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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023

☐ **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

N/A

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

Class	Outstanding at November 6, 2023
Common Stock, $0.01 par value per share	113,136,132

BANK OZK
FORM 10-Q
September 30, 2023

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BANK OZK
CONSOLIDATED BALANCE SHEETS
Unaudited

	September 30, 2023	December 31, 2022
	(Dollars in thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 1,864,300	$ 1,033,454
Investment securities – available for sale (“AFS”)	3,153,817	3,491,613
Investment securities – trading	—	8,817
Federal Home Loan Bank of Dallas (“FHLB”) and other bankers’ bank stocks	63,722	42,406
Non-purchased loans	25,051,214	20,400,154
Purchased loans	280,526	378,637
Allowance for loan losses	(303,358)	(208,858)
Net Loans	25,028,382	20,569,933
Premises and equipment, net	665,806	678,405
Foreclosed assets	68,738	6,616
Accrued interest receivable	154,244	125,130
Bank owned life insurance (“BOLI”)	804,394	789,805
Goodwill and other intangible assets, net	660,789	663,543
Other, net	303,136	246,846
Total assets	$ 32,767,328	$ 27,656,568
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Deposits:		
Demand non-interest bearing	$ 4,283,925	$ 4,658,451
Savings and interest bearing transaction	9,029,610	9,905,717
Time	12,239,321	6,935,975
Total deposits	25,552,856	21,500,143
Other borrowings	1,430,192	606,666
Subordinated notes	347,556	346,947
Subordinated debentures	121,652	121,591
Reserve for losses on unfunded loan commitments	158,128	156,419
Accrued interest payable and other liabilities	252,031	233,864
Total liabilities	27,862,415	22,965,630
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock, $0.01 par value; 100,000,000 shares authorized; 14,000,000 shares issued and outstanding as of September 30, 2023 and December 31, 2022	338,980	338,980
Common stock, $0.01 par value; 300,000,000 shares authorized; 113,136,232 and 117,176,928 shares issued and outstanding, as of September 30, 2023 and December 31, 2022, respectively	1,131	1,172
Additional paid-in capital	1,607,510	1,753,941
Retained earnings	3,154,869	2,773,135
Accumulated other comprehensive (loss) income	(198,986)	(177,649)
Total stockholders’ equity before noncontrolling interest	4,903,504	4,689,579
Noncontrolling interest	1,409	1,359
Total stockholders’ equity	4,904,913	4,690,938
Total liabilities and stockholders’ equity	$ 32,767,328	$ 27,656,568

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF INCOME
Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Dollars in thousands, except per share amounts)			
Interest income:				
Non-purchased loans	$ 523,026	$ 295,054	$ 1,410,446	$ 791,313
Purchased loans	6,005	7,148	17,845	24,300
Investment securities:				
Taxable	9,887	10,269	29,761	31,246
Tax-exempt	9,534	7,126	28,288	14,132
Deposits with banks and federal funds sold	17,061	3,690	36,338	6,155
Total interest income	565,513	323,287	1,522,678	867,146
Interest expense:				
Deposits	178,823	21,997	408,577	41,343
Other borrowings	14,326	2,460	30,339	4,500
Subordinated notes	2,631	2,631	7,808	7,808
Subordinated debentures	2,472	1,582	7,017	3,741
Total interest expense	198,252	28,670	453,741	57,392
Net interest income	367,261	294,617	1,068,937	809,754
Provision for credit losses	44,036	39,771	121,638	50,986
Net interest income after provision for credit losses	323,225	254,846	947,299	758,768
Non-interest income:				
Service charges on deposit accounts:				
NSF and overdraft fees	4,708	4,808	13,359	13,257
All other service charges	6,973	7,089	20,662	20,963
Trust income	2,213	2,007	6,358	6,012
BOLI income:				
Increase in cash surrender value	5,252	4,940	15,295	14,579
Death benefits	—	510	—	807
Loan service, maintenance and other fees	3,995	3,418	12,165	10,039
Gains on sales of other assets	364	3,182	5,740	10,957
Net gains (loss) on investment securities	(270)	321	2,066	762
Other	2,492	2,888	9,877	9,583
Total non-interest income	25,727	29,163	85,522	86,959
Non-interest expense:				
Salaries and employee benefits	64,107	57,367	192,576	166,427
Net occupancy and equipment	17,797	18,244	55,357	52,474
Other operating expenses	47,074	40,080	136,616	113,807
Total non-interest expense	128,978	115,691	384,549	332,708
Income before taxes	219,974	168,318	648,272	513,019
Provision for income taxes	46,144	35,969	132,564	111,754
Net income	173,830	132,349	515,708	401,265
Earnings attributable to noncontrolling interest	(37)	—	(50)	(3)
Preferred stock dividends	4,047	4,047	12,141	12,574
Net income available to common stockholders	$ 169,746	$ 128,302	$ 503,517	$ 388,688
Basic earnings per common share	$ 1.50	$ 1.08	$ 4.39	$ 3.21
Diluted earnings per common share	$ 1.49	$ 1.08	$ 4.37	$ 3.20

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Dollars in thousands)			
Net income	$ 173,830	$ 132,349	$ 515,708	$ 401,265
Other comprehensive income (loss):				
Unrealized gains and (losses) on investment securities AFS	(51,486)	(149,087)	(27,002)	(331,509)
Tax effect of unrealized gains and losses on investment securities AFS	11,931	35,582	5,665	79,995
Total other comprehensive loss	(39,555)	(113,505)	(21,337)	(251,514)
Total comprehensive income	$ 134,275	$ 18,844	$ 494,371	$ 149,751

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Unaudited

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Non-Controlling Interest	Total
	(Dollars in thousands, except per share amounts)						
Three months ended September 30, 2023							
Balances – June 30, 2023	$ 338,980	$ 1,131	$1,602,964	$3,026,247	$ (159,431)	$ 1,372	$ 4,811,263
Net income	—	—	—	173,830	—	—	173,830
Earnings attributable to noncontrolling interest	—	—	—	(37)	—	37	—
Total other comprehensive loss	—	—	—	—	(39,555)	—	(39,555)
Preferred stock dividends, $0.28906 per share	—	—	—	(4,047)	—	—	(4,047)
Common stock dividends, $0.36 per share	—	—	—	(41,124)	—	—	(41,124)
Issuance of 2,446 shares of common stock pursuant to stock-based compensation plans	—	—	77	—	—	—	77
Stock-based compensation expense	—	—	4,469	—	—	—	4,469
Forfeitures of 11,663 shares of unvested restricted common stock	—	—	—	—	—	—	—
Balances – September 30, 2023	$ 338,980	$ 1,131	$1,607,510	$3,154,869	$ (198,986)	$ 1,409	$ 4,904,913
Nine months ended September 30, 2023							
Balances - December 31, 2022	$ 338,980	$ 1,172	$1,753,941	$2,773,135	$ (177,649)	$ 1,359	$ 4,690,938
Net income	—	—	—	515,708	—	—	515,708
Earnings attributable to noncontrolling interest	—	—	—	(50)	—	50	—
Total other comprehensive loss	—	—	—	—	(21,337)	—	(21,337)
Preferred stock dividends, $0.86718 per share	—	—	—	(12,141)	—	—	(12,141)
Common stock dividends, $1.05 per share	—	—	—	(121,783)	—	—	(121,783)
Issuance of 505,633 shares of common stock pursuant to stock-based compensation plans	—	5	618	—	—	—	623
Repurchase and cancellation of 4,304,239 shares of common stock under share repurchase program, including excise taxes	—	(44)	(151,421)	—	—	—	(151,465)
Repurchase and cancellation of 215,362 shares of common stock withheld for tax pursuant to stock-based compensation plans	—	(2)	(8,672)	—	—	—	(8,674)
Stock-based compensation expense	—	—	13,044	—	—	—	13,044
Forfeitures of 26,728 shares of unvested restricted common stock	—	—	—	—	—	—	—
Balances - September 30, 2023	$ 338,980	$ 1,131	$1,607,510	$3,154,869	$ (198,986)	$ 1,409	$ 4,904,913

