	(37,350)	8,893	3,348
Net cash provided by operating activities	551,946	424,644	705,314

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	Year Ended December 31, 2020	2019	2018
		(Dollars in thousands)	
Cash flows from investing activities:			
Proceeds from sales of investment securities AFS	$ 273,963	$ 97,210	$ —
Proceeds from maturities/calls/paydowns of investment securities AFS	1,112,738	551,633	496,618
Purchases of investment securities AFS	(2,499,587)	—	(815,413)
Proceeds from sale of FHLB and other bankers' bank stock	12,505	30,979	37,975
Purchases of FHLB and other bankers' bank stock	(29,136)	(26,893)	(34,992)
Net increase of non-purchased loans	(2,345,168)	(1,095,383)	(2,306,689)
Net payments received on purchased loans	344,560	638,276	1,072,735
Purchases of premises and equipment	(49,606)	(98,691)	(86,752)
Proceeds from loan sales	282,727	17,467	128,050
Proceeds from sales of other assets	29,346	29,303	30,969
Purchases of BOLI	—	—	(45,000)
Proceeds from BOLI death benefits	1,636	4,774	5,820
Cash invested in unconsolidated investments and noncontrolling interest	(46,499)	(28,044)	(9,781)
Net cash paid in branch divestiture transactions	(59,718)	—	—
Net cash (used) provided by investing activities	(2,972,239)	120,631	(1,526,460)
Cash flows from financing activities:			
Net increase in deposits	3,061,965	535,844	746,070
Proceeds from (repayments of) fixed-rate FHLB advances	750,000	—	(20,000)
Net (repayments of) proceeds from other borrowings	(350,459)	254,695	94,373
Net decrease in repurchase agreements with customers	(3,236)	(9,315)	(48,767)
Proceeds from exercise of stock options	1,036	1,385	5,742
Repurchase and cancellation of shares of common stock	(1,853)	(1,675)	(3,770)
Cash dividends paid on common stock	(139,255)	(121,124)	(102,218)
Net cash provided by financing activities	3,318,198	659,810	671,430
Net increase (decrease) in cash and cash equivalents	897,905	1,205,085	(149,716)
Cash and cash equivalents – beginning of year	1,495,757	290,672	440,388
Cash and cash equivalents – end of year	$ 2,393,662	$ 1,495,757	$ 290,672

See accompanying notes to the consolidated financial statements.

1. Organization, Regulation and Summary of Significant Accounting Policies

Bank OZK (the "Bank") is headquartered in Little Rock, Arkansas and provides a wide range of retail and commercial banking services. At December 31, 2020 the Bank conducted operations through more than 250 branches, loan production offices and other offices, including offices in Arkansas, Georgia, Florida, North Carolina, Texas, South Carolina, California, New York and Mississippi. The Bank owns eight 100%-owned finance subsidiary business trusts - Ozark Capital Statutory Trust II ("Ozark II"), Ozark Capital Statutory Trust III ("Ozark III"), Ozark Capital Statutory Trust IV ("Ozark IV"), Ozark Capital Statutory Trust V ("Ozark V"), Intervest Statutory Trust II ("Intervest II"), Intervest Statutory Trust III ("Intervest III"), Intervest Statutory Trust IV ("Intervest IV") and Intervest Statutory Trust V ("Intervest V") (collectively, the "Trusts"). In addition, the Bank owns a subsidiary that holds its investment securities, a subsidiary engaged in the development of real estate, a subsidiary that holds an ownership interest in a private aircraft and various other entities that hold loans, foreclosed assets or tax credits or engage in other activities.

The Bank is an Arkansas state banking corporation and is subject to regulation by the Arkansas State Bank Department ("ASBD"). 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").

<u>Basis of presentation, use of estimates, principles of consolidation and change in accounting policy</u> – 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 these consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates.

These consolidated financial statements include the accounts of the Bank, the investment subsidiary, the real estate subsidiary, the aircraft subsidiary and various other entities that hold loans, foreclosed assets or tax credits or engage in other activities. 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. All significant intercompany transactions and amounts have been eliminated in consolidation.

The voting interest approach is not applicable for entities that are not controlled through voting interests or in which the equity investors do not bear the residual economic risk. In such instances, management makes a determination, based on its review of applicable GAAP, on when the assets, liabilities and activities of a variable interest entity ("VIE") should be included in the Bank's consolidated financial statements. GAAP requires a VIE to be consolidated by a company if that company has a controlling financial interest with both (1) the power to direct the activities of the entity that most significantly affects the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity. A company that has a controlling financial interest is considered the primary beneficiary and consolidates the VIE. The Bank has determined that the 100%-owned finance subsidiary Trusts are VIEs, but that the Bank is not the primary beneficiary of the Trusts. Accordingly, the Bank does not consolidate the activities of the Trusts into its financial statements, but instead reports its ownership interests in the Trusts as other assets and reports the subordinated debentures issued to the Trusts as a liability in its consolidated balance sheets. The distributions on the subordinated debentures are reported as interest expense in the Bank's consolidated statements of income.

Effective January 1, 2020, the Bank adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This guidance replaced the incurred loss method that was utilized in estimating the Bank's allowance for loan losses ("ALL") as of December 31, 2019 with a methodology that requires the Bank to estimate credit losses expected to occur over the life of the financial instrument and to recognize those estimated losses at the time of loan origination or, for loans and loan commitments outstanding at January 1, 2020, upon adoption of ASU 2016-13. This revised methodology is what FASB describes as the current expected credit loss ("CECL") method.

The Bank adopted ASU 2016-13 using the modified retrospective method; therefore, results for reporting periods beginning on or after January 1, 2020 are presented in accordance with ASU 2016-13 while prior period results are reported in accordance with the previously applicable GAAP. The adoption of ASU 2016-13 on January 1, 2020 resulted in a $39.6 million increase in the Bank's ALL for outstanding loans and the establishment of a $54.9 million reserve for losses on unfunded loan commitments, resulting in a total increase in the Bank's allowance for credit losses ("ACL") of $94.5 million. These transition adjustments, net of related tax effects, were recorded as a cumulative effect from the change in accounting principle and reduced the Bank's retained earnings by $75.3 million. As required by ASU 2016-13, the portion of the ACL for the outstanding balance of the Bank's loan portfolio is reported as ALL on its consolidated balance sheet and the reserve for losses on unfunded loan commitments is reported as a liability on its consolidated balance sheet.

The following table shows the impact of adopting ASU 2016-13.

	January 1, 2020		
	As Reported Under ASU 2016-13	Pre-adoption of ASU 2016-13	Impact of Adoption
	(Dollars in thousands)		
Purchased credit deteriorated ("PCD") loans	$ 87,106	$ 81,199	$ 5,907
Allowance for loan losses	148,113	108,525	39,588
Reserve for losses on unfunded loan commitments	54,924	—	54,924
Retained earnings	1,794,639	1,869,983	(75,344)

Additionally, all purchased loans that were previously accounted for and reported as loans with credit deterioration at the date of acquisition, or purchased credit impaired ("PCI") loans, are now considered PCD loans. For periods prior to January 1, 2020, PCI loans were carried at their net present value of future expected cash flows. For periods subsequent to January 1, 2020, PCD loans are carried at their amortized cost basis less a non-credit discount. Upon adoption of, and as provided for under ASU 2016-13, the Bank utilized the "gross up" approach whereby it adjusted PCD loans by their respective CECL ALL of $5.9 million, which became part of the revised amortized cost basis of such loans. The remaining difference of $14.6 million between the PCD loans' amortized cost basis and the par value of such loans is a non-credit discount that is being amortized into interest income over the remaining life of the loans.

Cash and cash equivalents – For cash flow purposes, cash and cash equivalents include cash on hand, amounts due from banks, interest earning deposits with banks, and amounts on deposit with the FRB.

Investment securities – Management determines the appropriate classification of investment securities at the time of purchase and reevaluates such designation as of each balance sheet date. At December 31, 2020 and 2019, the Bank has classified all of its investment securities as available for sale ("AFS").

Investment securities AFS are reported at estimated fair value, with the unrealized gains and losses determined on a specific identification basis. The Bank utilizes independent third parties as its principal pricing sources for determining fair value of investment securities which are measured on a recurring basis. As a result, the Bank considers estimates of fair values from at least two independent pricing sources for the majority of its individual securities in 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 or comprehensive interest rate tables, pricing matrices or a combination thereof. For investment securities that are not traded or that are traded in a market that is not active, fair value is determined using unobservable inputs. Additionally, the valuation of investment securities acquired in an acquisition may include certain unobservable inputs. All fair value estimates received by the Bank for its investment securities are reviewed on a quarterly basis.

Investment Securities AFS with unrealized gains are reported as a separate component of stockholders' equity, included in other comprehensive income (loss), are adjusted for changes in unrealized gains, net of related income tax, and are included in accumulated other comprehensive income (loss), on a specific identification basis. Investment Securities AFS with unrealized losses require the Bank to evaluate its intent or likelihood of disposing of such investment securities. If the Bank intends to sell an investment security AFS in an unrealized loss position, or if it is more likely than not that it will be required to sell an investment security AFS in an unrealized loss position before recovery of its amortized cost basis, such investment security's amortized cost basis is written down to estimated fair value through current period expense. If the Bank does not intend to sell an investment security AFS in an unrealized loss position, or if it is more likely than not that the Bank will not sell an investment security AFS in an unrealized loss position, the Bank is required to assess whether the decline in fair value has resulted from credit losses or non-credit factors. Factors considered during such review include the credit quality, financial condition and near term prospects of the issuer, the nature and cause of the unrealized loss and various other factors. If the Bank's assessment determines a credit loss exists, the present value of cash flows expected to be collected from the investment security AFS is compared to the amortized cost basis of such investment security and if the present value cash flows expected to be collected is less than amortized cost, an allowance for credit losses and a provision for credit loss expense is recorded. If the Bank's assessment determines that a credit loss does not exist, the Bank records the decline in fair value through other comprehensive income (loss), net of related income tax effects with such decline included in accumulated other comprehensive income (loss).

Prior to the adoption of ASU 2016-13, Investment Securities AFS with unrealized losses were reviewed at least quarterly by the Bank for other-than-temporary impairment. Factors considered during such review included 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 impairment and various other factors. The Bank also assessed whether it had the intent to sell the investment security or more likely than not would be required to sell the investment security before any anticipated recovery in fair value. If either of the criteria regarding intent or requirement to sell was met, the entire difference between amortized cost and fair value was recognized as impairment through the income statement. For securities that did not meet the aforementioned criteria, the amount of impairment was split into (i) other-than-temporary impairment related to credit loss, which must be recognized in the income statement, and (ii) other-than-temporary impairment related to other factors, which was recognized in other comprehensive income (loss). The credit loss was defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

The fair values of the Bank's investment securities traded in both active and inactive markets can be volatile and may be influenced by a number of factors including market interest rates, prepayment speeds, discount rates, credit quality of the issuer, general market conditions including market liquidity conditions and other factors. Factors and conditions are constantly changing and fair values could be subject to material variations that may significantly affect the Bank's financial condition, results of operations and liquidity.

At December 31, 2020 and 2019, the Bank owned shares in the Federal Home Loan Bank of Dallas ("FHLB"), First National Banker's Bankshares, Inc. and certain other bankers' bank stock which do not have readily determinable fair values and are carried at cost.

Interest and dividends on investment securities, including the amortization of premiums and accretion of discounts are included in interest income. Any discount or premium on investment securities is accreted or amortized through maturity, through the earliest call date for investment securities that are callable, or in the case of mortgage-backed securities, over the estimated life of the security. Realized gains or losses on the sale of investment securities are recognized on the specific identification method at the time of sale and are included in non-interest income. Purchases and sales of investment securities are recorded on a trade-date basis.

Non-purchased loans – Non-purchased loans include all loans except loans acquired in previous acquisitions. Non-purchased loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance adjusted for any charge-offs and accretion or amortization of deferred fees or costs. Interest on non-purchased loans is recognized on an accrual basis and is calculated using the simple interest method on daily balances of the principal amount outstanding. Loan origination fees and costs are generally deferred and recognized over the life of the loan as an adjustment to yield on the related loan. Minimum interest, yield maintenance income and prepayment penalties are recorded as adjustments to yield on the related loan when such items are earned. Loan service, maintenance and various other fees that are not considered yield adjustments are recorded as non-interest income when such items are earned and collection appears likely.

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the financial statements when they are funded. Related fees are generally recognized when collected.

Purchased loans – Purchased loans consist of all loans acquired in previous acquisitions. Prior to the adoption of ASU 2016-13, purchased loans with deteriorated credit quality were referred to as PCI loans. With the adoption of ASU 2016-13, loans acquired with deteriorated credit quality are referred to as PCD loans. ASU 2016-13 defines PCD loans as acquired individual financial assets that, as of the date of acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination as determined by an acquirer's assessment. While ASU 2016-13 does not define "a more-than-insignificant deterioration in credit quality since origination," it does provide indicators that there has been a more-than-insignificant deterioration in credit since origination. Those indicators include (1) the delinquency status as of the date of acquisition, (2) downgrades in classification since origination, (3) the accrual status, or (4) credit spreads that, subsequent to origination, have widened beyond the threshold specified by the Bank's lending policy. With the exception of PCD loans for which the Bank has suspended the recognition of interest income, a PCD loan's non-credit discount is accreted into interest income utilizing the interest method over the remaining life of the loan.

All other purchased loans not classified as PCD (non-PCD) are recorded at their initial fair value, adjusted for amortized costs which includes any remaining fair value adjustments recorded at acquisition. With the exception of non-PCD loans for which the Bank has suspended the recognition of interest income, any remaining fair value adjustment recorded at acquisition on non-PCD loans is accreted into income utilizing the interest method over the remaining life of the loan.

Allowance for credit losses (“ACL”) – Effective January 1, 2020, the Bank adopted the provisions of ASU 2016-13. This new guidance replaced the incurred loss method that was utilized in estimating the Bank’s ALL as of December 31, 2019 with the CECL methodology.

The Bank’s ACL under the CECL methodology is established through a provision for credit losses charged against income. All, or portions of, loans deemed to be uncollectible are charged against the ACL when the Bank believes that collectability of all, or some portion of, outstanding amortized cost is unlikely. Subsequent recoveries, if any, of loans previously charged off are credited to the ACL. For credit risk related to a contractual obligation to extend credit, the Bank estimates expected credit losses over the contractual period considering the likelihood that funding will occur.