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Unaudited

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Non-Controlling Interest	Total
			(Dollars in thousands, except per share amounts)				
Three months ended September 30, 2022							
Balances – June 30, 2022	$ 338,980	$ 1,190	$1,817,650	$2,563,130	$ (114,168)	$ 3,120	$ 4,609,902
Net income	—	—	—	132,349	—	—	132,349
Earnings attributable to noncontrolling interest	—	—	—	—	—	—	—
Total other comprehensive loss	—	—	—	—	(113,505)	—	(113,505)
Preferred stock dividends, $0.28906 per share	—	—	—	(4,047)	—		(4,047)
Common stock dividends, $0.32 per share	—	—	—	(38,055)	—	—	(38,055)
Issuance of 5,414 shares of common stock pursuant to stock-based compensation plans	—	—	172	—	—	—	172
Repurchase and cancellation of 1,225,688 shares of common stock under share repurchase program	—	(12)	(47,735)	—	—	—	(47,747)
Stock-based compensation expense	—	—	3,475	—	—	—	3,475
Forfeitures of 14,142 shares of unvested restricted common stock	—	—	—	—	—	—	—
Balances – September 30, 2022	$ 338,980	$ 1,178	$1,773,562	$2,653,377	$ (227,673)	$ 3,120	$ 4,542,544
Nine months ended September 30, 2022							
Balances - December 31, 2021	$ 338,980	$ 1,254	$2,093,702	$2,378,466	$ 23,841	$ 3,117	$ 4,839,360
Net income	—	—	—	401,265	—	—	401,265
Earnings attributable to noncontrolling interest	—	—	—	(3)	—	3	—
Total other comprehensive loss	—	—	—	—	(251,514)	—	(251,514)
Preferred stock dividends, $0.89812 per share				(12,574)			(12,574)
Common stock dividends, $0.93 per share	—	—	—	(113,777)	—	—	(113,777)
Issuance of 295,343 shares of common stock pursuant to stock-based compensation plans	—	3	2,249	—	—	—	2,252
Repurchase and cancellation of 7,798,520 shares of common stock under share repurchase program	—	(77)	(326,667)	—	—	—	(326,744)
Repurchase and cancellation of 112,974 shares of common stock withheld for tax pursuant to stock-based compensation	—	(1)	(5,398)	—	—	—	(5,399)
Stock-based compensation expense	—	—	9,675	—	—	—	9,675
Forfeitures of 65,992 shares of unvested restricted common stock	—	(1)	1	—	—	—	—
Balances - September 30, 2022	$ 338,980	$ 1,178	1,773,562	$2,653,377	$ (227,673)	$ 3,120	$ 4,542,544

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 515,708	$ 401,265
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	23,137	22,491
Amortization	3,424	5,358
Earnings attributable to noncontrolling interest	(50)	(3)
Provision for credit losses	121,638	50,986
Provision for losses on foreclosed and other assets	1,106	345
Net amortization of investment securities AFS	15,753	25,782
Net gains on investment securities	(2,066)	(762)
Amortization of operating lease right-of-use assets	5,335	5,302
Accretion of purchased loans	(3,812)	(6,990)
Gains on sales of other assets	(5,740)	(10,957)
Deferred income tax (benefit) expense	(4,133)	84,527
Increase in cash surrender value of BOLI	(15,295)	(14,579)
BOLI death benefits in excess of cash surrender value	—	(807)
Stock-based compensation expense	13,044	9,675
Changes in assets and liabilities:		
Trading account securities	10,888	13,230
Accrued interest receivable	(29,115)	(14,675)
Other assets, net	10,912	(14,246)
Accrued interest payable and other liabilities	18,557	35,542
Cash provided by operating activities	679,291	591,484
Cash flows from investing activities:		
Proceeds from sales of FHLB and other bankers' bank stock	—	23,310
Purchases of FHLB and other bankers' bank stock	(21,316)	(14,363)
Proceeds from maturities/calls/paydowns of investment securities AFS	437,504	939,782
Proceeds from sales of investment securities AFS	2,310	24
Purchases of investment securities AFS	(144,777)	(908,433)
Proceeds from sale of loans	31,614	64,406
Net increase of non-purchased loans	(4,753,355)	(1,390,309)
Net payments received on purchased loans	74,824	111,031
Purchases of premises and equipment	(13,400)	(23,718)
Proceeds from BOLI death benefits	706	5,156
Proceeds from sales of other assets	20,517	21,505
Net cash invested in unconsolidated investments	(66,620)	(20,814)
Net cash paid in branch divestiture transaction	—	(21,346)
Net cash used by investing activities	(4,431,993)	(1,213,769)
Cash flows from financing activities:		
Net increase in deposits	4,052,713	219,924
Net proceeds (repayments) of other borrowings	823,526	(299,855)
Proceeds from issuance of common stock pursuant to stock-based compensation plans	623	2,252
Cash dividends paid on common stock	(121,034)	(113,324)
Cash dividends paid on preferred stock	(12,141)	(12,574)
Repurchase and cancellation of shares of common stock – share repurchase program	(151,465)	(326,744)
Repurchase and cancellation of shares of common stock – withheld for taxes	(8,674)	(5,399)
Net cash provided (used) by financing activities	4,583,548	(535,720)
Net increase (decrease) in cash and cash equivalents	830,846	(1,158,005)
Cash and cash equivalents – beginning of period	1,033,454	2,053,829
Cash and cash equivalents – end of period	$ 1,864,300	$ 895,824

See accompanying notes to the consolidated financial statements.

1. Organization and Principles of Consolidation

Bank OZK ("the Bank") is headquartered in Little Rock, Arkansas and provides a wide range of retail and commercial banking services. At September 30, 2023, the Bank conducted operations with over 240 offices in eight states, including offices in Arkansas, Georgia, Florida, North Carolina, Texas, California, New York and Mississippi. The Bank owns eight 100%-owned finance subsidiary business trusts, a subsidiary that holds its investment securities, a subsidiary engaged in the development of real estate, a subsidiary that holds an ownership interest in a private aircraft, a subsidiary that owns a renewable energy facility and various other entities that hold foreclosed assets or tax credits or engage in other activities. The consolidated financial statements include the accounts of the Bank, the investment subsidiary, the real estate subsidiary, the aircraft subsidiary, the renewable energy subsidiary and various other entities in accordance with accounting principles generally accepted in the United States ("GAAP"). Significant intercompany transactions and amounts have been eliminated in consolidation.

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

2. Basis of Presentation and Significant Accounting Policy Changes

The accompanying interim consolidated financial statements have been prepared by the Bank, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") in Article 10 of Regulation S-X and in accordance with the instructions to Form 10-Q and GAAP for interim financial information. Certain information, accounting policies and footnote disclosures normally included in complete financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Bank's Annual Report on Form 10-K filed with the FDIC for the year ended December 31, 2022.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates. In the opinion of management, all adjustments considered necessary, consisting of normal recurring items, have been included for a fair statement of the accompanying consolidated financial statements. Operating results for the three and nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for the full year or future periods. Certain reclassifications of prior year amounts have been made to conform to the 2023 financial statements presentation. These reclassifications had no impact on prior year net income, as previously reported.