In conjunction with the adoption of ASU 2016-13, the Bank implemented a dual risk rating scale that utilizes quantitative models and qualitative factors (“score cards”) in determining the risk rating for its commercial loans. This dual risk rating methodology incorporates an obligor risk rating (“ORR”) and a facility risk rating (“FRR”) which are combined to create a two-dimensional risk rating for commercial loans. The ORR is influenced by a loan’s probability of default (“PD”) as determined from the score cards, with such score card PDs affected by various financial metrics, such as projected cash flow, loan-to-value (“LTV”), property and/or market characteristics, borrower financial strength and other financial and loan characteristics. Thus, the higher a loan’s PD, the more adverse the loan’s ORR. The FRR is influenced by a loan’s loss given default (“LGD”) as determined from the score cards. Score card LGDs are affected by the estimated loss when a borrower cannot or will not repay the loan. Estimated losses take into consideration the Bank’s underwriting standards and protections including collateral and collateral margin requirements, lien position, compliance with any loan covenants, support required from guarantors, insurance and other factors. The higher a loan’s LGD, the more adverse the loan’s FRR. The combined dual risk rating provides an annualized expected loss estimate for each commercial loan and based on such loss estimates a risk rating is assigned. Additionally, the Bank may apply risk rating “overrides” whereby management may further downgrade a loan to the extent it believes there is additional information about a loan or a borrower that is not fully reflected in the ORR and/or FRR. The Bank utilizes risk ratings from the scorecards in evaluating the credit quality of its commercial loans. The Bank’s consumer loans are not risk rated in the same manner as its commercial loans. Instead, consumer loans are risk rated based on performance and past due status.

Outputs from the scorecards, including PD and LGD outputs, are utilized in determining the necessary ACL for all loans that contain similar risk characteristics. In performing the ACL, the Bank separates loans into similar risk characteristics and utilizes score card estimates of credit loss that categorize loans based on loan type. The loan types segregated by score card are as follows:

- Construction Real Estate – In assessing estimated credit losses on construction real estate loans, the Bank utilizes various project and borrower metrics, including, but not limited to, projected cash flow, LTV, property and/or market characteristics, and borrower financial strength.
- Commercial and Industrial – In assessing estimated credit losses on commercial and industrial loans, the Bank utilizes various borrower and loan metrics, including, but not limited to, borrower’s financial position and results from operations, LTV, and borrower and/or guarantor financial strength.
- Consumer Mortgages – In assessing estimated credit losses on consumer mortgage loans, the Bank utilizes borrower information such as borrower’s cash flow, credit score and LTV, among others.
- Consumer Recreational Vehicle (“RV”) and Marine – In assessing estimated credit losses on RV and marine loans, the Bank utilizes various borrower information such as payment-to-income, credit score and LTV, among others.
- Other Consumer – In assessing estimated credit losses on other consumer loans, the Bank utilizes various borrower origination information such as vintage, credit score and product, among others.

The score cards utilized in determining the ACL use quantitative data related to the Bank’s loans and unfunded loan commitments. In determining the estimated loss, the quantitative data utilized by the score card models includes, but is not limited to, estimated debt service coverage ratios, LTV ratios, total assets, total revenue and margin, and for consumer loans, individual credit scores. In addition, the score cards and the Bank’s CECL platform incorporate varying future economic forecasts in estimating the Bank’s ACL. While the Bank’s score card models and CECL platform produce an estimated lifetime loss for all loans not individually evaluated, the score card models and CECL platform may have certain limitations. To address potential limitations, the Bank’s methodology considers additional qualitative adjustments that are applied to its CECL calculations. In determining the ACL, the Bank utilizes a reasonable and supportable forecast period which, as of December 31, 2020, was two years followed by a reversion of estimated losses on a systematic basis back to its historical mean. Expected credit losses are estimated over the contractual term of the loan, adjusted for anticipated or expected prepayments. The contractual term of the loan excludes expected extensions or modifications unless the Bank has a reasonable expectation that a troubled debt restructuring will be executed with the expected extension or modification.

The ACL is maintained at a level that the Bank believes will be adequate to absorb expected credit losses in future periods associated with its loan portfolio and unfunded loan commitments. Provisions to and the adequacy of the ACL are based on evaluations of the loan portfolio utilizing objective and subjective criteria. The objective criteria primarily includes estimated losses that are modeled from the respective score cards and the outputs from the Bank's CECL platform. In addition to these objective criteria, the Bank subjectively assesses the adequacy of the ACL and the need for changes thereto, with consideration given to the nature and mix of the portfolio, national, regional and local business and economic conditions that may affect borrowers' ability to pay, concentrations of credit, changes in the experience, ability and depth of lending management and other relevant staff, changes in the nature and volume of the portfolio and in the terms of the loans, overall portfolio quality, historical loss experience and other relevant factors. Changes in these criteria or the availability of new information could require adjustment of the ACL in future periods. In addition, for loans that do not share risk characteristics similar to those contained within their respective loan segments, the Bank may perform an individual assessment of the ACL utilizing expected cash flows, collateral values or a combination thereof. On an ongoing basis, the Bank evaluates the underlying collateral on collateral dependent nonperforming loans and, if needed, due to changes in market or property conditions, the underlying collateral is reassessed and the estimated fair value is revised. The determination of collateral value includes any adjustments considered necessary related to estimated holding periods and estimated selling costs. While an individual assessment and related ACL has been calculated for certain nonperforming loans, no portion of the Bank's ACL is restricted to any individual loan or group of loans, and the entire ACL is available to absorb losses from any and all loans, including unfunded loan commitments.

Changes in the criteria used in this evaluation or the availability of new information could cause the ACL to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require adjustments to the ACL based on their judgment and estimates

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. The Bank generally places a loan on nonaccrual status when such loan is (i) nonperforming or (ii) 90 days or more past due, or earlier when doubt exists as to the ultimate collection of payments. The Bank may continue to accrue interest on certain loans contractually past due 90 days or more if such loans are both well secured and in the process of collection. At the time a loan is placed on nonaccrual status, interest previously accrued but uncollected is reversed and charged against interest income. Nonaccrual loans are generally returned to accrual status when payments are no longer past due, the loan has performed in accordance with its contractual terms for a reasonable period of time (generally at least six months), and is expected to continue to perform in accordance with its contractual terms. If a loan is determined to be uncollectible, the portion of the principal determined to be uncollectible is charged against the ACL. Loans for which the terms have been modified and for which (i) the borrower is experiencing financial difficulties and (ii) a concession has been granted to the borrower by the Bank are considered troubled debt restructurings ("TDRs") and are included in nonperforming loans. Income on nonaccrual loans, including nonperforming loans, is recognized on a cash basis when and if actually collected. Income on TDRs is recognized on a cash basis until such time as the TDR has performed in accordance with its modified terms for a reasonable period of time (generally at least six months) and is expected to continue to perform. Once such performance and expected performance conditions are met, the TDR is returned to accrual status but continues to be reported as a nonperforming loan.

Prior to the adoption of ASU 2016-13, the Bank's ALL was calculated under the incurred loss methodology and was maintained at a level management believed would be adequate to absorb probable incurred losses in the loan portfolio. Provision for credit loss was charged against income, and all of portions of loans deemed uncollectible were charged against the ALL. Subsequent recoveries, if any, of loans previously charged off were credited to the ALL.

Provision to and the adequacy of the ALL were based on evaluations of the loan portfolio utilizing objective and subjective criteria. The objective criteria primarily included an internal grading system and specific allowances. In addition to the objective criteria, the Bank subjectively assessed the adequacy of the ALL and the need for additions thereto, with consideration given to the nature and mix of the portfolio, national, regional and local business and economic conditions that may affect borrowers' ability to pay, concentrations of credit, changes in the experience, ability and depth of lending management and other relevant staff, changes in the nature and volume of the portfolio and in the terms of the loans, overall portfolio quality and other relevant factors. While a specific allowance had been calculated for impaired loans, no portion of the Bank's ALL was restricted to any individual loan or group of loans.

The Bank's internal grading system under the incurred loss methodology assigned grades to all non-purchased loans, except residential 1-4 family loans (including consumer construction loans on 1-4 family properties), consumer loans, indirect loans and certain other loans, with each grade being assigned an allowance allocation percentage. The grade for each graded individual loan was determined by the account officer and other senior lending officers at the time the loan was made and changed from time to time to reflect an ongoing assessment of credit risk. Grades were reviewed on specific loans from time to time by senior management and as part of the Bank's internal credit risk management processes.

Residential 1-4 family, consumer loans and certain other loans were assigned an allowance allocation percentage based on past due status. For indirect loans, each individual loan was assigned a risk level based on the borrower's individual credit score. Each risk level was assigned a PD based on the borrower's credit score and an expected LGD based on the underlying collateral securing the loan. The PD factor was based on composite third-party information for similar loans and borrowers that have previously defaulted.

Under the incurred loss methodology, allowance allocation percentages for the various risk grades and past due categories for residential 1-4 family, consumer loans and certain other loans were determined by management and were adjusted periodically. In determining these allowance allocation percentages, management considered, among other factors, historical loss percentages over various time periods, recent trends of charge-offs by loan types and a variety of other criteria.

Under the incurred loss methodology, for purchased loans, management segregated this portfolio into loans that contained evidence of credit deterioration at the date of acquisition and loans that did not contain evidence of credit deterioration at the date of acquisition. Purchased loans with evidence of credit deterioration at the date of acquisition were regularly monitored and were periodically reviewed by management. To the extent that a loan's performance had deteriorated from management's expectation established in conjunction with the determination of the loan's fair value at the date of acquisition, such loan was considered in the determination of the provision expense for the reporting period and the required level of ALL. To the extent that a revised loss estimate exceeded the loss estimate established in the determination of a loan's fair value at acquisition, such determination would have resulted in an allowance allocation or a partial or full charge-off.

Under the incurred loss methodology, all other purchased loans were graded by management at the time of purchase. The grade on these purchased loans was reviewed regularly as part of the ongoing assessment of such loans. To the extent that current information indicated it was probable that the Bank would not be able to collect all amounts according to the contractual terms thereof, such loan was considered in the determination of the provision expense for the reporting period and the required level of ALL and may have resulted in an allowance allocation or a partial or full charge-off.

Under the incurred loss methodology, all loans deemed to be impaired were evaluated individually. The Bank considered a loan, excluding purchased loans with evidence of credit deterioration at the date of acquisition, to be impaired when based on current information and events, it was probable that the Bank would be unable to collect all amounts due according to the contractual terms thereof. The Bank considered a purchased loan with evidence of credit deterioration at the date of acquisition to be impaired once a decrease in expected cash flows or other deterioration in the loan's expected performance, subsequent to the determination of the loan's fair value at acquisition, resulted in an allowance allocation, a partial or full charge-off or a provision for loan losses. Most of the Bank's nonaccrual loans, excluding purchased loans with evidence of credit deterioration at the date of acquisition, and all TDRs were considered impaired. The majority of the Bank's impaired loans were dependent upon collateral for repayment. For such loans, impairment was measured by comparing collateral value and anticipated cash payments, if any, net of estimated holding and selling costs, to the current investment in the loan. For all other impaired loans, the Bank compared estimated discounted cash flows to the current investment in the loan. To the extent that the Bank's current investment in a particular loan exceeded its estimated net collateral value or its estimated discounted cash flows, the impaired amount was charged off as a reduction of the ALL. The Bank's practice was to charge off any estimated loss as soon as management was able to identify and reasonably quantify such potential loss.

Premises and equipment – Premises and equipment are reported at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets. Depreciable lives for the major classes of assets are generally 20 to 45 years for buildings and 3 to 25 years for furniture, fixtures, equipment and certain building improvements. Leasehold improvements are amortized over the shorter of the asset's estimated useful life or the term of the lease. Accelerated depreciation methods are used for income tax purposes. Maintenance and repair charges are expensed as incurred.

Foreclosed assets – Repossessed personal properties and real estate acquired through or in lieu of foreclosure are recorded at fair value less estimated cost to sell at the date of repossession or foreclosure.

Valuations of all foreclosed assets are periodically reviewed by management with the carrying value of such assets adjusted through non-interest expense to the then estimated fair value, generally based on third party appraisals, broker price opinions or other valuations of the property, net of estimated selling costs, if lower, until disposition. Gains and losses from the sale of such repossessions and real estate acquired through or in lieu of foreclosure are recorded in non-interest income and expenses to maintain the properties are included in non-interest expense.

Income taxes – The Bank utilizes the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based upon the difference between the values of the assets and liabilities as reflected in the financial statements and their related tax basis using enacted tax rates in effect for the year or years in which the differences are expected to be recovered or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

As a result of recording, at fair value, acquired assets and assumed liabilities pursuant to business combinations, differences in amounts reported for financial statement purposes and their related basis for federal and state income tax purposes are created. Such differences are recorded as deferred tax assets and liabilities using enacted tax rates in effect for the year or years in which the differences are expected to be recovered or settled. To the extent that information becomes available that results in a change in management's estimates and assumptions, an increase or decrease of the deferred tax asset or liability is recorded as an adjustment to deferred income tax expense (benefit).

The Bank recognizes a tax position as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that has a greater than 50% likelihood of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Bank files consolidated tax returns. The Bank and the other consolidated entities provide for income taxes on a separate return basis and remit to the Bank amounts determined to be currently payable. The Bank recognizes interest related to income tax matters as interest income or expense, and penalties related to income tax matters are recognized as non-interest expense. The Bank is no longer subject to income tax examinations by U.S. federal, state and local tax authorities for years prior to 2017.

Service charges on deposit accounts – Service charges on deposit accounts typically represent fees for monthly account maintenance and transaction activity. This revenue is generally recognized when the performance obligation has been achieved or transaction completed and payment is generally received when the performance obligation has been satisfied.

Bank owned life insurance ("BOLI") – BOLI consists of life insurance purchased by the Bank on (i) a qualifying group of officers with the Bank designated as owner and beneficiary of the policies and (ii) one of the Bank's executive officers with the Bank designated as owner and both the Bank and the executive officer designated as beneficiaries of the policies. The earnings on BOLI policies help to offset a portion of employee benefit costs or to offset a portion of the costs of a supplemental executive retirement plan for one of the Bank's executive officers. BOLI is carried at the policies' realizable cash surrender values with changes in cash surrender values and death benefits received in excess of cash surrender values reported in non-interest income.

Goodwill and Intangible assets – Goodwill and intangible assets consist primarily of goodwill and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The Bank had goodwill of $660.8 million at both December 31, 2020 and 2019. The Bank reviews goodwill annually, or more frequently if events or changes in circumstances indicate the carrying value might be impaired. This impairment analysis compares the estimated fair value of the Bank's operations (the reporting unit) with net book value. The Bank performed its annual impairment test of goodwill as of September 30, 2020. Subsequent to the September 30, 2020 annual impairment test, the Bank performed an additional goodwill impairment test as of December 31, 2020. Both impairment tests included various valuation considerations including comparable peer data, precedent transaction comparables, overall financial performance, share price of our common stock and other factors. Neither the September 30, 2020 nor the December 31, 2020 impairment test indicated any impairment of goodwill.