3. Earnings Per Common Share ("EPS")

Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the applicable period. Diluted EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding after consideration of the dilutive effect, if any, using the treasury stock method, of the Bank's common stock options and the non-vested performance stock units ("PSUs") under its long-term incentive agreements. Options to purchase 576,297 shares and 894,442 shares, respectively, of the Bank's common stock for the three months ended September 30, 2023 and 2022 and options to purchase 588,633 shares and 957,459 shares, respectively, of the Bank's common stock for the nine months ended September 30, 2023 and 2022 were excluded from the diluted EPS calculations as inclusion of such options would have been anti-dilutive. There were no anti-dilutive PSUs for the three or nine months ended September 30, 2023 and 2022.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(In thousands, except per share amounts)			
Numerator:				
Net income available to common stockholders	$ 169,746	$ 128,302	$ 503,517	$ 388,688
Denominator:				
Denominator for basic EPS – weighted-average common shares	113,380	118,480	114,824	121,117
Effect of dilutive securities – stock options and PSUs	390	376	402	422
Denominator for diluted EPS – weighted-average common shares and assumed conversions	113,770	118,856	115,226	121,539
Basic EPS	$ 1.50	$ 1.08	$ 4.39	$ 3.21
Diluted EPS	$ 1.49	$ 1.08	$ 4.37	$ 3.20

4. Investment Securities

The Bank's investment securities AFS are stated at estimated fair value in the consolidated financial statements with unrealized gains and losses, that do not include a credit component, reported net of related income tax as a separate component of stockholders' equity and included in accumulated other comprehensive income. Unrealized losses that include a credit component are considered in determining the Bank's allowance for credit losses ("ACL"). The Bank believes that the vast majority of unrealized losses on individual investment securities at September 30, 2023 and December 31, 2022 are the result of fluctuations in interest rates. At September 30, 2023 and December 31, 2022, no ACL was recorded for investment securities AFS as management does not believe that the ACL on the Bank's investment securities in unrealized loss positions due to reasons of credit quality was material.

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
September 30, 2023:				
U.S. Government agency mortgage-backed securities	$ 1,366,247	$ 1	$ (143,083)	$ 1,223,165
Obligations of state and political subdivisions	1,327,968	670	(82,413)	1,246,225
Other U.S. Government agency securities	658,843	—	(31,474)	627,369
Corporate obligations	36,425	—	(4,169)	32,256
U.S. Treasuries	24,992	—	(190)	24,802
Total investment securities AFS	$ 3,414,475	$ 671	$ (261,329)	$ 3,153,817
December 31, 2022:				
U.S. Government agency mortgage-backed securities	$ 1,692,828	$ —	$ (144,288)	$ 1,548,540
Obligations of state and political subdivisions	1,310,362	4,125	(45,563)	1,268,924
Other U.S. Government agency securities	658,818	—	(42,898)	615,920
Corporate obligations	38,304	—	(4,128)	34,176
U.S. Treasuries	24,957	—	(904)	24,053
Total investment securities AFS	$ 3,725,269	$ 4,125	$ (237,781)	$ 3,491,613

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

	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
September 30, 2023:						
U.S. Government agency mortgage-backed securities	$ 752	$ 51	$ 1,222,348	$ 143,032	$ 1,223,100	$ 143,083
Obligations of state and political subdivisions	690,823	32,053	503,118	50,360	1,193,941	82,413
Other U.S. Government agency securities	—	—	627,369	31,474	627,369	31,474
Corporate obligations	—	—	30,755	4,169	30,755	4,169
U.S. Treasuries	—	—	24,802	190	24,802	190
Total investment securities AFS	$ 691,575	$ 32,104	$ 2,408,392	$ 229,225	$ 3,099,967	$ 261,329
December 31, 2022:						
U.S. Government agency mortgage-backed securities	$ 854,548	$ 64,084	$ 693,992	$ 80,204	$ 1,548,540	$ 144,288
Obligations of state and political subdivisions	955,014	40,968	59,258	4,595	1,014,272	45,563
Other U.S. Government agency securities	275,535	19,461	340,385	23,437	615,920	42,898
Corporate obligations	34,176	4,128	—	—	34,176	4,128
U.S. Treasuries	24,053	904	—	—	24,053	904
Total investment securities AFS	$ 2,143,326	$ 129,545	$ 1,093,635	$ 108,236	$ 3,236,961	$ 237,781

In evaluating the Bank's unrealized loss positions for credit losses of its investment securities AFS portfolio, management considers the credit quality, financial condition and near term prospects of the issuer, the nature and cause of the unrealized loss and other factors. While the Bank periodically evaluates its AFS investment strategy relative to current economic and business conditions, at the present time, the Bank does not have the intent to sell these investment securities AFS with unrealized losses and, more likely than not, will not be required to sell these investment securities AFS before fair value recovers to amortized cost. In addition, for the vast majority of investment securities AFS in an unrealized loss position, the Bank does not believe the unrealized losses are the result of issues with credit quality.

The following table shows the amortized cost and estimated fair value of investment securities AFS by maturity or estimated date of repayment as of September 30, 2023.

Maturity or Estimated Repayment	Amortized Costs	Estimated Fair Value
	(Dollars in thousands)	
One year or less	$ 525,323	$ 488,852
After one year to five years	1,568,367	1,446,179
After five years to ten years	393,047	355,853
After ten years	927,738	862,933
Total	$ 3,414,475	$ 3,153,817

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

At September 30, 2023 the Bank had no trading securities compared to $2.5 million of trading securities at September 30, 2022. During the three months and nine months ended September 30, 2023, the Bank had net losses of $0.3 million and net gains of $2.1 million from the sale of approximately $244.9 and $958.6 million of trading securities, respectively, compared to net gains of $0.3 and $0.8 million from the sale of approximately $118.7 and $369.9 million of trading securities, respectively, during the three and nine months ended September 30, 2022, respectively.

At September 30, 2023 and 2022, the Bank had no holdings of investment securities of any one issuer, other than mortgage-backed securities issued by the Federal National Mortgage Association and callable debentures issued by the Federal Home Loan Bank, in an amount greater than 10% of total stockholders' equity.

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

Allowance for Credit Losses

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

	Allowance for Loan Losses	Reserve for Losses on Unfunded Loan Commitments	Total Allowance for Credit Losses
		(Dollars in thousands)	
Three months ended September 30, 2023:			
Balances – June 30, 2023	$ 263,188	$ 163,632	$ 426,820
Net charge-offs	(9,370)	—	(9,370)
Provision for credit losses	49,540	(5,504)	44,036
Balances – September 30, 2023	$ 303,358	$ 158,128	$ 461,486
Nine months ended September 30, 2023:			
Balances – December 31, 2022	$ 208,858	$ 156,419	$ 365,277
Net charge-offs	(25,429)	—	(25,429)
Provision for credit losses	119,929	1,709	121,638
Balances – September 30, 2023	$ 303,358	$ 158,128	$ 461,486
Three months ended September 30, 2022:			
Balances – June 30, 2022	$ 190,795	$ 109,143	$ 299,938
Net charge-offs	(4,074)	—	(4,074)
Provision for credit losses	13,377	26,394	39,771
Balances – September 30, 2022	$ 200,098	$ 135,537	$ 335,635
Nine months ended September 30, 2022:			
Balances – December 31, 2021	$ 217,380	$ 71,609	$ 288,989
Net charge-offs	(4,340)	—	(4,340)
Provision for credit losses	(12,942)	63,928	50,986
Balances – September 30, 2022	$ 200,098	$ 135,537	$ 335,635

The calculations of the Bank's provision for credit losses for the third quarter and first nine months of 2023 and its total ACL at September 30, 2023 were based on a number of key estimates, assumptions and economic forecasts. The Bank utilized recent economic forecasts provided by Moody's, including the Moody's updates released in September 2023. In the Bank's selection of macroeconomic scenarios, the Bank remained weighted to the downside as the combined weightings assigned to the Moody's S4 (Alternative Adverse Downside) and S6 (Stagflation) scenarios exceeded that of the Moody's Baseline scenario. The Bank's selection and weightings of these scenarios reflected its assessment of conditions in the U.S. economy, and acknowledged the uncertainty regarding future U.S. economic conditions, including the elevated risk from: a possible recession; inflationary pressures; increases in the Fed funds target rate and quantitative tightening; U.S. fiscal policy actions; banking industry turmoil; supply chain disruptions; global trade and geopolitical matters; the ongoing war in Ukraine; the conflict in the Middle East and various other factors. These forecasts included a number of economic variables, including gross domestic product, unemployment rates, commercial and residential real estate prices and consumer price index, among others. For purposes of the forecasts used in the Bank's Current Expected Credit Loss (CECL) methodology, management utilized a reasonable and supportable forecast period of two years, followed by a reversion, on a systematic basis, of estimated losses back to the Bank's historical mean. Management also utilized certain qualitative adjustments to increase the Bank's ACL estimates to capture items that were not fully reflected in the Bank's modeled results. CECL has and is expected to continue to increase the volatility in our provision for credit losses and associated ACL from period to period.