Core deposit intangibles represent premiums paid for deposits acquired via acquisition and are being amortized over three to seven years. Core deposit intangibles totaled $75.0 million at both December 31, 2020 and 2019, less accumulated amortization of $60.3 million and $51.1 million at December 31, 2020 and 2019, respectively.

The aggregate amount of amortization expense for the Bank's core deposit intangibles is expected to be $6.4 million in 2021, $5.5 million in 2022 and $2.8 million in 2023.

Stock-based compensation – The Bank has an equity incentive plan for officers and employees and non-employee directors. This plan is described more fully in Note 15. The Bank measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and, in the case of certain long-term incentive agreements, based on the expected performance achievement levels over the term of the agreements. Such cost is recognized over the vesting period of the award.

Earnings per common share – Earnings per common share ("EPS") are computed using the two-class method. Basic EPS are computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS are 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 the Bank's common stock options using the treasury stock method and the Bank's non-vested performance stock units under its long-term incentive agreements. The Bank has determined that its outstanding non-vested restricted stock awards that were granted to its employees and non-employee directors are participating securities. The calculations of basic and diluted EPS are included in Note 23.

Segment disclosures – The Bank operates in only one segment – community banking. Accordingly, there is no requirement to report segment information in the Bank's consolidated financial statements. No single external customer comprises more than 10% of the Bank's revenues. Interest income on loans where the underlying collateral is located outside the United States was not material during 2020, 2019 or 2018.

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

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

In August 2018, FASB issued ASU 2018-15 *"Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract."* ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract was not affected by these amendments. ASU 2018-15 was effective for interim and annual periods beginning after December 15, 2019. The Bank adopted ASU 2018-15 on a prospective basis beginning January 1, 2020. The adoption of ASU 2018-15 did not have a material effect on the Bank's financial position or results of operations.

In December 2019, FASB issued ASU 2019-12 *"Income Taxes (Topic 740) Simplifying the Accounting for Income Taxes"* which simplifies the accounting related to franchise taxes and other taxes partially based on income. In addition, ASU 2019-12 clarifies when a step-up in basis should be considered as part of a business combination, as well as when entities should recognize enacted changes in tax law. ASU 2019-12 is effective for annual reporting periods beginning after December 15, 2020 with early adoption permitted. The Bank believes the adoption of ASU 2019-12 will not have a material impact on its financial position or results of operations.

In May 2020, FASB issued ASU 2020-04 *"Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting."* Reference rate reform relates to the effects undertaken to eliminate certain reference rates such as the London Interbank Offered Rate ("LIBOR") and introduce new reference rates that may be based on larger or more liquid observations and transactions. ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other contracts. Generally, ASU 2020-04 would allow entities to consider contract modifications due to reference rate reform to be a continuation of an existing contract; thus, the Bank would not have to determine if the modification is considered insignificant. As a result of ASU 2020-04, the Bank created an internal working group that is managing its transition away from LIBOR. This working group is a cross-functional team composed of representatives from credit, lending, deposits, retail, investment securities, loan administration, operations, compliance, legal and other support functions to address issues related to the LIBOR transition and phase-out. The Bank is in the process of reviewing loan documentation, along with the transition procedures it will need in order to implement reference rate reform. While the Bank has yet to adopt the provision of ASU 2020-04, the standard was effective upon issuance and terminates December 31, 2022 such that changes made to contracts beginning on or after January 1, 2023 would not apply. The Bank is currently evaluating the impact of ASU 2020-04 and has not determined if reference rate reform will have a material effect on the Bank's financial position or results of operations.

Reclassifications – Certain reclassifications of prior years' amounts have been made to conform with the 2020 financial statements presentation. These reclassifications had no impact on prior years' net income, as previously reported.

2. Investment Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
December 31, 2020:				
Obligations of states and political subdivisions	$ 1,703,967	$ 28,286	$ (368)	$ 1,731,885
U.S. Government agency mortgage-backed securities	1,548,101	50,109	(612)	1,597,598
Other U.S. Government agency securities	75,872	—	(4)	75,868
Total investment securities AFS	$ 3,327,940	$ 78,395	$ (984)	$ 3,405,351
December 31, 2019:				
Obligations of states and political subdivisions	$ 503,399	$ 18,250	$ (19)	$ 521,630
U.S. Government agency mortgage-backed securities	1,732,671	19,170	(1,480)	1,750,361
Corporate obligations	5,229	169	—	5,398
Total investment securities AFS	$ 2,241,299	$ 37,589	$ (1,499)	$ 2,277,389

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

	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
December 31, 2020:						
Obligations of states and political subdivisions	$ 169,284	$ 355	$ 167	$ 13	$ 169,451	$ 368
U.S. Government agency mortgage-backed securities	177,610	610	2,622	2	180,232	612
Other U.S. Government agency securities	27,496	4	—	—	27,496	4
Total	$ 374,390	$ 969	$ 2,789	$ 15	$ 377,179	$ 984
December 31, 2019:						
Obligations of states and political subdivisions	$ 997	$ 2	$ 4,945	$ 17	$ 5,942	$ 19
U.S. Government agency mortgage-backed securities	176,631	387	280,526	1,093	457,157	1,480
Total	$ 177,628	$ 389	$ 285,471	$ 1,110	$ 463,099	$ 1,499

In evaluating the Bank's unrealized loss positions for credit losses of its investment securities portfolio, management considers the credit quality, financial condition and near terms prospects of the issuer, the nature and cause of the unrealized loss and other factors. While the Bank periodically evaluates its investment strategy relative to current economic and business conditions, at the present time, the Bank does not have the intent to sell these investment securities with unrealized losses and, more likely than not, will not be required to sell these investment securities before fair value recovers to amortized cost. In addition, for investment securities in an unrealized loss position, the Bank does not believe the unrealized losses are the result of issues with credit quality; thus, no allowance was established for investment securities as of December 31, 2020 and, for such securities as of December 31, 2019, no impairment was recorded.

The following table shows the amortized cost and estimated fair value of investment securities AFS by maturity or estimated date of repayment as of December 31, 2020.

Maturity or Estimated Repayment	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
One year or less	$ 953,500	$ 971,405
After one year to five years	1,208,750	1,241,276
After five years to ten years	216,907	226,208
After ten years	948,783	966,462
Total	$ 3,327,940	$ 3,405,351

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

At December 31, 2020 the Bank had approximately $600 million of VRDNs (none at December 31, 2019). While most of the VRDNs have a final maturity that results in the inclusion of those securities in the "after ten years" category in the above table, the VRDNs are subject to weekly puts, at the Bank's option, and individual securities may be put, by the Bank, back to the issuer prior to the maturity date of such securities. Subsequent to December 31, 2020, the Bank put substantially all of its VRDNs back to the issuer.

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

	Year Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Sales proceeds	$ 273,963	$ 97,210	$ —
Gross realized gains	$ 4,467	$ 1,071	$ 17
Gross realized losses	—	(358)	—
Net gains on investment securities	$ 4,467	$ 713	$ 17

Investment securities with carrying values of $872 million and $661 million at December 31, 2020 and 2019, respectively, were pledged to secure public funds and trust deposits and for other purposes required or permitted by law.

At December 31, 2020 and 2019, the Bank had no holdings of investment securities of any one issuer, other than U.S. Government agency mortgage-backed securities issued by the Federal National Mortgage Association, in an amount greater than 10% of total common stockholders' equity.

3. Total Loans

The following table is a summary of the total loan portfolio by principal category as of the dates indicated.

	December 31,			
	2020		2019	
	(Dollars in thousands)			
Real estate:				
Residential 1-4 family	$ 911,115	4.7%	$ 998,632	5.7%
Non-farm/non-residential	4,213,636	21.9	3,956,579	22.6
Construction/land development	8,046,978	41.9	6,391,429	36.4
Agricultural	204,868	1.1	230,076	1.3
Multifamily residential	856,297	4.5	1,194,192	6.8
Total real estate	14,232,894	74.1	12,770,908	72.8
Commercial and industrial	842,206	4.4	661,952	3.8
Consumer	2,393,964	12.5	2,934,534	16.8
Other	1,740,104	9.0	1,164,649	6.6
Total loans	$ 19,209,168	100.0%	$ 17,532,043	100.0%

At December 31, 2020, the Bank's total loan portfolio consisted of 74.1% real estate loans, 4.4% commercial and industrial loans, 12.5% consumer loans and 9.0% other loans. Real estate loans, our largest category of loans, include all loans made to finance the development of real property construction projects, provided such loans are secured by real estate, and all other loans secured by real estate as evidenced by mortgages or other liens.

4. Allowance for Credit Losses (“ACL”) and Credit Quality Indicators

Allowance for Credit Losses

The following table is a summary of activity within the ACL during the years indicated.

	Allowance for Loan Losses	Reserve for Losses on Unfunded Loan Commitments	Total Allowance for Credit Losses
		(Dollars in thousands)	
Year ended December 31, 2020:			
Balances – December 31, 2019	$ 108,525	$ —	$ 108,525
Adoption of CECL methodology	39,588	54,924	94,512
Balances – January 1, 2020	148,113	54,924	203,037
Net charge-offs	(29,371)	—	(29,371)
Provision for credit losses	177,082	26,557	203,639
Balances – December 31, 2020	$ 295,824	$ 81,481	$ 377,305
Year ended December 31, 2019:			
Balances – December 31, 2018	$ 102,264	$ —	$ 102,264
Net charge-offs	(19,980)	—	(19,980)
Provision for credit losses	26,241	—	26,241
Balances – December 31, 2019	$ 108,525	$ —	$ 108,525
Year ended December 31, 2018:			
Balances – December 31, 2017	$ 94,120	$ —	$ 94,120
Net charge-offs	(56,254)	—	(56,254)
Provision for credit losses	64,398	—	64,398
Balances – December 31, 2018	$ 102,264	$ —	$ 102,264

The calculations of the Bank’s provision for credit losses for 2020 and its total ACL at December 31, 2020 were based on a number of key estimates, assumptions and economic forecasts. Management utilized several economic forecasts provided by Moody’s, including their baseline forecast and certain of their other economic scenarios. In selecting the weightings for the various economic scenarios for purposes of determining its ACL at December 31, 2020, the Bank assigned the largest weighting to the Moody’s S3 (Moderate Recession) and Moody’s S4 (Protracted Slump) scenarios and assigned lesser weighting to the Moody’s baseline scenario. The Bank’s selection and weightings of these scenarios reflected the uncertainty about the course and duration of the COVID-19 pandemic, the timing and magnitude of any additional U.S. fiscal policy stimulus, global trade and geopolitical matters, and various other factors. These forecasts included a number of economic variables, including gross domestic product, unemployment rates, and commercial and residential real estate prices, among others. For purposes of the forecasts used in the Bank’s CECL models, management utilized a reasonable and supportable forecast period of two years, followed by a reversion of estimated losses on a systematic basis back to the Bank’s historical mean. Management also utilized certain qualitative adjustments to increase the Bank’s ACL estimates in order to capture items that management believes were not fully reflected in the Bank’s modeled results. Those qualitative adjustments utilized at December 31, 2020 are intended to adjust for imprecision in economic forecasts, including the velocity and severity of the negative effects of COVID-19 on the economy and financial markets, model data limitations, and other factors.

The following table is a summary of the Bank's ACL, by loan category, for the years indicated.

	Beginning Balance	Impact of Adopting CECL	Charge-offs	Recoveries	Provision	Ending Balance
	(Dollars in thousands)					
Year ended December 31, 2020:						
Real estate:						
Residential 1-4 family	$ 14,008	$ 4,004	$ (411)	$ 939	$ 8,115	$ 26,655
Non-farm/non-residential	17,289	12,587	(12,353)	330	75,320	93,173
Construction/land development	26,295	21,427	(25)	468	24,335	72,500
Agricultural	1,719	978	(39)	69	337	3,064
Multifamily residential	5,477	(2,277)	—	146	9,006	12,352
Commercial and industrial	5,961	6,376	(6,002)	535	6,888	13,758
Consumer	32,466	(5,870)	(11,518)	798	29,781	45,657
Other	5,310	2,363	(3,044)	736	23,300	28,665
Total ACL for funded loans	108,525	39,588	(33,392)	4,021	177,082	295,824
Reserve for losses on unfunded loan commitments	—	54,924	—	—	26,557	81,481
Total ACL	$ 108,525	$94,512	$ (33,392)	$ 4,021	$ 203,639	$ 377,305
Year ended December 31, 2019:						
Real estate:						
Residential 1-4 family	$ 13,754	$ —	$ (514)	$ 174	$ 594	$ 14,008
Non-farm/non-residential	18,456	—	(4,590)	38	3,385	17,289
Construction/land development	27,103	—	(528)	117	(397)	26,295
Agricultural	1,343	—	(46)	7	415	1,719
Multifamily residential	6,208	—	—	—	(731)	5,477
Commercial and industrial	9,256	—	(2,194)	301	(1,402)	5,961
Consumer	21,982	—	(12,836)	2,983	20,337	32,466
Other	4,162	—	(3,635)	743	4,040	5,310
Total ACL for funded loans	$ 102,264	$ —	$ (24,343)	$ 4,363	$ 26,241	$ 108,525
Reserve for losses on unfunded loan commitments	—	—	—	—	—	—
Total ACL	$ 102,264	$ —	$ (24,343)	$ 4,363	$ 26,241	$ 108,525
Year ended December 31, 2018:						
Real estate:						
Residential 1-4 family	$ 12,829	$ —	$ (220)	$ 169	$ 976	$ 13,754
Non-farm/non-residential	26,855	—	(20,540)	169	11,972	18,456
Construction/land development	27,422	—	(25,584)	59	25,206	27,103
Agricultural	1,093	—	(97)	30	317	1,343
Multifamily residential	2,395	—	—	—	3,813	6,208
Commercial and industrial	10,448	—	(3,139)	157	1,790	9,256
Consumer	10,458	—	(7,096)	2,402	16,218	21,982
Other	2,620	—	(3,332)	768	4,106	4,162
Total ACL for funded loans	$ 94,120	$ —	$ (60,008)	$ 3,754	$ 64,398	$ 102,264
Reserve for losses on unfunded loan commitments	—	—	—	—	—	—
Total ACL	$ 94,120	$ —	$ (60,008)	$ 3,754	$ 64,398	$ 102,264

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

	Nonaccrual Loans with ALL	Nonaccrual Loans with No ALL	Total Nonaccrual
		(Dollars in thousands)	
December 31, 2020:			
Real estate:			
Residential 1-4 family	$ 20,503	$ 1,333	$ 21,836
Non-farm/non-residential	9,814	29,924	39,738
Construction/land development	1,551	906	2,457
Agricultural	873	—	873
Multifamily residential	—	—	—
Commercial and industrial	2,027	—	2,027
Consumer	2,431	—	2,431
Other	375	—	375
Total	$ 37,574	$ 32,163	$ 69,737

The following table is a summary of the Bank's ALL and outstanding principal balance of its total loans as of the date indicated.

	ALL			Total Loans		
	ALL for Individually Evaluated Impaired Loans	ALL for All Other Loans	Total ALL	Individually Evaluated Impaired Loans[(1)]	All Other Loans	Total Loans
			(Dollars in thousands)			
December 31, 2019:						
Real estate:						
Residential 1-4 family	$ 1,272	$ 12,736	$ 14,008	$ 9,886	$ 988,746	$ 998,632
Non-farm/non-residential	159	17,130	17,289	6,439	3,950,140	3,956,579
Construction/land development	6	26,289	26,295	3,469	6,387,960	6,391,429
Agricultural	2	1,717	1,719	998	229,078	230,076
Multifamily residential	—	5,477	5,477	—	1,194,192	1,194,192
Commercial and industrial	234	5,727	5,961	1,533	660,419	661,952
Consumer	190	32,276	32,466	1,177	2,933,357	2,934,534
Other	—	5,310	5,310	375	1,164,274	1,164,649
Total	$ 1,863	$ 106,662	$ 108,525	$ 23,877	$17,508,166	$17,532,043

(1) Includes $14.6 million of loans with ALL and $9.3 million of loans with no ALL.

Management had determined that certain of the Bank's impaired loans at December 31, 2019 did not require any specific allowance because (i) management's analysis of such individual loans resulted in no impairment or (ii) all identified impairment on such loans had previously been charged off. The Bank also had $10.9 million in impaired purchased loans with no specific ALL as of December 31, 2019 that were not included in the "Individually Evaluated Impaired Loans" category in the above table.

Interest income on nonperforming loans as of December 31, 2020 and on impaired loans as of December 31, 2019 and 2018 is recognized on a cash basis when and if actually collected. Total interest income recognized on nonperforming loans during 2020 and impaired loans during 2019 and 2018 was not material.

During 2020, as a result of the financial impact of COVID-19 on some of the Bank's borrowers, the Bank implemented a Disaster Relief Loan Program which provided borrowers with short-term loan payment deferrals. As of December 31, 2020, the Bank had approximately 230 loans totaling approximately $0.13 billion that remained on a first or second deferral.

Credit Quality Indicators

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

	Period of Origination						Revolving Loans Amortized Cost Basis	Total
	Year Ended December 31,					Prior to January 1, 2016		
	2020	2019	2018	2017	2016			
	(Dollars in thousands)							
December 31, 2020:								
Residential 1-4 family: (1)								
Pass	$ 161,970	$ 118,068	$ 85,222	$ 76,532	$ 58,253	$ 237,070	$ 140,680	$ 877,795
Special Mention	472	1,313	1,011	1,526	1,230	3,247	181	8,980
Substandard	744	3,820	2,533	2,257	889	13,107	990	24,340
Total residential 1-4 family	163,186	123,201	88,766	80,315	60,372	253,424	141,851	911,115
Non-farm/non-residential:								
Pass	738,590	345,133	478,512	1,024,554	617,908	844,897	44,202	4,093,796
Special Mention	—	127	275	6,088	5,262	46,594	198	58,544
Substandard	—	3,252	1,229	9,702	12,986	34,127	—	61,296
Total non-farm/ non-residential	738,590	348,512	480,016	1,040,344	636,156	925,618	44,400	4,213,636
Construction/land development:								
Pass	1,111,206	2,324,477	1,683,955	2,481,856	272,031	62,125	62,203	7,997,853
Special Mention	—	9,322	446	121	161	1,745	0	11,795
Substandard	7	31	2,149	—	77	2,045	33,021	37,330
Total construction/ land development	1,111,213	2,333,830	1,686,550	2,481,977	272,269	65,915	95,224	8,046,978
Agricultural:								
Pass	45,707	70,873	29,042	29,900	15,171	9,110	3,262	203,065
Special Mention	—	—	—	—	89	172	—	261
Substandard	—	—	326	—	—	1,216	—	1,542
Total agricultural	45,707	70,873	29,368	29,900	15,260	10,498	3,262	204,868
Multifamily residential:								
Pass	42,728	21,609	108,935	417,282	216,105	38,733	517	845,909
Special Mention	—	—	—	—	—	9,605	—	9,605
Substandard	—	—	—	—	—	783	—	783
Total multifamily residential	42,728	21,609	108,935	417,282	216,105	49,121	517	856,297
Commercial and industrial:								
Pass	467,802	56,648	156,372	56,839	4,655	24,233	66,923	833,472
Special Mention	5	137	1,150	2,611	93	478	1,680	6,154
Substandard	—	240	1,254	7	8	1,071	—	2,580
Total commercial and industrial	467,807	57,025	158,776	59,457	4,756	25,782	68,603	842,206
Consumer: (1)								
Pass	268,192	797,896	706,772	344,012	138,233	130,280	2,946	2,388,331
Special Mention	98	741	1,333	396	200	412	15	3,195
Substandard	66	248	669	280	430	742	3	2,438
Total consumer	268,356	798,885	708,774	344,688	138,863	131,434	2,964	2,393,964
Other: (1)								
Pass	343,390	624,438	336,172	276,541	2,146	10,892	146,083	1,739,662
Special Mention	—	7	42	4	—	13	—	66
Substandard	15	—	2	357	—	2	—	376
Total other	343,405	624,445	336,216	276,902	2,146	10,907	146,083	1,740,104
Total	$ 3,180,992	$ 4,378,380	$ 3,597,401	$ 4,730,865	$ 1,345,927	$ 1,472,699	$ 502,904	$ 19,209,168

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

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

	Pass	Special Mention	Substandard	Total
	(Dollars in thousands)			
December 31, 2020:				
Real estate:				
Residential 1-4 family(1)	$ 877,795	$ 8,980	$ 24,340	$ 911,115
Non-farm/non-residential	4,093,796	58,544	61,296	4,213,636
Construction/land development	7,997,853	11,795	37,330	8,046,978
Agricultural	203,065	261	1,542	204,868
Multifamily residential	845,909	9,605	783	856,297
Commercial and industrial	833,472	6,154	2,580	842,206
Consumer(1)	2,388,331	3,195	2,438	2,393,964
Other(1)	1,739,662	66	376	1,740,104
Total	$ 18,979,883	$ 98,600	$ 130,685	$ 19,209,168

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

The following table is a summary of the credit quality indicators for the Bank's loans as of the date indicated, recast utilizing the Bank's dual risk rating methodology. At December 31, 2019, the Bank had no loans risk rated as doubtful or loss.

	Pass	Special Mention	Substandard	Total
	(Dollars in thousands)			
December 31, 2019:				
Real estate:				
Residential 1-4 family(1)	$ 959,864	$ 16,696	$ 22,072	$ 998,632
Non-farm/non-residential	3,850,946	71,447	34,186	3,956,579
Construction/land development	6,277,428	49,986	64,015	6,391,429
Agricultural	225,455	2,245	2,376	230,076
Multifamily residential	1,192,108	1,066	1,018	1,194,192
Commercial and industrial	653,271	6,107	2,574	661,952
Consumer(1)	2,926,276	5,761	2,497	2,934,534
Other(1)	1,163,955	270	424	1,164,649
Total	$ 17,249,303	$ 153,578	$ 129,162	$ 17,532,043

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

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

Pass – Loans in this category exhibit minimal or moderate levels of risk and are not expected to result in loss.

Special Mention – Loans in this category have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date.

Substandard – Loans in this category are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans in this category have all the weaknesses inherent in those classified as substandard with the added characteristics that weaknesses make collection in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable.

Loss – Loans in this category are considered uncollectible. Loans classified as loss do not mean the loan has absolutely no recovery or salvaged value but rather it is not practical or desirable to delay writing off.

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

	30-59 Days Past Due [(1)]	60-89 Days Past Due [(2)]	90 Days or More [(3)]	Total Past Due	Current [(4)]	Total
			(Dollars in thousands)			
December 31, 2020:						
Real estate:						
Residential 1-4 family	$ 10,057	$ 3,218	$ 5,338	$ 18,613	$ 892,502	$ 911,115
Non-farm/non-residential	2,547	18	12,155	14,720	4,198,916	4,213,636
Construction/land development	1,000	—	1,102	2,102	8,044,876	8,046,978
Agricultural	52	—	358	410	204,458	204,868
Multifamily residential	—	—	—	—	856,297	856,297
Commercial and industrial	155	394	1,559	2,108	840,098	842,206
Consumer	3,177	356	547	4,080	2,389,884	2,393,964
Other	49	1	357	407	1,739,697	1,740,104
Total	$ 17,037	$ 3,987	$ 21,416	$ 42,440	$19,166,728	$19,209,168
December 31, 2019:						
Real estate:						
Residential 1-4 family	$ 11,149	$ 6,079	$ 5,583	$ 22,811	$ 975,821	$ 998,632
Non-farm/non-residential	5,495	3,296	17,491	26,282	3,930,297	3,956,579
Construction/land development	143	128	4,438	4,709	6,386,720	6,391,429
Agricultural	289	7	1,117	1,413	228,663	230,076
Multifamily residential	—	—	—	—	1,194,192	1,194,192
Commercial and industrial	687	344	1,805	2,836	659,116	661,952
Consumer	4,594	1,877	762	7,233	2,927,301	2,934,534
Other	3	4	366	373	1,164,276	1,164,649
Total	$ 22,360	$ 11,735	$ 31,562	$ 65,657	$17,466,386	$17,532,043

(1) Includes $5.9 million and $2.7 million of loans on nonaccrual status at December 31, 2020 and 2019, respectively.
(2) Includes $2.4 million and $3.8 million of loans on nonaccrual status at December 31, 2020 and 2019, respectively.
(3) All loans greater than 90 days past due were on nonaccrual status at December 31, 2020 and 2019.
(4) Includes $40.0 million and $12.4 million of loans on nonaccrual status at December 31, 2020 and 2019, respectively.

5. Foreclosed Assets

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

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Real estate:		
Residential 1-4 family	$ 253	$ 2,201
Non-farm/non-residential	5,244	3,989
Construction/land development	4,683	12,153
Agricultural	497	—
Total real estate	10,677	18,343
Commercial and industrial	—	4
Consumer	408	749
Total foreclosed assets	$ 11,085	$ 19,096

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

	Year Ended December 31, 2020	2019	2018
	(Dollars in thousands)		
Balance – beginning of year	$ 19,096	$ 16,171	$ 25,357
Loans and other assets transferred into foreclosed assets	21,703	31,709	11,540
Sales of foreclosed assets	(26,045)	(26,365)	(17,891)
Writedowns of foreclosed assets	(3,669)	(2,419)	(2,835)
Balance – end of year	$ 11,085	$ 19,096	$ 16,171

6. Premises and Equipment

The following table is a summary of premises and equipment as of the dates indicated.

	December 31, 2020	2019
	(Dollars in thousands)	
Land	$ 147,353	$ 146,404
Construction in process	3,389	119,733
Buildings and improvements	495,606	362,269
Leasehold improvements	19,071	16,803
Equipment	144,237	121,536
Lease right-of-use assets	86,530	71,316
Gross premises and equipment	896,186	838,061
Accumulated depreciation	(157,344)	(126,520)
Premises and equipment, net	$ 738,842	$ 711,541

The Bank capitalized interest on construction projects totaling $0.9 million, $1.8 million and $0.6 million during 2020, 2019 and 2018, respectively.

7. Leases

The Bank's net right-of-use asset, which totaled $71.4 million and $63.9 million at December 31, 2020 and 2019, respectively, is included in premises and equipment, and the Bank's lease liability, which totaled $72.7 million and $64.5 million at December 31, 2020 and 2019, respectively, is included in accrued interest payable and other liabilities on the Bank's consolidated balance sheet. At both December 31, 2020 and 2019, the Bank's leases were comprised primarily of building and ground leases associated with certain branch locations or loan production offices. A portion of the Bank's leases are tied to the consumer price index and rent escalations associated with these leases are measured on a periodic basis. The majority of the Bank's lease agreements do not contain residual value guarantees or restricted covenants. In addition, many of the Bank's ground leases contain renewal options. The Bank is reasonably certain that such options will be exercised; thus, the Bank has included the effects of extending these ground leases in the determination of the lease term.

The Bank incurred $10.8 million, $10.9 million and $8.6 million during 2020, 2019 and 2018, respectively, in operating cost that is included in net occupancy and equipment expense in the Bank's consolidated statements of income. The Bank's variable lease costs were not material for the year ended December 31, 2020 and 2019. At December 31, 2020, the Bank's weighted average remaining life for its right-of-use lease assets and weighted average interest rate for its lease liability were 15.9 years and 3.1%, respectively.

The following table is a summary, as of the date indicated, of future amounts due under these non-cancelable leases.

	December 31, 2020
	(Dollars in thousands)
2021	$ 8,877
2022	8,749
2023	8,703
2024	7,007
2025	6,321
Thereafter	59,703
Total minimum lease payments	99,360
Less imputed interest	(26,663)
Total operating lease liabilities	$ 72,697

8. Deposits

The following table is a summary of the scheduled maturities of time deposits as of the dates indicated.

	December 31,	
	2020	2019
	(Dollars in thousands)	
Up to one year	$ 8,138,913	$ 7,045,274
Over one to two years	1,081,470	227,043
Over two to three years	33,323	55,708
Over three to four years	15,919	28,324
Over four to five years	23,167	14,989
Thereafter	36	63
Total time deposits	$ 9,292,828	$ 7,371,401

The aggregate amount of time deposits that meet or exceed $250,000 was $2.74 billion and $1.94 billion at December 31, 2020 and 2019, respectively.

9. Repurchase Agreements With Customers

At December 31, 2020 and 2019, securities sold under agreements to repurchase ("repurchase agreements") totaled $8.0 million and $11.2 million, respectively. Securities utilized as collateral for repurchase agreements are primarily U.S. Government agency mortgage-backed securities and are maintained by the Bank's safekeeping agents. These securities are reviewed by the Bank on a daily basis, and the Bank may be required to provide additional collateral due to changes in the fair market value of these securities. The terms of the Bank's repurchase agreements are continuous but may be cancelled at any time by the Bank or the customer.

10. Borrowings

Borrowings with original maturities less than one year include FHLB advances and federal funds purchased. The following table is a summary of information relating to these borrowings as of the dates indicated.

	December 31,	
	2020	2019
	(Dollars in thousands)	
Average annual balance	$ 88,676	$ 92,923
December 31 balance	—	350,000
Maximum month-end balance during year	300,000	500,000
Interest rate:		
Weighted-average – year	0.29%	2.56%
Weighted-average – December 31	—	1.35%

During 2020, the Bank utilized FHLB advances to support its funding sources and provide additional on-balance sheet liquidity. Details of those FHLB advances, at December 31, 2020, are shown in the following table.