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

	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
	(Dollars in thousands)				
Three months ended September 30, 2023:					
Real estate:					
Residential 1-4 family	$ 21,181	$ (16)	$ 395	$ (2,540)	$ 19,020
Non-farm/non-residential	45,891	(7,451)	858	4,071	43,369
Construction/land development	74,334	—	6	19,137	93,477
Agricultural	4,719	(16)	—	(941)	3,762
Multifamily residential	10,645	—	—	3,191	13,836
Commercial and industrial	11,976	(12)	27	(4,554)	7,437
Consumer	82,068	(2,469)	308	26,487	106,394
Other	12,374	(1,152)	152	4,689	16,063
Total ALL for funded loans	263,188	(11,116)	1,746	49,540	303,358
Reserve for losses on unfunded loan commitments	163,632	—	—	(5,504)	158,128
Total ACL	$ 426,820	$ (11,116)	$ 1,746	$ 44,036	$ 461,486
Nine Months Ended September 30, 2023:					
Real estate:					
Residential 1-4 family	$ 19,506	$ (73)	$ 772	$ (1,185)	$ 19,020
Non-farm/non-residential	43,605	(21,458)	1,882	19,340	43,369
Construction/land development	66,467	—	219	26,791	93,477
Agricultural	3,512	(16)	36	230	3,762
Multifamily residential	5,345	(4)	—	8,495	13,836
Commercial and industrial	8,728	(86)	931	(2,136)	7,437
Consumer	50,202	(6,505)	1,381	61,316	106,394
Other	11,493	(2,971)	463	7,078	16,063
Total ALL for funded loans	208,858	(31,113)	5,684	119,929	303,358
Reserve for losses on unfunded loan commitments	156,419	—	—	1,709	158,128
Total ACL	$ 365,277	$ (31,113)	$ 5,684	$ 121,638	$ 461,486

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

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

	Nonaccrual Loans with ALL	Nonaccrual Loans with no ALL	Total Nonaccrual Loans
		(Dollars in thousands)	
September 30, 2023			
Real estate:			
Residential 1-4 family	$ 25,439	$ 2,112	$ 27,551
Non-farm/non-residential	22,606	2,889	25,495
Construction/land development	471	1,284	1,755
Agricultural	435	—	435
Multifamily residential	—	3,111	3,111
Commercial and industrial	2,065	—	2,065
Consumer	7,734	—	7,734
Other	87	—	87
Total	$ 58,837	$ 9,396	$ 68,233
December 31, 2022:			
Real estate:			
Residential 1-4 family	$ 22,319	$ 561	$ 22,880
Non-farm/non-residential	16,851	4,721	21,572
Construction/land development	402	735	1,137
Agricultural	860	—	860
Multifamily residential	—	—	—
Commercial and industrial	1,321	—	1,321
Consumer	2,673	—	2,673
Other	—	—	—
Total	$ 44,426	$ 6,017	$ 50,443

Interest income on nonperforming loans as of September 30, 2023 and December 31, 2022 is recognized on a cash basis when and if actually collected. Total interest income recognized on nonperforming loans for the three and nine months ended September 30, 2023 and 2022 was not material.

Credit Quality Indicators

The following table provides the credit quality indicators for the Bank's total loans by loan segment and period of origination as of the date indicated. At September 30, 2023, 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							
	Nine Months Ended Sept. 30, 2023	Year Ended December 31, 2022	2021	2020	2019	Prior to January 1, 2019	Revolving Loans Amortized Cost Basis	Total
	(Dollars in thousands)							
September 30, 2023:								
Residential 1-4 family [1]								
Pass	$ 70,092	$ 227,784	$ 155,734	$ 96,876	$ 63,387	$ 197,401	$ 111,031	$ 922,305
Special Mention	130	119	1,739	4,071	1,761	1,275	510	9,605
Substandard	—	2,049	1,501	3,835	7,411	13,288	268	28,352
Total residential 1-4 family	70,222	229,952	158,974	104,782	72,559	211,964	111,809	960,262
Non-farm/non-residential								
Pass	83,450	705,869	1,076,373	1,833,190	290,267	1,166,082	26,160	5,181,391
Special Mention	2,884	1,215	2,614	18,964	582	8,101	—	34,360
Substandard	—	—	2,850	2,013	404	30,374	—	35,641
Total non-farm/non-residential	86,334	707,084	1,081,837	1,854,167	291,253	1,204,557	26,160	5,251,392
Construction/land development								
Pass	1,370,077	3,959,055	2,776,773	910,250	909,015	241,146	390,413	10,556,729
Special Mention	960	10,174	—	—	133,062	48	—	144,244
Substandard	—	46	1,284	385	32	166	40,964	42,877
Total construction/land development	1,371,037	3,969,275	2,778,057	910,635	1,042,109	241,360	431,377	10,743,850
Agricultural								
Pass	19,699	47,473	57,753	37,569	41,388	48,435	1,230	253,547
Special Mention	—	—	—	22	—	—	143	165
Substandard	—	—	—	—	—	435	—	435
Total agricultural	19,699	47,473	57,753	37,591	41,388	48,870	1,373	254,147
Multifamily residential								
Pass	19,486	31,411	447,444	583,630	713,482	243,984	3,351	2,042,788
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	1,320	1,792	—	27	—	3,139
Total multifamily residential	19,486	31,411	448,764	585,422	713,482	244,011	3,351	2,045,927
Commercial and industrial								
Pass	49,529	120,691	51,270	24,742	13,431	30,256	957,572	1,247,491
Special Mention	—	20	695	37	2,394	379	3,439	6,964
Substandard	—	—	189	1,601	537	190	46	2,563
Total commercial and industrial	49,529	120,711	52,154	26,380	16,362	30,825	961,057	1,257,018
Consumer [1]								
Pass	856,563	652,176	354,752	119,897	356,020	581,142	5,108	2,925,658
Special Mention	238	1,417	357	—	201	850	—	3,063
Substandard	704	1,281	432	464	1,432	3,421	—	7,734
Total consumer	857,505	654,874	355,541	120,361	357,653	585,413	5,108	2,936,455
Other [1]								
Pass	105,020	675,623	105,090	192,604	104,742	11,000	688,522	1,882,601
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	88	—	—	—	—	—	88
Total other	105,020	675,711	105,090	192,604	104,742	11,000	688,522	1,882,689
Total	$2,578,832	$6,436,491	$5,038,170	$3,831,942	$2,639,548	$2,578,000	$2,228,757	$25,331,740
Gross charge-offs [2]	$ 3,512	$ 1,381	$ 490	$ 1,424	$ 1,286	$ 23,020	$ —	$ 31,113

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

(2) Gross charge-offs for the nine months ended September 30, 2023.

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

	Pass	Special Mention	Substandard	Total
	(Dollars in thousands)			
September 30, 2023:				
Real estate:				
Residential 1-4 family [1]	$ 922,305	$ 9,605	$ 28,352	$ 960,262
Non-farm/non-residential	5,181,391	34,360	35,641	5,251,392
Construction/land development	10,556,729	144,244	42,877	10,743,850
Agricultural	253,547	165	435	254,147
Multifamily residential	2,042,788	—	3,139	2,045,927
Commercial and industrial	1,247,491	6,964	2,563	1,257,018
Consumer [1]	2,925,658	3,063	7,734	2,936,455
Other [1]	1,882,601	—	88	1,882,689
Total	$ 25,012,510	$ 198,401	$ 120,829	$ 25,331,740
December 31, 2022:				
Real estate:				
Residential 1-4 family [1]	$ 950,890	$ 6,883	$ 23,794	$ 981,567
Non-farm/non-residential	4,558,280	75,979	31,009	4,665,268
Construction/land development	8,102,353	69,583	43,120	8,215,056
Agricultural	238,801	28	860	239,689
Multifamily residential	1,503,345	—	53	1,503,398
Commercial and industrial	893,244	7,667	1,410	902,321
Consumer [1]	2,441,050	2,127	2,674	2,445,851
Other [1]	1,825,620	21	—	1,825,641
Total	$ 20,513,583	$ 162,288	$ 102,920	$ 20,778,791

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

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

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

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

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

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

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

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

	30-59 Days Past Due (1)	60-89 Days Past Due (2)	90 Days or More (3)	Total Past Due	Current (4)	Total
	(Dollars in thousands)					
September 30, 2023:						
Real estate:						
Residential 1-4 family	$ 8,950	$ 4,707	$ 7,407	$ 21,064	$ 939,198	$ 960,262
Non-farm/non-residential	1,440	170	21,574	23,184	5,228,208	5,251,392
Construction/land development	15	89	1,515	1,619	10,742,231	10,743,850
Agricultural	—	—	290	290	253,857	254,147
Multifamily residential	—	3,111	—	3,111	2,042,816	2,045,927
Commercial and industrial	291	113	1,775	2,179	1,254,839	1,257,018
Consumer	3,114	846	517	4,477	2,931,978	2,936,455
Other	—	—	—	—	1,882,689	1,882,689
Total	$ 13,810	$ 9,036	$ 33,078	$ 55,924	$ 25,275,816	$ 25,331,740
December 31, 2022:						
Real estate:						
Residential 1-4 family	$ 8,476	$ 3,925	$ 4,269	$ 16,670	$ 964,897	$ 981,567
Non-farm/non-residential	1,368	904	3,463	5,735	4,659,533	4,665,268
Construction/land development	91	—	778	869	8,214,187	8,215,056
Agricultural	—	—	455	455	239,234	239,689
Multifamily residential	—	—	—	—	1,503,398	1,503,398
Commercial and industrial	268	1,282	941	2,491	899,830	902,321
Consumer	1,877	429	220	2,526	2,443,325	2,445,851
Other	21	—	—	21	1,825,620	1,825,641
Total	$ 12,101	$ 6,540	$ 10,126	$ 28,767	$ 20,750,024	$ 20,778,791

(1) Includes $4.1 million and $3.8 million of loans on nonaccrual status at September 30, 2023 and December 31, 2022, respectively.
(2) Includes $6.2 million and $3.8 million of loans on nonaccrual status at September 30, 2023 and December 31, 2022, respectively.
(3) All loans greater than 90 days past due were on nonaccrual status at September 30, 2023 and December 31, 2022.
(4) Includes $24.8 million and $32.7 million of loans on nonaccrual status at September 30, 2023 and December 31, 2022, respectively.

6. Foreclosed Assets

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

	September 30, 2023	December 31, 2022
	(Dollars in thousands)	
Real estate:		
Non-farm/non-residential	$ 8,018	$ 6,133
Construction/land development	59,975	11
Total real estate	67,993	6,144
Consumer	745	472
Total	$ 68,738	$ 6,616

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

	Nine Months Ended September 30,	
	2023	2022
	(Dollars in thousands)	
Balance – beginning	$ 6,616	$ 5,744
Loans and other assets transferred into foreclosed assets	72,419	9,364
Sales of foreclosed assets	(9,191)	(8,204)
Writedowns of foreclosed assets	(1,106)	(345)
Balance – ending	$ 68,738	$ 6,559

7. Supplemental Cash Flow Information

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

	Nine Months Ended September 30,	
	2023	2022
	(Dollars in thousands)	
Cash paid during the period for:		
Interest	$ 436,677	$ 52,303
Income taxes	158,385	67,902
Supplemental schedule of non-cash investing and financing activities:		
Net change in unrealized gains/losses on investment securities AFS	(27,002)	(331,509)
Loans and other assets transferred to foreclosed assets	72,419	9,364

8. 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 arrangements. The maximum amount of future payments the Bank could be required to make under these guarantees at September 30, 2023 is $16.1 million. The Bank holds collateral to support guarantees when deemed necessary. Collateralized commitments at September 30, 2023 totaled $15.4 million.

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 September 30, 2023, the Bank had outstanding commitments totaling $20.63 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 due to a number of factors, including, economic conditions, real estate market conditions, competitive factors, among others.

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

Contractual Maturities at September 30, 2023

Maturity	Amount
(Dollars in thousands)	
2023	$ 331,071
2024	2,767,948
2025	5,615,204
2026	9,169,565
2027	1,923,988
Thereafter	817,595
Total	$ 20,625,371

The Bank also has investments in certain Community Reinvestment Act ("CRA") and tax credit investments and partnerships generally within the areas it serves. The majority of these investments provide funds for the construction and development of affordable housing. Many of these investments provide tax credits which are normally recognized over seven to 15 years and are an important part in the anticipated yield from these investments. Under the terms of the various investment agreements, as of September 30, 2023, approximately $208.6 million have been funded and are included in "other assets" on our consolidated balance sheet. The portion of the commitments that are unfunded totaled approximately $288.4 million at September 30, 2023 and are expected to be funded over the terms of the agreements ranging from 2023 to 2041. The Bank also has investments in Small Business Investment Companies that provide funds to qualifying small businesses and investments in renewable energy projects.

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

9. Stock-Based Compensation

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

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

All employee options previously granted under the Option Plan and outstanding at September 30, 2023 were issued with a vesting date three years after issuance and an expiration date seven years after issuance. No stock options were granted under the Omnibus Plan during the three and nine months ended September 30, 2023, or 2022.

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

	Options	Weighted-Average Exercise Price/Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Nine Months Ended September 30, 2023:				
Outstanding – January 1, 2023	740,779	$ 47.68		
Granted	—			
Exercised	(22,540)	27.56		
Forfeited	(39,510)	48.56		
Outstanding – September 30, 2023	678,729	48.30	1.0	622.6 (1)
Fully vested and exercisable – September 30, 2023	678,729	$ 48.30	1.0	622.6 (1)

(1) Based on closing price of $37.07 per share on September 29, 2023.

Intrinsic value for stock options is defined as the amount by which the current market price of the underlying stock exceeds the exercise price. For those stock options where the exercise price exceeds the current market price of the underlying stock, the intrinsic value is zero. The total intrinsic value of options exercised during the three months ended September 30, 2023 and 2022 was not material. The total intrinsic value of options exercised during the nine months ended September 30, 2023, and 2022 was $0.4 million and $1.1 million respectively.

Stock-based compensation expense for stock options included in non-interest expense was not material for the three and nine months ended September 30, 2023 and 2022. There was no unrecognized compensation cost related to non-vested stock option grants at September 30, 2023.

During the nine months ended September 30, 2023, the Bank issued 231,741 shares of restricted common stock to employees under the Omnibus Plan. These grants of restricted stock cliff vest 100% three years after issuance, assuming continuous employment by the participant during this period.

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

	Omnibus Plan
Nine Months Ended September 30, 2023:	
Outstanding – January 1, 2023	759,933
Granted	261,177
Forfeited	(26,728)
Vested	(336,490)
Outstanding – September 30, 2023	657,892
Weighted-average grant date fair value	$ 50.88

Restricted stock awards totaling 261,177 shares with a grant date fair value of $44.60 were granted pursuant to the Omnibus Plan during the nine months ended September 30, 2023. The fair value of the restricted stock awards is amortized to non-interest expense over the vesting period and is based on the market price of the Bank's common stock at the date of grant multiplied by the number of shares granted. Stock-based compensation expense for restricted stock included in non-interest expense was $2.4 million and $2.3

million for the three months ended September 30, 2023 and 2022, respectively, and $6.9 million and $6.5 million for the nine months ended September 30, 2023 and 2022, respectively. Unrecognized compensation expense for non-vested stock awards was $13.7 million at September 30, 2023 and is expected to be recognized over a weighted-average period of 1.9 years.