Borrowing Type	Balance	Interest Rate	Maturity Date	Expiration of Lockout Term
		(Dollars in thousands)		
Fixed-rate FOTO advance(1)	$ 500,000	0.48%	February 28, 2035	February 28, 2021
Fixed-rate FOTO advance(1)	250,000	0.65	February 28, 2035	February 28, 2022
Other FHLB advances(2)	928	Various	Various	N/A
Total	$ 750,928	0.54%		

(1) These borrowings are FHLB advances where the FHLB owns the option ("FOTO"), at its sole discretion, to terminate the advance on a quarterly basis after expiration of the lockout term.
(2) These other FHLB advances have rates ranging from 1.30% to 4.54% and a weighted-average rate of 3.45%. Final maturity dates on these advances range from January 2021 to March 2023.

These fixed rate advances are collateralized by a blanket lien on a substantial portion of the Bank's real estate loans and are subject to prepayment penalties if repaid prior to maturity date. At December 31, 2020, the Bank had $4.82 billion of unused FHLB borrowing availability.

11. Subordinated Notes

At December 31, 2020 and 2019, the Bank had $225 million of 5.50% Fixed-to-Floating Rate Subordinated Notes due 2026 (the "Notes"). The Notes are unsecured, subordinated debt obligations of the Bank 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. The underwriting discounts and offering expenses for these notes totaled $2.7 million and are being amortized using a level-yield methodology over seven years. The carrying value of the Notes, net of unamortized offering expenses, was $224.0 million and $223.7 million at December 31, 2020 and 2019, respectively.

The Bank 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. The Bank may also redeem the Notes at any time, including prior to July 1, 2021, at the Bank's option, in whole but not in part, if: (i) a change or prospective change in law occurs that could prevent the Bank 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) the Bank is 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.

12. Subordinated Debentures

At December 31, 2020, the Bank had the following issues of trust preferred securities outstanding and subordinated debentures owed to the Trusts.

	Subordinated Debentures Owed to Trust	Unamortized Discount	Carrying Value of Subordinated Debentures	Trust Preferred Securities of the Trust	Interest Rate	Final Maturity Date
			(Dollars in thousands)			
Ozark II	$ 14,433	$ —	$ 14,433	$ 14,000	3.15%	September 29, 2033
Ozark III	14,434	—	14,434	14,000	3.19	September 25, 2033
Ozark IV	15,464	—	15,464	15,000	2.43	September 28, 2034
Ozark V	20,619	—	20,619	20,000	1.82	December 15, 2036
Intervest II	15,464	(188)	15,276	15,000	3.18	September 17, 2033
Intervest III	15,464	(218)	15,246	15,000	3.02	March 17, 2034
Intervest IV	15,464	(395)	15,069	15,000	2.64	September 20, 2034
Intervest V	10,310	(376)	9,934	10,000	1.87	December 15, 2036
Total	$ 121,652	$ (1,177)	$ 120,475	$ 118,000		

On September 25, 2003, Ozark III sold to investors in a private placement offering $14 million of adjustable rate trust preferred securities, and on September 29, 2003, Ozark II sold to investors in a private placement offering $14 million of adjustable rate trust preferred securities (collectively, "2003 Securities"). The 2003 Securities bear interest, adjustable quarterly, at 90-day LIBOR plus 2.95% for Ozark III and 90-day LIBOR plus 2.90% for Ozark II. The aggregate proceeds of $28 million from the 2003 Securities were used to purchase an equal principal amount of adjustable rate subordinated debentures of the Bank that bear interest, adjustable quarterly, at 90-day LIBOR plus 2.95% for Ozark III and 90-day LIBOR plus 2.90% for Ozark II (collectively,"2003 Debentures").

On September 28, 2004, Ozark IV sold to investors in a private placement offering $15 million of adjustable rate trust preferred securities ("2004 Securities"). The 2004 Securities bear interest, adjustable quarterly, at 90-day LIBOR plus 2.22%. The $15 million proceeds from the 2004 Securities were used to purchase an equal principal amount of adjustable rate subordinated debentures of the Bank that bear interest, adjustable quarterly, at 90-day LIBOR plus 2.22% ("2004 Debentures").

On September 29, 2006, Ozark V sold to investors in a private placement offering $20 million of adjustable rate trust preferred securities ("2006 Securities"). The 2006 Securities bear interest, adjustable quarterly, at 90-day LIBOR plus 1.60%. The $20 million proceeds from the 2006 Securities were used to purchase an equal principal amount of adjustable rate subordinated debentures of the Bank that bear interest, adjustable quarterly, at 90-day LIBOR plus 1.60% ("2006 Debentures").

In addition to the issuance of these adjustable rate securities, Ozark II and Ozark III collectively sold $0.9 million, Ozark IV sold $0.4 million and Ozark V sold $0.6 million of trust common equity to the Bank. The proceeds from the sales of the trust common equity were used, respectively, to purchase $0.9 million of 2003 Debentures, $0.4 million of 2004 Debentures and $0.6 million of 2006 Debentures issued by the Bank.

On February 10, 2015, in conjunction with the acquisition of Intervest Bancshares Corporation ("Intervest"), the Bank acquired Intervest II, Intervest III, Intervest IV and Intervest V with outstanding subordinated debentures totaling $56.7 million and related trust preferred securities totaling $55.0 million. On the date of such acquisition, the Bank recorded the assumed subordinated debentures at estimated fair value of $52.2 million, based on an independent third party valuation, to reflect a current market interest rate for comparable obligations. The fair value adjustment of $4.5 million is being amortized, using a level-yield methodology over the estimated holding period of approximately eight years, as an increase in interest expense of the subordinated debentures. In addition to subordinated debentures, the Bank also acquired $1.7 million of trust common equity.

The trust preferred securities issued by Intervest II and the related subordinated debentures bear interest, adjustable quarterly, at 90-day LIBOR plus 2.95%. The trust preferred securities issued by Intervest III and the related subordinated debentures bear interest, adjustable quarterly, at 90-day LIBOR plus 2.79%. The trust preferred securities issued by Intervest IV and the related subordinated debentures bear interest, adjustable quarterly, at 90-day LIBOR plus 2.40%. The trust preferred securities issued by Intervest V and the related subordinated debentures bear interest, adjustable quarterly, at 90-day LIBOR plus 1.65%.

At December 31, 2020, the Bank had an aggregate of $121.7 million of subordinated debentures outstanding (with an aggregate carrying value of $120.5 million) and had an asset of $3.7 million representing its investment in the common equity issued by the Trusts. The sole assets of the Trusts are the adjustable rate debentures and the liabilities of the Trusts are the trust preferred securities.

At both December 31, 2020 and 2019, the Trusts had aggregate common equity of $3.7 million and did not have any restricted net assets. The Bank has, through various contractual arrangements or by operation of law, fully and unconditionally guaranteed all obligations of the Trusts with respect to the trust preferred securities. Additionally, there are no restrictions on the ability of the Trusts to transfer funds to the Bank in the form of cash dividends, loans or advances. The Bank has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years. These trust preferred securities generally mature at or near the 30th anniversary date of each issuance. However, the trust preferred securities and related subordinated debentures may be prepaid at par, subject to regulatory approval.

13. Income Taxes

The following table is a summary of the components of the provision (benefit) for income taxes for the years indicated.

	Year Ended December 31, 2020	2019	2018
	(Dollars in thousands)		
Current:			
Federal	$ 21,123	$ 172,851	$ 75,889
State	9,434	66,481	28,031
Total current	30,557	239,332	103,920
Deferred:			
Federal	39,662	(72,388)	21,931
State	14,095	(28,515)	11,126
Total deferred	53,757	(100,903)	33,057
Provision for income taxes	$ 84,314	$ 138,429	$ 136,977

The following table is a summary of the reconciliation between the statutory federal income tax rate and effective income tax rate for the years indicated.

	Year Ended December 31, 2020	2019	2018
Statutory federal income tax rate	21.0%	21.0%	21.0%
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal benefit	4.9	5.1	5.6
Effect of tax-exempt interest income	(1.2)	(0.6)	(0.7)
Effect of BOLI and other tax-exempt income	(1.2)	(0.9)	(0.9)
Federal income tax credits	(2.0)	(0.5)	(0.2)
Other, net	0.9	0.4	(0.1)
Effective income tax rate	22.4%	24.5%	24.7%

In accordance with ASU 2016-09, income tax (expense) benefit from the exercise of stock options and vesting of common stock under the Bank's restricted stock and incentive plan in the amount of $(1.1) million, $(0.7) million and $2.0 million were recorded as income tax (expense) benefit in 2020, 2019 and 2018, respectively.

At December 31, 2020 and 2019, current income taxes payable of $3.2 million and $18.0 million, respectively, were included in other liabilities.

The following table is a summary, as of the dates indicated, of the types of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts that give rise to deferred income tax assets and liabilities and their approximate tax effects.

	December 31,	
	2020	2019
	(Dollars in thousands)	
Deferred tax assets:		
Differences in amounts reflected in the financial statements and income tax basis for loans	$ —	$ 19,525
Operating lease liability	19,701	17,455
Stock-based compensation	11,211	10,081
Deferred compensation	2,665	2,323
Foreclosed assets	690	1,189
Net operating loss and tax credit carryforwards	12,189	15,543
Other, net	—	4,328
Total gross deferred tax assets	46,456	70,444
Less valuation allowance	(536)	(265)
Deferred tax asset, net of valuation allowance	45,920	70,179
Deferred tax liabilities:		
Differences in amounts reflected in the financial statements and income tax basis for loans	9,357	—
Accelerated depreciation on premises and equipment	48,090	36,374
Deferred loan costs	44,038	49,419
Acquired intangible assets	1,921	3,040
Investment securities AFS	20,101	9,767
Operating lease right-of-use asset	19,352	17,293
Other, net	231	—
Total gross deferred tax liabilities	143,090	115,893
Net deferred tax liabilities	$ (97,170)	$ (45,714)

Federal net operating loss carryforwards were acquired in certain of the Bank's acquisitions. Such federal net operating loss carryforwards acquired totaled $80.9 million, of which $44.2 million remained to be utilized as of December 31, 2020 and will expire at various dates beginning in 2029 to 2034.

State net operating loss carryforwards were acquired in previous acquisitions. Such state net operating loss carryforwards acquired totaled $116.2 million, of which $33.7 million remained to be utilized as of December 31, 2020 and will expire at various dates beginning in 2025 to 2031.

At December 31, 2020 and 2019, the Bank had a deferred tax valuation allowance of $0.5 million and $0.3 million, respectively, to reflect its assessment that the realization of the benefits from the recovery of certain acquired net operating loss carryforwards are expected to be subject to the limitations pursuant to section 382 of the Internal Revenue Code ("IRC"), or the equivalent state statue.

14. Employee Benefit Plans

The Bank maintains a qualified retirement plan (the "401(k) Plan") with a salary deferral feature designed to qualify under Section 401 of the IRC. The 401(k) Plan permits employees of the Bank to defer a portion of their compensation in accordance with the provisions of Section 401(k) of the IRC. The Bank's 401(k) Plan qualifies as a Safe-Harbor Cost or Deferred Arrangement ("Safe-Harbor CODA"). As a result, (i) certain key employees are eligible to make salary deferrals into the 401(k) Plan, (ii) the 401(k) Plan is not subject to any provisions of the average deferral percentage test described in IRC section 401(k)(3) or the average contribution percentage test described in IRC section 401(m)(2), (iii) the basic matching contribution is (a) 100% of the amount of the employee's deferrals that do not exceed 3% of the employee's compensation for the year plus (b) 50% of the amount of the employee's elective deferrals that exceed 3% but do not exceed 5% of the employee's compensation for the year, and (iv) all employer matching contributions made under the provisions of the Safe-Harbor CODA are non-forfeitable. Certain other statutory limitations with respect to the Bank's contribution under the 401(k) Plan also apply.

Contributions to the 401(k) Plan are invested in accordance with participant elections among certain investment options. Distributions from participant accounts are not permitted before age 65, except in the event of death, permanent disability, or termination of employment. The Bank made matching cash contributions to the 401(k) Plan during 2020, 2019 and 2018 of $6.0

million, $5.6 million and $4.9 million, respectively. The 401(k) Plan also provides for participant loans, subject to certain provision and limitations.

The Bank also maintains the Bank OZK Deferred Compensation Plan (the "Plan"), which is an unfunded deferred compensation arrangement for the group of employees designated as key employees, including certain of the Bank's executive officers and is considered a general obligation of the Bank. Under the terms of the Plan, eligible participants may elect to defer a portion of their compensation. Such deferred compensation is distributable in lump sum or specified installments upon separation from service with the Bank or upon other specified events as defined in the Plan. The Bank does not make any contribution to the Plan for the benefit of each participant or otherwise. Amounts deferred under the Plan are invested in certain approved investments (excluding securities of the Bank or its affiliates). At December 31, 2020 and 2019, respectively, the Bank had Plan assets, along with an equal amount of liabilities, totaling $7.2 million and $6.3 million, recorded on the accompanying consolidated balance sheet.

The Bank has a Supplemental Executive Retirement Plan ("SERP") and certain other benefit arrangements for its Chairman and Chief Executive Officer. Pursuant to the SERP, this officer is entitled to receive 180 equal monthly payments of $32,197, or $386,360 annually, commencing at the later of obtaining age 70 or separation from service. If employment continues past age 70, such benefit will commence at an increased amount upon separation from service, and if separation from service occurs prior to age 70, such benefit will be at a reduced amount. The costs of such benefits, assuming a retirement date at age 70, will be fully accrued by the Bank at such retirement date. The Bank accrued $0.4 million during 2020 and $0.3 million during both of the years ended December 31, 2019 and 2018 for the future benefits payable under the SERP. The SERP is an unfunded plan and is considered a general contractual obligation of the Bank.

15. Stock-Based Compensation

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

The Bank previously had a nonqualified stock option plan for non-employee directors. No options were granted under this plan during 2020 or 2019. All options previously granted under this plan were exercisable immediately and expire ten years after issuance.

All employee options previously granted under the Option Plan and outstanding at December 31, 2020 were issued with a vesting date three years after issuance and an expiration date seven years after issuance. No stock options were granted under the Omnibus Plan during the year ended December 31, 2020.

The following table summarizes stock option activity for the year indicated.

	Options	Weighted-Average Exercise Price/Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding – January 1, 2020	1,857,212	$ 45.60		
Granted	—	—		
Exercised	(44,200)	23.43		
Forfeited	(189,443)	44.56		
Outstanding – December 31, 2020	1,623,569	46.32	3.1	$ 394 (1)
Fully vested and exercisable at December 31, 2020	988,539	$ 47.66	2.3	$ 394 (1)

(1) Based on closing price of $31.27 per share on December 31, 2020.

Intrinsic value for stock options is defined as the amount by which the current market price of the underlying stock exceeds the exercise price. For those stock options where the exercise price exceeds the current market price of the underlying stock, the intrinsic value is zero. The total intrinsic value of options exercised during 2020 was not material. The total intrinsic value of options exercised during 2019 and 2018 was $1.1 million and $5.6 million, respectively.

No options to purchase shares were granted in 2020. Options to purchase 280,558 shares and 573,143 shares, respectively, were granted during 2019 and 2018 with a weighted-average grant date fair value of $7.72 and $12.52, respectively. The fair value for each option grant is estimated on the date of grant using the Black-Scholes option pricing model.

The following table is a summary of the weighted-average assumptions used in the Black-Scholes option pricing model for the years indicated.

	Year Ended December 31,		
	2020	2019	2018
Risk-free interest rate	—	2.58%	2.42%
Expected dividend yield	—	3.10%	1.59%
Expected stock volatility	—	33.7%	28.5%
Expected life (years)	N/A	5.0	5.0

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

The total fair value of options to purchase shares of the Bank's common stock that vested during 2020, 2019 and 2018 was $6.4 million, $0.2 million and $6.3 million, respectively. Stock-based compensation expense for stock options included in non-interest expense was $1.9 million, $3.9 million and $5.6 million for 2020, 2019 and 2018, respectively. Total unrecognized compensation cost related to non-vested stock option grants was $0.7 million at December 31, 2020 and is expected to be recognized over a weighted-average period of 0.9 years.

During 2020, the Bank issued 447,085 shares of restricted common stock to employees under the Omnibus Plan. These grants of restricted stock cliff vest 100% three years after issuance, assuming continuous employment by the participant during this period. During 2020, the Bank also issued 46,676 shares, or $70,000 worth of shares per recipient rounded down to the nearest whole share, of restricted common stock to directors under the Omnibus Plan, which cliff vest 100% one year after issuance.

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

Year Ended December 31, 2020:	2009 and Director Plans	Omnibus Plan	Total of All Plans
Outstanding – January 1, 2020	682,200	—	682,200
Granted	—	493,761	493,761
Forfeited	(40,004)	(36,660)	(76,664)
Vested	(182,128)	(5,117)	(187,245)
Outstanding – December 31, 2020	460,068	451,984	912,052
Weighted-average grant date fair value	$ 37.74	$ 27.37	$ 32.60

Restricted stock awards totaling 493,761 shares with a weighted-average grant date fair value of $27.44 were granted pursuant to the Omnibus Plan during 2020. The fair value of the restricted stock awards is amortized to compensation expense over the vesting period and is based on the market price of the Bank's common stock at the date of grant multiplied by the number of shares granted. Stock-based compensation expense for restricted stock included in non-interest expense was $10.0 million, $8.6 million and $8.5 million for 2020, 2019 and 2018, respectively. Unrecognized compensation expense for non-vested restricted stock awards was $11.8 million at December 31, 2020 and is expected to be recognized over a weighted-average period of 1.7 years.

In January 2019, pursuant to the Omnibus Plan, the Bank's Personnel & Compensation Committee ("P&C Committee") awarded its executive officers an aggregate of 170,003 performance-based restricted stock units ("PSUs") and in January 2020, the P&C Committee awarded to its executive officers an aggregate of 175,065 PSUs. Both PSU grants are based on target performance, with each PSU representing the right to receive one share of common stock at a future date. The PSUs granted contain both performance and market conditions. The PSUs will be earned and vest depending on the Bank's relative performance with respect to total shareholder return ("TSR"), return on average common equity ("ROAE") and return on average assets ("ROAA"), over a three-year period, compared to the companies that comprise the KBW Regional Banking Index ("KRX") at January 1, 2019 for the PSUs granted in January 2019 and compared to the companies that comprise the KRX at January 1, 2020 for the PSUs granted in January 2020 (for the TSR component) and compared to the Bank's 2018 executive compensation peer group for the PSUs granted in January 2019 and compared to the Bank's 2019 executive compensation peer group for the PSUs granted in January 2020 (for the ROAE and ROAA component) over a three-year period. Measurement is determined on a percentile basis relative to the KRX or the Bank's peer group. For each metric, if the Bank's performance over the performance period is: (i) at or below the 25th percentile compared to the applicable peer group, no PSUs for that metric would be earned; (ii) at threshold performance (26th percentile), 4% of the target would be earned; (iii) at target performance (50th percentile), 100% of the target would be earned; (iv) at the 75th percentile, 150% of the target would be earned; and (v) at maximum performance (95th percentile), 200% of the target would be earned. Achievement of results between levels previously described will result in award payouts determined based on a linear interpolation between payout levels. In the event the Bank's TSR over the performance period is negative, no more than 100% of the target PSUs for the relative TSR component will be earned, and the value of a PSU earned at the end of the performance period for the relative TSR component cannot exceed six times (6x) the grant date stock price. The PSUs contain a three-year vesting period followed by a one-year post-vest hold period and are eligible to accrue dividend equivalents that are subject to the same vesting criteria as the underlying PSUs.

The fair value of the PSUs granted is amortized to compensation expense over the vesting period. In determining PSUs fair value, since the PSUs granted contain a one-year post-vest hold period, an estimated discount for illiquidity was applied to the market price of the Bank's stock. The fair value of each PSU grant is estimated on the date of grant using various valuation and liquidity models. The following table is a summary of the key assumptions used in those models.

	Year Ended December 31,	
	2020	**2019**
Risk-free interest rate	1.52%	2.57%
Expected dividend yield	3.70%	2.79%
Expected stock volatility	30.86%	45.06%
Post-vest hold period	1 year	1 year

The following table summarizes non-vested PSU activity for the year indicated.

	PSUs
Outstanding – January 1, 2020	141,870
Granted	175,065
Forfeited	(15,467)
Outstanding – December 31, 2020	301,468

The Valuation Date Stock price index for the PSUs granted in 2020 was 101% for the TSR component and 100% for the ROAE and ROAA component. The weighted average PSU grant date fair values for the PSUs granted in 2020 were $25.03 for TSR and $24.88 for both ROAE and ROAA.

Compensation expense for PSU awards included in non-interest expense was $2.9 million for 2020 and $1.7 million in 2019. Unrecognized compensation expense for non-vested PSU awards was $5.2 million at December 31, 2020, and is expected to be recognized over a weighted-average period of 1.7 years.

On January 27, 2021, the Bank's P&C Committee awarded its executive officers an aggregate of 133,041 PSUs that contain both performance and market conditions. The PSUs will be earned and vest depending on the Bank's relative performance with respect to TSR, ROAE and ROAA, over a three-year period, compared to the companies that comprise the KRX at January 1, 2021 (for the TSR component) and compared to the Bank's 2020 executive compensation peer group (for the ROAE and ROAA component) over the same three-year period. Measurement is determined on a percentile basis relative to the KRX or the Bank's peer group. For each metric, if the Bank's performance over the performance period is: (i) at or below the 25th percentile compared to the applicable peer group, no PSUs for that metric would be earned; (ii) at threshold performance (26th percentile), 4% of the target would be earned; (iii) at target performance (50th percentile), 100% of the target would be earned; (iv) at the 75th percentile, 150% of the target would be earned; and (v) at maximum performance (95th percentile), 200% of the target would be earned. Achievement of results between levels previously described will result in award payouts determined based on a linear interpolation between payout levels. In the event the Bank's TSR over the performance period is negative, no more than 100% of the target PSUs for the relative TSR component will be earned, and the value of a PSU earned at the end of the performance period for the relative TSR component cannot exceed six times (6x) the grant date stock price. The PSUs contain a three-year vesting period followed by a one-year post-vest hold period and are eligible to accrue dividend equivalents that are subject to the same vesting criteria as the underlying PSUs. The total compensation expense for the PSUs granted is expected to be approximately $4.6 million and is expected to be recognized over the three year vesting period.

On February 14, 2021, the P&C Committee approved the issuance on February 16, 2021 of restricted stock awards for 312,503 shares of restricted stock that vest on February 16, 2024. Total compensation expense for the restricted stock awards is expected to be approximately $12.5 million and is expected to be recognized ratably over the three year vesting period.

16. Commitments and Contingencies

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments primarily include standby letters of credit and commitments to extend credit.

Outstanding standby letters of credit are contingent commitments issued by the Bank generally to guarantee the performance of a customer in third party borrowing arrangements. The maximum amount of future payments the Bank could be required to make under these guarantees at December 31, 2020 and 2019 is $9.2 million and $10.8 million, respectively. The Bank holds collateral to support guarantees when deemed necessary. Collateralized commitments at December 31, 2020 and 2019 totaled $8.5 million and $10.0 million, respectively.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank has the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

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

At December 31, 2020, the Bank had outstanding commitments totaling $11.85 billion to extend credit, consisting primarily of loans closed but not yet funded. These commitments may or may not fund in whole or part prior to maturity; however, such funding is subject to a number of factors, including, among others, economic conditions, real estate market conditions and competitive factors. The following table shows the contractual maturities of such outstanding commitments as of the date indicated.

Maturity	Contractual Maturities at December 31, 2020
	(Dollars in thousands)
2021	$ 1,936,056
2022	2,269,158
2023	3,889,001
2024	3,344,848
2025	213,857
Thereafter	194,197
Total	$ 11,847,117

The Bank is a party as both plaintiff and defendant in various legal or regulatory proceedings or claims, including claims related to employment, wage-hour and labor law claims, consumer and privacy claims, as well as claims of lender liability, breach of contract, and other similar lending-related claims encountered on a routine basis, some of which may be styled as "class action" or representative cases. While the ultimate resolution of these ordinary course claims and proceedings cannot be determined at this time, management believes that such claims and proceedings, individually or in the aggregate, will not have a material adverse effect on the Bank's financial condition or results of operations.

17. Related Party Transactions

The Bank has, in the ordinary course of business, lending transactions with certain of its officers, directors and their related and affiliated parties ("related parties"). The following table is a summary of activity of loans to related parties for the years indicated.

	Year Ended December 31,		
	2020	2019	2018
		(Dollars in thousands)	
Balance – beginning of year	$ 221	$ 922	$ 1,024
New loans and advances	—	180	382
Repayments	(220)	(761)	(484)
Effect of change in composition of related parties	—	(120)	—
Balance – end of year	$ 1	$ 221	$ 922

The Bank had outstanding commitments to extend credit to related parties totaling $0.5 million and $0.3 million at December 31, 2020 and 2019, respectively.

18. Regulatory Capital and Other Matters

The Bank is 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 the Bank's financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments and adjustments by the regulators about component weightings and other factors.

In recent years, the FDIC and other federal banking regulators revised the risk-based capital requirements applicable to insured depository institutions, including 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. At December 31, 2020 and December 31, 2019, the Bank had no additional tier 1 items that were not also included in common equity tier 1 capital.

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

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

Basel III Rules allowed for insured depository institutions to make a one-time election not to include most elements of accumulated other comprehensive income (loss) in regulatory capital and instead effectively use the existing treatment under the general risk-based capital rules. The Bank 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 its investment securities portfolio.

The Basel III Rules limit capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" of 2.5% in addition to the amount necessary to meet minimum risk-based capital requirements for common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets. At December 31, 2020 and December 31, 2019, the Basel III Rules required the Bank to maintain (i) a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 7.0%, (ii) a minimum ratio of tier

1 capital to risk-weighted assets of at least 6.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 8.5%, (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 10.5%, and (iv) a minimum leverage ratio of 4.0%. Additionally, in order to be considered well-capitalized under the Basel III Rules, the Bank must maintain (i) a ratio of common equity tier 1 capital to risk-weighted assets of at least 6.5%, (ii) a ratio of tier 1 capital to risk-weighted assets of at least 8.0%, (iii) a ratio of total capital to risk-weighted assets of at least 10.0% and (iv) a leverage ratio of at least 5.0%.

The following table presents actual and required capital ratios as of the dates indicated under the Basel III Rules. The minimum required capital amounts presented include the minimum required capital levels, plus the capital conservation buffer. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Rules. At December 31, 2020 and 2019, capital levels exceeded all minimum capital requirements under the Basel III Rules.

	Actual		Minimum Capital Required – Basel III		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
			(Dollars in thousands)			
December 31, 2020:						
Common equity tier 1 to risk-weighted assets	$3,573,471	13.36%	$1,872,748	7.00%	$1,738,980	6.50%
Tier 1 capital to risk-weighted assets	3,573,471	13.36	2,274,051	8.50	2,140,283	8.00
Total capital to risk-weighted assets	4,237,268	15.84	2,809,122	10.50	2,675,354	10.00
Tier 1 leverage to average assets	3,573,471	13.70	1,043,413	4.00	1,304,266	5.00
December 31, 2019:						
Common equity tier 1 to risk-weighted assets	$3,422,832	13.76%	$1,741,897	7.00%	$1,617,475	6.50%
Tier 1 capital to risk-weighted assets	3,422,832	13.76	2,115,160	8.50	1,990,739	8.00
Total capital to risk-weighted assets	3,874,357	15.57	2,612,845	10.50	2,488,424	10.00
Tier 1 leverage to average assets	3,422,832	15.36	891,109	4.00	1,113,887	5.00

As of December 31, 2020 and 2019, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

The state bank commissioner's approval is required before the Bank can declare and pay any dividend of 75% or more of the net profits of the Bank after all taxes for the current year plus 75% of the retained net profits for the immediately preceding year. At December 31, 2020 and 2019, respectively, approximately $308 million and $434 million were available for payment of dividends by the Bank without the approval of regulatory authorities. Additionally, the Bank's ability to pay dividends may be restricted by certain covenants in the indentures governing its trust preferred securities, its subordinated debentures and its subordinated notes.

Under federal banking regulation, the Bank is also limited as to the amount it may loan to its affiliates, and such loans must be collateralized by specific types of collateral. The maximum amount available for loans from the Bank to its affiliates is limited to 10% of the Bank's capital and surplus or approximately $421 million and $412 million at December 31, 2020 and 2019, respectively.

19. Fair Value Measurements

The Bank measures certain of its assets and liabilities on a fair value basis using various valuation techniques and assumptions, depending on the nature of the asset or liability. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, fair value is used either on a periodic basis, typically at least quarterly, or on a non-recurring basis to evaluate certain assets and liabilities for impairment or for disclosure purposes. At December 31, 2020 and 2019, the Bank had no material liabilities that were accounted for at fair value.

The Bank applies the following fair value hierarchy.

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

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

Level 3 – Instruments whose inputs are unobservable.