During the first nine months of 2023, pursuant to the Omnibus Plan, the Bank's Compensation Committee awarded its executive officers an aggregate of 175,840 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, 2023 (for the TSR component) and compared to the Bank's 2022 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 $9.5 million and is expected to be recognized over the three year vesting period.

The fair value of the PSUs granted is amortized to compensation expense over the vesting period. In determining PSUs fair value, since the PSUs granted contain a one-year holding period subsequent to vesting, an estimated discount for illiquidity was applied to the market price of the Bank's stock. The fair value of each PSU grant is estimated on the date of grant using various valuation and liquidity models. The following table is a summary of the key assumptions used in those models for the period indicated.

	Nine Months Ended September 30,	
	2023	**2022**
Risk-free interest rate	4.63%	0.70%
Expected dividend yield	3.04%	2.52%
Expected stock volatility	33.69%	29.85%
Post-vest hold period	1 year	1 year

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

	Nine Months Ended September 30, 2023
Outstanding – January 1, 2023	359,934
Granted	175,840
Forfeited	—
Vested	(136,991)
Outstanding – September 30, 2023	398,783

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

	Nine Months Ended September 30,	
	2023	2022
TSR	$ 43.65	$ 41.78
ROAE	39.77	42.14
ROAA	39.77	42.14
Valuation stock price index – TSR	100%	99%
Valuation stock price index – ROAE & ROAA	100%	100%
Estimated discount for illiquidity (1)	11.0%	11.5%

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

Compensation expense for PSU awards, net of forfeitures, included in non-interest expense was $2.1 million and $1.2 million for the three months ended September 30, 2023 and 2022, respectively and $6.1 million and $3.2 million for the nine months ended September 30, 2023 and 2022, respectively. Unrecognized compensation expense for non-vested PSU awards was $12.3 million at September 30, 2023 and is expected to be recognized over a weighted-average period of 2.0 years.

10. Fair Value Measurements

The Bank measures certain of its assets and liabilities on a fair value basis using various valuation techniques and assumptions, depending on the nature of the asset or liability. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, fair value is used either on a periodic basis, typically at least quarterly, or on a non-recurring basis to evaluate certain assets and liabilities for impairment or for disclosure purposes. At September 30, 2023 and December 31, 2022, the Bank had no material liabilities that were accounted for at fair value.

The Bank applies the following fair value hierarchy.

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

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

Level 3 - Instruments whose inputs are unobservable.

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

	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
September 30, 2023:				
Investment securities: [1]				
U.S. Government agency mortgage-backed securities	$ —	$ 1,223,165	$ —	$ 1,223,165
Obligations of state and political subdivisions [2]	—	1,238,776	7,449	1,246,225
Other U.S. Government agency securities	—	627,369	—	627,369
Corporate obligations	—	32,256	—	32,256
U.S. Treasuries	—	24,802	—	24,802
Total investment securities	—	3,146,368	7,449	3,153,817
Nonaccrual loans	—	—	54,826	54,826
Foreclosed assets	—	—	68,738	68,738
Total	$ —	$ 3,146,368	$ 131,013	$ 3,277,381
December 31, 2022:				
Investment securities: [1]				
U.S. Government agency mortgage-backed securities	$ —	$ 1,548,540	$ —	$ 1,548,540
Obligations of state and political subdivisions [2]	—	1,269,666	8,075	1,277,741
Other U.S. Government agency securities	—	615,920	—	615,920
Corporate obligations	—	34,176	—	34,176
U.S. Treasuries	—	24,053	—	24,053
Total investment securities	—	3,492,355	8,075	3,500,430
Nonaccrual loans	—	—	35,832	35,832
Foreclosed assets	—	—	6,616	6,616
Total	$ —	$ 3,492,355	$ 50,523	$ 3,542,878

(1) Includes both AFS and trading securities.
(2) Obligations of state and political subdivisions include both AFS and trading securities. In the table above, no trading securities were included as of September 30, 2023 and $8.8 million of trading securities were included as of December 31, 2022.

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

Description	Fair Value at September 30, 2023	Technique	Unobservable Inputs
	(Dollars in thousands)		
Nonaccrual Loans	$ 54,826	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	$ 68,738	Third party appraisal, [1] broker price opinions and/or discounted cash flows	1. Management discount based on underlying collateral characteristics and market conditions 2. Discount rate 3. Holding period

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

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

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

The Bank has determined that certain of its investment securities had a limited to non-existent trading market at September 30, 2023. 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 $7.4 million at September 30, 2023 were calculated using Level 3 hierarchy inputs and assumptions as the trading market for such securities was determined to be "not active." This determination was based on the limited number of trades or, in certain cases, the existence of no reported trades for the private placement bonds. The private placement bonds are generally prepayable at par value at the option of the issuer. As a result, management believes the private placement bonds should be individually valued at the lower of (i) the matrix pricing provided by the Bank's third party pricing sources for comparable unrated municipal securities or (ii) par value. At September 30, 2023, the third parties' pricing matrices valued the Bank's portfolio of private placement bonds at approximately $7.4 million, which was approximately the same as the aggregate par value of the private placement bonds. Accordingly, at September 30, 2023, the Bank reported the private placement bonds at $7.4 million.

Nonaccrual loans – Fair values are measured on a non-recurring basis and are based on the underlying collateral value of the nonaccrual loan, reduced for holding and selling costs, or the estimated discounted cash flows for such loan. At September 30, 2023, the Bank had reduced the carrying value of its nonaccrual loans to the estimated fair value of $54.8 million. The adjustment to reduce the carrying value of such nonaccrual loans to the estimated fair value included $13.4 million of ACL allocations.

Foreclosed assets - Repossessed personal properties and real estate acquired through or in lieu of foreclosure are measured on a non-recurring basis and are initially recorded at 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 September 30, 2023, the Bank had $68.7 million of foreclosed assets.

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

	Investment Securities AFS
	(Dollars in thousands)
Balance – December 31, 2022	$ 8,075
Total realized gains included in earnings	—
Total unrealized gains/(losses) included in other comprehensive income	(29)
Paydowns and maturities	(597)
Sales	—
Transfers in and/or out of Level 3	—
Balance – September 30, 2023	$ 7,449
Balance – December 31, 2021	$ 8,877
Total realized gains included in earnings	—
Total unrealized gains/(losses) included in other comprehensive income	(22)
Paydowns and maturities	(555)
Sales	—
Transfers in and/or out of Level 3	—
Balance – September 30, 2022	$ 8,300

11. Fair Value of Financial Instruments

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

<u>Cash and cash equivalents</u> – 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.

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

<u>Loans</u> – 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.

<u>Deposit liabilities</u> – 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.

<u>Other borrowings</u> – 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.

<u>Subordinated notes</u> – The fair values of these instruments are based upon observable market inputs.

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

<u>Off-balance sheet instruments</u> – The fair values of 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 letters of credit were not material at September 30, 2023 or December 31, 2022.