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

	Level 1	Level 2	Level 3	Total
		(Dollars in thousands)		
December 31, 2020:				
Investment securities AFS:				
U.S. Government agency mortgage-backed securities	$ —	$ 1,597,598	$ —	$ 1,597,598
Obligations of state and political subdivisions	—	1,720,288	11,597	1,731,885
Other U.S. Government agency securities	—	75,868	—	75,868
Total investment securities AFS	—	3,393,754	11,597	3,405,351
Nonaccrual loans	—	—	58,030	58,030
Foreclosed assets	—	—	11,085	11,085
Total assets at fair value	$ —	$ 3,393,754	$ 80,712	$ 3,474,466
December 31, 2019:				
Investment securities AFS:				
U.S. Government agency mortgage-backed securities	$ —	$ 1,750,361	$ —	$ 1,750,361
Obligations of state and political subdivisions	—	507,527	14,103	521,630
Corporate obligations	—	5,398	—	5,398
Total investment securities AFS	—	2,263,286	14,103	2,277,389
Impaired non-purchased loans	—	—	22,014	22,014
Impaired purchased loans	—	—	10,910	10,910
Foreclosed assets	—	—	19,096	19,096
Total assets at fair value	$ —	$ 2,263,286	$ 66,123	$ 2,329,409

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

Description	Fair Value at December 31, 2020	Technique	Unobservable Inputs
		(Dollars in thousands)	
Nonaccrual loans	$ 58,030	Third party appraisal(1) or discounted cash flows	1. Management discount based on underlying collateral characteristics and market conditions 2. Life of Loan
Foreclosed assets	$ 11,085	Third party appraisal,(1) broker price opinions and/or discounted cash flows	1. Management discount based on asset 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 AFS which are measured on a recurring basis. As a result, the Bank considers estimates of fair value from at least two independent pricing sources for the majority of its individual securities within its investment portfolio. For investment securities AFS traded in an active market, fair values are based on quoted market prices if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities, broker quotes, comprehensive interest rate tables and pricing matrices or a combination thereof. For investment securities AFS traded in a market that is not active, fair value is determined using unobservable inputs. All fair value estimates of the Bank's investment securities are reviewed on a quarterly basis.

The Bank has determined that certain of its investment securities AFS had a limited to non-existent trading market at December 31, 2020 and 2019. As a result, the Bank considers these investments as Level 3 in the fair value hierarchy. Specifically, the fair values of certain obligations of state and political subdivisions consisting primarily of certain unrated private placement bonds (the "private placement bonds") in the amount of $11.6 million and $14.1 million at December 31, 2020 and 2019, respectively, were calculated using Level 3 hierarchy inputs and assumptions as the trading market for such securities was determined to be "not active." This determination was based on the limited number of trades or, in certain cases, the existence of no reported trades for the private placement bonds. The private placement bonds are generally prepayable at par value at the option of the issuer. As a result, management believes the private placement bonds should be individually valued at the lower of (i) the matrix pricing provided by the Bank's third party pricing sources for comparable unrated municipal securities or (ii) par value. At December 31, 2020 and 2019, the third parties' pricing matrices valued the Bank's portfolio of private placement bonds at approximately $11.6 million and $14.1 million, respectively, which was approximately the same as the aggregate par value of the private placement bonds. Accordingly, at December 31, 2020 and 2019, the Bank reported the private placement bonds at $11.6 million and $14.1 million, respectively.

Nonaccrual loans – Fair values are measured on a non-recurring basis and are based on the underlying collateral value of the nonaccrual loan, reduced for holding and selling costs, or the estimated discounted cash flows for such loan. At December 31, 2020, the Bank had reduced the carrying value of its nonaccrual loans to the estimated fair value of $58.0 million. The adjustment to reduce the carrying value of such nonaccrual loans to the estimated fair value consisted of $11.7 million of allowance allocations for credit losses.

Foreclosed assets – Repossessed personal properties and real estate acquired through or in lieu of foreclosure are measured on a non-recurring basis and are recorded at fair value less estimated cost to sell at the date of repossession or foreclosure. Valuations of these assets are periodically reviewed by management with the carrying value of such assets adjusted through non-interest expense to the then estimated fair value, net of estimated selling costs, if lower, until disposition. At December 31, 2020, the Bank had $11.1 million of foreclosed assets.

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

	Investment Securities AFS
	(Dollars in thousands)
Balances – December 31, 2018	$ 15,236
Total realized gains included in earnings	—
Total unrealized gains/(losses) included in other comprehensive loss	250
Paydowns and maturities	(1,383)
Sales	—
Transfers in and/or out of Level 3	—
Balances – December 31, 2019	14,103
Total realized gains included in earnings	—
Total unrealized gains/(losses) included in other comprehensive income	—
Paydowns and maturities	(2,506)
Sales	—
Transfers in and/or out of Level 3	—
Balances – December 31, 2020	$ 11,597

20. Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

Off-balance sheet instruments – The fair values of outstanding commitments and letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements. The fair values of outstanding commitments and letters of credit were not material at December 31, 2020 or 2019.

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

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

		December 31,			
		2020		2019	
	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
		(Dollars in thousands)			
Financial assets:					
Cash and cash equivalents	Level 1	$ 2,393,662	$ 2,393,662	$ 1,495,757	$ 1,495,757
Investment securities AFS	Levels 2 and 3	3,405,351	3,405,351	2,277,389	2,277,389
Loans, net of ALL(1)	Level 3	18,913,344	18,790,517	17,423,518	17,487,910
Financial liabilities:					
Demand, savings and interest bearing transaction deposits	Level 1	$12,157,528	$12,157,528	$11,102,858	$11,102,858
Time deposits	Level 2	9,292,828	9,326,281	7,371,401	7,372,832
Repurchase agreements with customers	Level 1	8,013	8,013	11,249	11,249
Other borrowings	Level 2	750,928	779,227	351,387	351,392
Subordinated notes	Level 2	224,047	227,173	223,663	224,651
Subordinated debentures	Level 2	120,475	105,761	119,916	106,494

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

21. Supplemental Cash Flow Information

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

	Year Ended December 31,		
	2020	2019	2018
		(Dollars in thousands)	
Cash paid during the period for:			
Interest	$ 197,382	$ 275,351	$ 204,863
Income taxes	39,586	182,215	90,476
Supplemental schedule of non-cash investing and financing activities:			
Loans and other assets transferred to foreclosed assets	21,703	31,709	11,540
Loans advanced for sales of foreclosed assets	—	—	1,068
Net change in unrealized gains and losses on investment securities AFS	41,321	80,978	(28,268)
Lease liabilities recorded for right-of-use assets	15,220	71,310	—

22. Other Operating Expenses

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

	Year Ended December 31,		
	2020	2019	2018
		(Dollars in thousands)	
Professional and outside services	$ 30,974	$ 33,030	$ 35,867
Software and data processing	21,279	19,535	13,729
Deposit insurance and assessments	15,247	13,425	14,740
Telecommunication services	9,159	10,583	13,080
Amortization of intangible assets	9,085	11,918	12,579
Postage and supplies	7,462	8,684	9,144
Advertising and public relations	6,050	7,242	11,557
ATM expense	5,256	4,626	4,227
Travel and meals	4,336	11,230	9,650
Writedowns of foreclosed assets	3,669	2,419	2,996
Loan collection and repossession expense	3,062	2,818	3,302
Writedown of signage due to strategic rebranding	—	—	4,915
Other	27,621	23,751	18,126
Total other operating expenses	$ 143,200	$ 149,261	$ 153,912

23. Earnings Per Common Share (“EPS”)

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

	Year Ended December 31,		
	2020	2019	2018
		(In thousands, except per share amounts)	
Numerator:			
Net income available to common stockholders	$ 291,898	$ 425,906	$ 417,106
Denominator:			
Denominator for basic EPS – weighted-average common shares	129,319	128,926	128,595
Effect of dilutive securities – stock options and PSUs	116	80	145
Denominator for diluted EPS – weighted-average common shares and assumed conversions	129,435	129,006	128,740
Basic EPS	$ 2.26	$ 3.30	$ 3.24
Diluted EPS	$ 2.26	$ 3.30	$ 3.24

Options to purchase 1,748,706 shares, 1,815,500 shares and 1,493,384 shares, respectively, of the Bank's common stock at a weighted-average exercise price of $46.14 per share, $47.27 per share and $51.98 per share, respectively, were outstanding during 2020, 2019 and 2018, but were excluded from the diluted EPS calculations as inclusion of such options would have been anti-dilutive. There were no anti-dilutive PSUs for any of the periods presented in the previous table.

24. Changes In and Reclassification From Accumulated Other Comprehensive Income (Loss) ("AOCI")

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

	Year Ended December 31,		
	2020	2019	2018
		(Dollars in thousands)	
Beginning balance of AOCI – unrealized gains and losses on investment securities AFS	$ 27,255	$ (34,105)	$ (12,712)
Other comprehensive income (loss):			
Unrealized gains and losses on investment securities AFS	45,788	81,691	(27,080)
Tax effect of unrealized gains and losses on investment securities AFS	(11,397)	(19,793)	5,687
Amounts reclassified from AOCI	(4,467)	(713)	—
Tax effect of amounts reclassified from AOCI	1,073	175	—
Total other comprehensive income (loss)	30,997	61,360	(21,393)
Ending balance of AOCI – unrealized gains and losses on investment securities AFS	$ 58,252	$ 27,255	$ (34,105)

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 tax 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.

Item 9. <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>

Not applicable.

Item 9A. <u>CONTROLS AND PROCEDURES</u>

(a) Evaluation of Disclosure Controls and Procedures.

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

(b) Changes in Internal Control Over Financial Reporting.

The Bank's management, including the Bank's Chairman and Chief Executive Officer and its Chief Financial Officer, have evaluated any changes in the Bank's internal control over financial reporting that occurred during the Bank's fourth quarter ended December 31, 2020 and have concluded that there was no change during the Bank's fourth quarter ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.

(c) Report of Management on the Bank's Internal Control Over Financial Reporting.

February 25, 2021

Management of Bank OZK is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed 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. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are made only in accordance with authorizations of management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management of Bank OZK, including the Chief Executive Officer and the Chief Financial Officer, has assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2020, based on criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that the Bank's internal control over financial reporting was effective as of December 31, 2020, based on the specified criteria.

PricewaterhouseCoopers, LLP, the independent registered public accounting firm that audited the Bank's consolidated financial statements included in this Annual Report on Form 10-K, has also audited the effectiveness of the Bank's internal control over financial reporting as of December 31, 2020. Their report is included in Item 8 under the heading Report of Independent Registered Public Accounting Firm.

/s/ George Gleason	/s/ Greg McKinney
George Gleason *Chairman and Chief Executive Officer* *(principal executive officer)*	Greg McKinney *Chief Financial Officer* *(principal financial officer)*

Item 9B. OTHER INFORMATION

On February 14, 2021, the Personnel and Compensation Committee ("Compensation Committee") of the Board of Directors of the Bank approved the 2021 Executive Management Cash-Based Performance Plan ("2021 Cash Incentive Plan"). The Compensation Committee believes that subjecting a portion of the executive officer's cash compensation to achievement of pre-established performance targets, as provided under the 2021 Cash Incentive Plan, will ensure the continued alignment of executive compensation, Bank performance and strategic goal attainment.

The Bank's performance metrics (each a "Performance Metric") and relative weighting for each metric under the 2021 Cash Incentive Plan is set forth below. Awards under the 2021 Cash Incentive Plan will be calculated based on the Bank's consolidated financial results for the period beginning on January 1, 2021 and ending on December 31, 2021 (the "Performance Period").

2021 Cash Incentive Plan Metrics	Weight
Diluted Earnings Per Share ("*EPS*")	20%
Efficiency Ratio	20%
Net Charge-Off Ratio	20%
Net Interest Margin (fully taxable equivalent)	20%
Ratio of Nonperforming Assets to Total Assets	20%

The Compensation Committee determines incentive opportunities payable to each participant based on the level of performance attained for the particular Performance Metric over the Performance Period. Payouts under each Performance Metric will depend on the level of performance achieved with respect to the particular Performance Metric. If the Bank's performance is below the threshold performance level set for the particular Performance Metric, the payout related to that metric is zero. Bank performance that is at or above the maximum performance level set for the particular Performance Metric may result in payment up to the maximum amount of the incentive opportunity for that particular Performance Metric. Following the Performance Period, the Compensation Committee shall determine whether and to what extent each Performance Metric has been met and the amounts, if any, payable to each participant for the Performance Period. Awards under the 2021 Cash Incentive Plan will be settled solely in cash. All awards received by any participant pursuant to the 2021 Cash Incentive Plan may be subject to recovery by the Bank under the Bank's Incentive Compensation Clawback Policy.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 401 of Regulation S-K regarding directors is incorporated herein by this reference to the Bank's Proxy Statement to be filed with the FDIC within 120 days of the Bank's fiscal year-end.

The information required by Item 405, Item 407(c)(3), Item 407 (d)(4) and Item 407 (d)(5) of Regulation S-K is incorporated herein by this reference to the Bank's Proxy Statement to be filed with the FDIC within 120 days of the Bank's fiscal year-end.

In accordance with Item 406 of Regulation S-K, the Bank has adopted a code of ethics that applies to certain Bank executives, including the principal executive officer, principal financial officer and principal accounting officer. The code of ethics is posted on the Bank's Investor Relations website at http://ir.ozk.com under "Corporate Governance Documents." For more information about the Bank's code of ethics, see "Available Information under Part I, Item 1."

Item 11. EXECUTIVE COMPENSATION

The information required by Item 402, Item 407 (e)(4) and Item 407 (e)(5) of Regulation S-K is incorporated herein by this reference to the Bank's Proxy Statement to be filed with the FDIC within 120 days of the Bank's fiscal year-end.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by Item 201(d) and Item 403 of Regulation S-K is incorporated herein by this reference to the Bank's Proxy Statement to be filed with the FDIC within 120 days of the Bank's fiscal year-end.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 404 and Item 407(a) is incorporated herein by this reference to the Bank's Proxy Statement to be filed with the FDIC within 120 days of the Bank's fiscal year-end.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 9(e) of Schedule 14A regarding audit fees, audit committee pre-approval policies, and related information is incorporated herein by this reference to the Bank's Proxy Statement to be filed with the FDIC within 120 days of the Bank's fiscal year-end.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) List the following documents filed as a part of this report:

(1) The Consolidated Financial Statements of the Registrant.

Reference is made to Part II, Item 8 of this Annual Report on Form 10-K.

(2) Financial Statement Schedules.

Reference is made to Selected Quarterly Financial Data, Part II, Item 6 of this Annual Report on Form 10-K.

(3) Exhibits.

See Item 15(b) to this Annual Report on Form 10-K.

(b) Exhibits.

The exhibits to this Annual Report on Form 10-K are listed in the Exhibit Index which immediately follows Item 16 below.

(c) Financial Statement Schedules.

See Part IV, Item 15(a)(2) of this Annual Report on Form 10-K.

Item 16. FORM 10-K SUMMARY

None.

EXHIBIT INDEX

The following exhibits are filed with this report or are incorporated by reference to previously filed material.