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

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

		September 30, 2023		December 31, 2022	
	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
		(Dollars in thousands)			
Financial assets:					
Cash and cash equivalents	Level 1	$ 1,864,300	$ 1,864,300	$ 1,033,454	$ 1,033,454
Investment securities (1)	Levels 2 and 3	3,153,817	3,153,817	3,500,430	3,500,430
Loans, net of ALL (2)	Level 3	25,028,382	24,817,232	20,569,933	20,316,198
Financial liabilities:					
Demand, savings and interest bearing transaction deposits	Level 1	$ 13,313,535	$ 13,313,535	$ 14,564,168	$ 14,564,168
Time deposits	Level 2	12,239,321	12,170,465	6,935,975	6,801,438
Other borrowings	Level 2	1,430,192	1,430,193	606,666	606,581
Subordinated notes (3)	Level 2	347,556	260,612	346,947	298,057
Subordinated debentures	Level 2	121,652	101,499	121,591	115,907

(1) Includes both AFS and trading securities.
(2) Excludes reserve for losses on unfunded loan commitments.
(3) During the second quarter of 2023, the Bank adjusted the December 31, 2022 estimated fair value of its subordinated notes.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Dollars in thousands)			
Beginning balance of AOCI – unrealized gains and (losses) on investment securities AFS	$ (159,431)	$ (114,168)	$ (177,649)	$ 23,841
Other comprehensive income (loss):				
Unrealized gains and losses on investment securities AFS	(51,486)	(149,087)	(27,002)	(331,509)
Tax effect of unrealized gains and losses on investment securities AFS	11,931	35,582	5,665	79,995
Total other comprehensive loss	(39,555)	(113,505)	(21,337)	(251,514)
Ending balance of AOCI – unrealized gains and (losses) on investment securities AFS	$ (198,986)	$ (227,673)	$ (198,986)	$ (227,673)

13. Other Operating Expenses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Dollars in thousands)			
Software and data processing	$ 9,584	$ 8,700	$ 28,634	$ 25,861
Deposit insurance and assessments	5,500	2,650	14,548	6,900
Professional and outside services	4,640	5,403	15,190	15,929
Advertising and public relations	3,779	3,448	10,998	5,810
Telecommunication services	1,943	1,921	6,614	5,852
ATM expense	1,927	1,500	5,725	4,497
Travel and meals	1,926	1,962	5,644	5,906
Postage and supplies	1,716	2,035	5,859	5,240
Loan collection and repossession expense	1,210	402	2,113	1,081
Amortization of intangibles	376	1,298	2,754	4,331
Writedowns of foreclosed and other assets	141	87	1,106	345
Amortization of CRA and tax credit investments	8,171	5,155	20,151	14,885
Other	6,161	5,519	17,280	17,170
Total other operating expenses	$ 47,074	$ 40,080	$ 136,616	$ 113,807

14. Recent Accounting Pronouncements

In May 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU 2020-04), *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* Generally, ASU 2020-04 allows 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. The Bank adopted ASU 2020-04 on January 1, 2023 and the adoption did not have a material effect on the Bank's financial position or results of operations.

On March 31, 2022, the FASB issued ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings but provides additional disclosures for restructurings for borrowers that are experiencing financial difficulty. In addition, ASU 2022-02 requires disclosure of current period gross write-offs by year of origination for loans and net investments in leases. ASU 2022-02 was effective for years beginning after December 15, 2022. The Bank adopted ASU 2022-02 on January 1, 2023 and the adoption of ASU 2022-02 did not have a material impact on the Bank's financial position, results of operations or financial statement disclosures.

On March 29, 2023, the FASB issued ASU 2023-02, *Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method.* ASU 2023-02 permits reporting entities to elect to account for equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. In addition, ASU 2023-02 requires entities to disclose information about all investments that generate income tax credits and other income tax benefits from a tax credit program for which the entity has elected to apply the proportional amortization method. ASU 2023-02 is effective for fiscal years beginning after December 15, 2023 for public business entities. Early adoption is permitted in any interim period. The Bank expects to adopt ASU 2023-02 on January 1, 2024 and does not expect adoption to have a material effect on the Bank's financial position or results of operations.

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

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

FORWARD-LOOKING INFORMATION

This quarterly report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), other public filings made by us and other oral and written statements or reports by us and our management include certain "forward-looking statements" regarding the Bank's plans, expectations, thoughts, beliefs, estimates, goals and outlook for the future that are intended to be covered by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management's expectations as well as certain assumptions and estimates made by, and information available to, management at the time. Those statements are not guarantees of future results or performance and are subject to certain known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to: potential delays or other problems in implementing the Bank's growth, expansion and acquisition strategies, including hiring or retaining qualified personnel, obtaining regulatory or other approvals, delays in acquiring satisfactory sites, obtaining permits and designing, constructing and opening new offices or relocating, selling or closing existing offices, or integrating any acquisitions; the availability of and access to capital; possible downgrades in the Bank's credit ratings or outlook which could increase the costs of or decrease the availability of funding from capital markets; the ability to attract new or retain existing deposits or to retain or grow loans, including growth from unfunded closed loans; the ability to generate future revenue growth or to control future growth in non-interest expense; interest rate fluctuations, including changes in the yield curve between short-term and long-term interest rates or changes in the relative relationships of various interest rate indices; competitive factors and pricing pressures, including their effect on the Bank's net interest margin or core spread; general economic, unemployment, credit market and real estate market conditions, and the effect of such conditions on the creditworthiness of borrowers, collateral values, the value of investment securities and asset recovery values; conditions within the banking industry, including the effects of recent failures of other financial institutions; recently enacted and potential laws and regulatory requirements, or changes to existing laws and regulatory requirements, including changes affecting oversight of the financial services industry, changes intended to manage or mitigate climate and related environmental risks, or changes in the interpretation and enforcement of such laws and requirements, and the costs and expenses to comply with new and/or existing legislation and regulatory requirements; uncertainty regarding changes in U.S. government monetary and fiscal policy; the impact of any U.S. federal government shutdown or budgetary crisis; FDIC special assessments or changes to regular assessments; the ability to keep pace with technological changes, including changes regarding artificial intelligence and 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 or others, including as a result of cyber-attacks or an increase in the incidence or severity of fraud, illegal payments, security breaches or other illegal acts impacting the Bank, its customers or others; natural disasters; acts of war or terrorism; the potential impact of continuing inflationary pressures; the potential impact of supply chain disruptions; national or international political instability or military conflict, including the conflict in the Middle East and the ongoing war in Ukraine; the competition and costs of recruiting and retaining human talent; impairment of our goodwill; adoption of new accounting standards, or changes in existing standards; and adverse results (including costs, fines, reputational harm and/or other negative effects) from current or future litigation, regulatory examinations or other legal and/or regulatory actions or rulings as well as other factors identified in this communication or as detailed from time to time in our public filings, including those factors described in the disclosures under the headings "Forward-Looking Information" and "Item 1A. Risk Factors" in our most recent Annual Report on Form 10-K for the year ended December 31, 2022 and our quarterly reports on Form 10-Q. Should one or more of the foregoing risks materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described in, or implied by, such forward-looking statements. The Bank disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information or otherwise.

FINANCIAL HIGHLIGHTS

The selected financial highlights on the following page are derived from our unaudited consolidated financial data as of and for the three months and nine months ended September 30, 2023 and 2022. These highlights are qualified in their entirety by our consolidated financial statements and related notes presented in Part I, Item 1 – Financial Statements in this quarterly report on Form 10-Q. The calculation of our pre-tax pre-provision net revenue ("PPNR") and the reconciliation to generally accepted accounting principles ("GAAP") are included in this MD&A under "Analysis of Results of Operations" in this quarterly report on Form 10-Q. The calculations of our total common stockholders' equity, tangible book value per common share and our annualized returns on average common stockholders' equity, and average tangible common stockholders' equity and the reconciliations to GAAP are included in this MD&A under "Capital Management" in this quarterly report on Form 10-Q.