Exhibit No.	
2.1	Agreement and Plan of Merger between Bank of the Ozarks, Inc. and Bank of the Ozarks, dated as of April 10, 2017 (previously filed as Exhibit 2.1 to the Bank's Current Report on Form 10-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, effective as of April 10, 2017 (previously filed as Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on June 26, 2017, and incorporated herein by reference)
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation of Bank OZK (previously filed as Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on July 16, 2018, and incorporated herein by reference)
3.3	Second Amended and Restated Bylaws of Bank OZK, effective August 10, 2018 (previously filed as Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on August 10, 2018, and incorporated herein by reference)
4.1	Form of Common Stock Certificate (previously filed as Exhibit 4.2 to the Bank's Current Report on Form 8-K filed with the FDIC on July 16, 2018, and incorporated herein by reference)
4.2	Instruments defining the rights of security holders, including indentures. The Bank hereby agrees to furnish to the FDIC upon request copies of instruments defining the rights of holders of long-term debt of the Bank and its consolidated subsidiaries; no issuance of debt exceeds ten percent of the assets of the Bank and its subsidiaries on a consolidated basis
4.3	Description of Bank OZK's common stock registered under Section 12 of the Securities Exchange Act of 1934 (previously filed as Exhibit 4.3 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 28, 2020, and incorporated herein by reference)
10.1*	Form of Indemnification Agreement for directors and executive officers (previously filed as Exhibit 10.1 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
10.2*	Amended and Restated Deferred Compensation Plan, as amended effective June 26, 2017 (previously filed as Exhibit 10.2 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
10.3*	Split Dollar Insurance Agreement with Bank OZK (previously Bank of the Ozarks) as Trustee of the Linda and George Gleason Insurance Trust, effective as of May 4, 2010 (previously filed as Exhibit 10.3 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
10.4*	Split Dollar Insurance Agreement with George G. Gleason, II, effective as of May 4, 2010 (previously filed as Exhibit 10.4 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
10.5*	Split Dollar Designation by Bank OZK (previously Bank of the Ozarks), dated as of May 4, 2010 in respect of George G. Gleason, II as the insured (previously filed as Exhibit 10.5 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
10.6*	Supplemental Executive Retirement Plan ("SERP") for George G. Gleason, II, effective May 4, 2010 (previously filed as Exhibit 10.6 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
10.7*	Amendment to SERP effective November 2, 2020, filed herewith
10.8*	Bank OZK Non-Qualified Deferred Compensation Plan, as amended and restated effective January 1, 2021, filed herewith
10.9*	Third Amended and Restated Non-Employee Director Stock Option Plan as of April 15, 2013 (previously filed as Exhibit 10.9 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
10.10*	Form of Stock Option Agreement for Non-Employee Directors (previously filed as Exhibit 10.10 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
10.11*	Bank of the Ozarks, Inc. Amended and Restated Stock Option Plan, effective May 18, 2015 (previously filed as Exhibit 10.11 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
10.12*	Form of Stock Option Grant Agreement for employees under the Amended and Restated Stock Option Plan, effective

May 18, 2015 (previously filed as Exhibit 10.12 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)

10.13*	Second Amended and Restated Bank of the Ozarks, Inc. 2009 Restricted Stock and Incentive Plan, effective May 16, 2016 (previously filed as Exhibit 10.15 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
10.14*	Form of Notice of Grant of Restricted Stock and Award Agreement for grants under the Second Amended and Restated Restricted Stock and Incentive Plan, effective May 16, 2016 (previously filed as Exhibit 10.16 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
10.15*	Third Amended and Restated Non-Employee Director Stock Plan dated May 7, 2018 (previously filed as Exhibit 10.1 to the Bank's Current Report on Form 8-K filed with the FDIC on May 7, 2018, and incorporated herein by reference)
10.16*	Form of Restricted Stock Award Agreement for non-employee directors under the Third Amended and Restated Non-Employee Director Stock Plan dated May 7, 2018 (previously filed as Exhibit 10.2 to the Bank's Current Report on Form 8-K filed with the FDIC on May 7, 2018, and incorporated herein by reference)
10.17*	Bank of the Ozarks, Inc. 2017 Stock-Based Performance Award Plan (previously filed as Exhibit 10.20 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
10.18*	Bank of the Ozarks 2018 Executive Management Stock-Based Performance Plan (previously filed as Exhibit 10.1 to the Bank's Current Report on Form 8-K filed with the FDIC on February 27, 2018, and incorporated herein by reference)
10.19*	Form of 2019 Performance Based Restricted Stock Unit Award Agreement for Executive Officers ("2019 LTIP Award")(previously filed as Exhibit 10.1 to the Bank's Current Report on Form 8-K filed with the FDIC on January 29, 2019, and incorporated herein by reference)
10.20*	Bank OZK 2019 Executive Management Cash-Based Performance Plan (previously filed as Exhibit 10.24 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 27, 2019, and incorporated herein by reference)
10.21*	Bank OZK 2019 Omnibus Equity Incentive Plan dated May 6, 2019 (previously filed as Exhibit 10.1 to the Bank's Current Report on Form 8-K filed with the FDIC on May 7, 2019, and incorporated herein by reference)
10.22*	Form of Restricted Stock Award Agreement for Employees under the 2019 Omnibus Equity Incentive Plan (previously filed as Exhibit 10.2 to the Bank's Current Report on Form 8-K filed with the FDIC on May 7, 2019, and incorporated herein by reference)
10.23*	Form of Restricted Stock Award Agreement for Non-Employee Directors under the 2019 Omnibus Equity Incentive Plan (previously filed as Exhibit 10.3 to the Bank's Current Report on Form 8-K filed with the FDIC on May 7, 2019, and incorporated herein by reference)
10.24*	Form of Stock Option Award Agreement for Employees under the 2019 Omnibus Equity Incentive Plan (previously filed as Exhibit 10.4 to the Bank's Current Report on Form 8-K filed with the FDIC on May 7, 2019, and incorporated herein by reference)
10.25*	Form of 2020 Performance Based Restricted Stock Unit Award Agreement for Executive Officers ("2020 LTIP Award") (previously filed as Exhibit 10.25 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 28, 2020, and incorporated herein by reference)
10.26*	Bank OZK 2020 Executive Management Cash-Based Performance Plan (previously filed as Exhibit 10.26 to the Bank's Annual Report on Form 10-K filed with the FDIC on February 28, 2020, and incorporated herein by reference)
10.27*	Form of 2021 Performance Based Restricted Stock Unit Award Agreement for Executive Officers ("2021 LTIP Award"), filed herewith
10.28*	Bank OZK 2021 Executive Management Cash-Based Performance Plan, filed herewith
21	List of Subsidiaries of the Registrant, filed herewith
31.1	Certification of Chairman and Chief Executive Officer, filed herewith
31.2	Certification of Chief Financial Officer, filed herewith
32.1	Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith

* Management contract or a compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Bank OZK

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

Date: February 25, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ George Gleason George Gleason	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 25, 2021
/s/ Greg McKinney Greg McKinney	Chief Financial Officer (Principal Financial Officer)	February 25, 2021
/s/ Stan Thomas Stan Thomas	Chief Accounting Officer (Principal Accounting Officer)	February 25, 2021
/s/ Nicholas Brown Nicholas Brown	Director	February 25, 2021
/s/ Paula Cholmondeley Paula Cholmondeley	Director	February 25, 2021
/s/ Beverly Cole Beverly Cole	Director	February 25, 2021
/s/ Robert East Robert East	Director	February 25, 2021
/s/ Kathleen Franklin Kathleen Franklin	Director	February 25, 2021
/s/ Catherine B. Freedberg Catherine B. Freedberg	Director	February 25, 2021
/s/ Jeff Gearhart Jeff Gearhart	Director	February 25, 2021
/s/ Peter Kenny Peter Kenny	Director	February 25, 2021
/s/ William Koefoed William Koefoed	Director	February 25, 2021
/s/ Jack Mullen Jack Mullen	Director	February 25, 2021
/s/ Chris Orndorff Chris Orndorff	Director	February 25, 2021

/s/ John Reynolds John Reynolds	Director	February 25, 2021
/s/ Steven Sadoff Steven Sadoff	Director	February 25, 2021
/s/ Ross Whipple Ross Whipple	Director	February 25, 2021

Exhibit 21

Subsidiaries of the Bank

1. Ozark Capital Statutory Trust II, a Connecticut business trust

2. Ozark Capital Statutory Trust III, a Delaware business trust

3. Ozark Capital Statutory Trust IV, a Delaware business trust

4. Ozark Capital Statutory Trust V, a Delaware business trust

5. The Highlands Group, Inc., a 100% owned Arkansas subsidiary of Bank OZK

6. Arlington Park, LLC, a 50% owned Arkansas subsidiary of The Highlands Group, Inc.

7. BOTO, LLC, a 100% owned Arkansas subsidiary of Bank OZK

8. BOTO FL Properties LLC, a 100% owned Florida subsidiary of Bank OZK

9. PAB State Credits LLC, a 100% owned Georgia subsidiary of Bank OZK

10. FCB Properties LLC, a 100% owned Georgia subsidiary of Bank OZK

11. BOTO NC Properties, LLC, a 100% owned North Carolina subsidiary of Bank OZK

12. BOTO GA Properties, LLC, a 100% owned Georgia subsidiary of Bank OZK

13. BOTO-AR Properties, LLC, a 100% owned Arkansas subsidiary of Bank OZK

14. BOTO SC Properties, LLC, a 100% owned South Carolina subsidiary of Bank OZK

15. Omnibank Center Business Condominium Owners Association, Inc., a 75.2% owned Texas subsidiary of Bank OZK

16. Intervest Statutory Trust II, a Connecticut business trust

17. Intervest Statutory Trust III, a Connecticut business trust

18. Intervest Statutory Trust IV, a Delaware business trust

19. Intervest Statutory Trust V, a Delaware business trust

20. BOTO Holdings, Inc., a 100% owned Texas subsidiary of Bank OZK

21. East Atlantic Properties, LLC, a 100% owned North Carolina subsidiary of BOTO NC Properties, LLC

22. BOTC, LLC, a 100% owned North Carolina subsidiary of Bank OZK

23. Twin Points Road Clubhouse Properties, LLC, a 100% owned Arkansas subsidiary of Bank OZK

24. Highway 7 Properties, LLC, a 100% owned Arkansas subsidiary of Bank OZK

25. Elizabeth Station, LLC, a 33.34% owned Georgia subsidiary of Bank OZK

26. OZK Renewable Energy, LLC, a 100% owned Arkansas subsidiary of Bank OZK

Exhibit 31.1

CERTIFICATION

I, George Gleason, certify that:

1. I have reviewed this report on Form 10-K of Bank OZK;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the 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: February 25, 2021

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

Exhibit 31.2

CERTIFICATION

I, Greg McKinney, certify that:

1. I have reviewed this report on Form 10-K of Bank OZK;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the 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: February 25, 2021

/s/ Greg McKinney
Greg McKinney
Chief Financial Officer

Exhibit 32.1

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

In connection with the accompanying Annual Report of Bank OZK (the Bank) on Form 10-K for the period ended December 31, 2020 as filed with the Federal Deposit Insurance Corporation (the FDIC) on the date hereof (the Report), I, George Gleason, Chairman and Chief Executive Officer of the Bank, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

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

February 25, 2021

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

In accordance with SEC Release No. 34-47986, this Exhibit 32.1 is furnished to the FDIC as an accompanying document and is not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933.

Exhibit 32.2

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

In connection with the accompanying Annual Report of Bank OZK (the Bank) on Form 10-K for the period ended December 31, 2020 as filed with the Federal Deposit Insurance Corporation (the FDIC) on the date hereof (the Report), I, Greg McKinney, Chief Financial Officer of the Bank, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

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

February 25, 2021

/s/ Greg McKinney
Greg McKinney
Chief Financial Officer

In accordance with SEC Release No. 34-47986, this Exhibit 32.2 is furnished to the FDIC as an accompanying document and is not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933.

A History of Excellence

#1 BANK IN THE U.S.

2020

Top Fintechs to Work For, *American Banker,* 2020

Best Bank in Georgia, *Forbes,* 2020

America's Best Banks, *Forbes,* 2020

World's Best Banks, *Forbes,* 2020

Best Places to Work, *Arkansas Business,* 2020

#1 Bank, Performance Powerhouse Study, *Bank Director,* 2020

50 Most Important Leaders in Commercial Real Estate Finance, *The Commercial Observer,* 2020

2019

Best Bank in the South, 2019–2020 Money.com

World's Best Banks, *Forbes,* 2019

50 Most Important Leaders in Commercial Real Estate Finance, *The Commercial Observer,* 2019

Top Fintechs to Work For, *American Banker,* 2019

America's Best Banks, *Forbes,* 2019

2018

Top Performing Bank, *Bank Director Magazine,* 2018
Assets: $5 Billion–$50 Billion

Top Fintechs to Work For, *American Banker,* 2018

Nation's Top Performing Regional Bank, *S&P Global Market Intelligence,* 2018
Assets: $10 Billion–$50 Billion

World's Best Employers, *Forbes,* 2018

50 Most Important Leaders in Commercial Real Estate Finance, *The Commercial Observer,* 2018

2017

Nation's Top Performing Regional Bank, *S&P Global Market Intelligence,* 2017
Assets: $10 Billion–$50 Billion

Top Performing Bank, *Bank Director Magazine,* 2017
Assets: $5 Billion–$50 Billion

Best Bank in North Carolina, *Money Magazine,* 2017

2016

Top Performing Bank, *Bank Director Magazine,* 2016
Assets: $5 Billion–$50 Billion

Top Performing Regional Bank, *S&P Global Market Intelligence,* 2016

2015

Top Performing Bank, *Bank Director Magazine,* 2015
Assets: $5 Billion–$50 Billion

Top Performing Regional Bank, *S&P Global Market Intelligence,* 2015

2014

Top Performing Bank, *Bank Director Magazine,* 2014
Assets: $1 Billion–$5 Billion

2013

Top Performing Bank, *Bank Director Magazine,* 2013
Assets: $1 Billion–$5 Billion

2012

Top Performing Regional Bank, *S&P Global Market Intelligence,* 2012

Top Performing Bank, *ABA Banking Journal,* 2012
Assets: $1 Billion–$10 Billion

2011

Top Performing Bank, *ABA Banking Journal,* 2011
Assets: over $3 Billion

2010

Community Banker of the Year, *American Banker,* 2010

Bank OZK

Little Rock, Arkansas
(501) 978-2265
NASDAQ: OZK
ozk.com

For additional information, contact:
Investor Relations
Bank OZK
18000 Cantrell Road
Little Rock, AR 72223

Transfer Agent:
Trust and Wealth Division
Bank OZK
18000 Cantrell Road
Little Rock, AR 72223

Annual Report Design by Curran & Connors, Inc. / www.curran-connors.com