SELECTED FINANCIAL HIGHLIGHTS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Dollars in thousands, except per share amounts)			
Income statement data:				
Net interest income	$ 367,261	$ 294,617	$ 1,068,937	$ 809,754
Provision for credit losses	44,036	39,771	121,638	50,986
Non-interest income	25,727	29,163	85,522	86,959
Non-interest expense	128,978	115,691	384,549	332,708
Net income	173,830	132,349	515,708	401,265
Preferred stock dividends	4,047	4,047	12,141	12,574
Net income available to common stockholders	169,746	128,302	503,517	388,688
PPNR	264,010	208,089	769,910	564,005
Common share and per common share data:				
Diluted earnings per common share	$ 1.49	$ 1.08	$ 4.37	$ 3.20
Book value per common share	40.35	35.67	40.35	35.67
Tangible book value per common share	34.50	30.02	34.50	30.02
Common stock dividends per share	0.36	0.32	1.05	0.93
Weighted-average diluted shares outstanding (thousands)	113,770	118,856	115,226	121,539
End of period shares outstanding (thousands)	113,136	117,762	113,136	117,762
Balance sheet data at period end:				
Total assets	$ 32,767,328	$ 26,232,119	$ 32,767,328	$ 26,232,119
Total loans	25,331,740	19,513,712	25,331,740	19,513,712
Non-purchased loans	25,051,214	19,103,546	25,051,214	19,103,546
Purchased loans	280,526	410,166	280,526	410,166
Allowance for loan losses	303,358	200,098	303,358	200,098
Foreclosed assets	68,738	6,559	68,738	6,559
Investment securities – AFS	3,153,817	3,528,077	3,153,817	3,528,077
Goodwill and other intangible assets, net	660,789	664,732	660,789	664,732
Deposits	25,552,856	20,401,876	25,552,856	20,401,876
Other borrowings	1,430,192	456,466	1,430,192	456,466
Subordinated notes	347,556	346,741	347,556	346,741
Subordinated debentures	121,652	121,450	121,652	121,450
Unfunded balance of closed loans	20,625,371	20,091,101	20,625,371	20,091,101
Reserve for losses on unfunded loan commitments	158,128	135,537	158,128	135,537
Preferred stock	338,980	338,980	338,980	338,980
Total common stockholders' equity	4,564,524	4,200,444	4,564,524	4,200,444
Loan (including purchased loans) to deposit ratio	99.13%	95.65%	99.13%	95.65%
Average balance sheet data:				
Total average assets	$ 31,606,892	$ 25,865,778	$ 29,755,940	$ 26,148,715
Total average common stockholders' equity	4,546,639	4,296,907	4,470,073	4,341,533
Average common equity to total average assets	14.38%	16.61%	15.02%	16.60%
Performance ratios:				
Return on average assets [(1)]	2.13%	1.97%	2.26%	1.99%
Return on average common stockholders' equity [(1)]	14.81	11.85	15.06	11.97
Net interest margin – FTE [(1)]	5.05	5.03	5.29	4.60
Efficiency Ratio	32.60	35.50	33.09	36.92
Common stock dividend payout ratio	24.23	29.66	24.19	29.27
Asset quality ratios:				
Net charge-offs to average non-purchased loans [(1) (2)]	0.17%	0.09%	0.12%	0.07%
Net charge-offs to average total loans [(1)]	0.15	0.09	0.15	0.06
Nonperforming loans to total loans [(3)]	0.25	0.14	0.25	0.20
Nonperforming assets to total assets [(3)]	0.40	0.13	0.40	0.17
Allowance for loan losses to total loans [(4)]	1.20	1.03	1.20	1.03
Allowance for loan losses to total nonperforming loans [(4)]	445	582	445	582
Allowance for credit losses to total loans and unfunded loan commitments	1.00	0.85	1.00	0.85
Capital ratios at period end:				
Common equity tier 1	10.77%	11.88%	10.77%	11.88%
Tier 1 risk based capital	11.66	12.95	11.66	12.95
Total risk based capital	14.10	15.42	14.10	15.42
Tier 1 leverage	14.24	16.21	14.24	16.21

(1) Ratios annualized based on actual days.
(2) Excludes purchased loans and net charge-offs related to such loans.
(3) Excludes purchased loans, except for their inclusion in total assets.
(4) Excludes reserve for losses on unfunded loan commitments.

GENERAL

The following discussion explains our financial condition and results of operations as of and for the three and nine months ended September 30, 2023. The purpose of this discussion is to focus on information about our financial condition and results of operations which is not otherwise apparent from the consolidated financial statements and related notes. The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes presented in Part 1, Item 1 – Financial Statements in this quarterly report on Form 10-Q and in our annual report on Form 10-K for the year ended December 31, 2022. Annualized results for these interim periods may not be indicative of results for the full year or future periods.

We provide a wide range of retail and commercial banking services through more than 240 offices in Arkansas, Georgia, Florida, North Carolina, Texas, California, New York and Mississippi. Our results of operations depend primarily on net interest income, which is the difference between the interest income from earning assets, such as loans and investments, and the interest expense incurred on interest bearing liabilities, such as deposits, borrowings, subordinated notes and subordinated debentures. We also generate non-interest income, including, among others, service charges on deposit accounts, trust income, BOLI income, loan service, maintenance and other fees and gains (losses) on investment securities and from sales of other assets. Our non-interest expense consists primarily of employee compensation and benefits, net occupancy and equipment and other operating expenses. Our results of operations are significantly affected by our provision for credit losses and our provision for income taxes.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements. Our determination of (i) the provision for and the adequacy of our allowance for credit losses ("ACL"), (ii) the fair value of our investment securities portfolio, and (iii) accounting for our income taxes all involve a higher degree of judgment and complexity than our other significant accounting policies. Accordingly, we consider each of these to be critical accounting estimates. A detailed discussion of our critical accounting estimates is included in our annual report on Form 10-K for the year ended December 31, 2022. There has been no change in our critical accounting estimates and no material change in the application of critical accounting estimates as presented in our annual report on Form 10-K for the year ended December 31, 2022.

RECENT INDUSTRY DEVELOPMENTS

Recently, the banking industry has experienced significant volatility with multiple bank failures and industry-wide concerns related to liquidity, deposit outflows, unrealized losses on securities and eroding consumer confidence in the banking system. Despite these negative industry developments, we have continued to maintain a strong capital position and stable deposit and liquidity levels.

As a result of recent bank failures, in May 2023, the FDIC issued a proposed rule to implement a special assessment to recover the costs associated with protecting uninsured deposits from two failed depository institutions. According to the current FDIC proposal, the FDIC would collect from the Bank and other insured depository institutions, special assessments at an annual rate of 12.5 basis points of the Bank's uninsured deposits (excluding the first $5.0 billion) as of December 31, 2022, over eight quarterly assessment periods, beginning the first quarter of 2024. Under the proposed rule, the estimated loss pursuant to the systemic risk determination would be periodically adjusted, and the FDIC would retain the ability to cease collection early, extend the special assessment collection period and impose a final shortfall special assessment on a one-time basis. We anticipate that the FDIC will enact the final rule resulting in a special assessment during the fourth quarter of 2023 or first quarter of 2024 that will significantly increase our FDIC insurance costs. Based on the FDIC's current proposal, the Bank estimates our total cost to be approximately $9.0 million that will be recognized in the quarter the FDIC finalizes the rule. The ultimate impact and timing of recognition is subject to change pending the assessment's finalization.

ANALYSIS OF RESULTS OF OPERATIONS

General

Net income available to our common stockholders was $169.7 million for the third quarter of 2023, compared to $128.3 million for the third quarter of 2022. Net income available to our common stockholders was $503.5 million for the first nine months of 2023, compared to $388.7 million for the first nine months of 2022. Diluted earnings per common share were $1.49 for the third quarter of 2023, compared to $1.08 for the third quarter of 2022. Diluted earnings per common share were $4.37 for the first nine months of 2023, compared to $3.20 for the first nine months of 2022.

During the three months and nine months ended September 30, 2023, we recorded provision for credit losses of $44.0 million and $121.6 million, respectively, compared to provision for credit losses of $39.8 million and $51.0 million during the three months and nine months ended September 30, 2022. Our growth in funded loan balances and changes in economic assumptions during the third quarter and first nine months of 2023 contributed significantly to the higher provision for credit losses. Our ACL and provision for credit losses are tied, in part, to our reasonable and supportable forecast which is related to future economic estimates and perceived economic outlook. Generally, if our reasonable and supportable forecast in future periods suggests economic conditions are expected to deteriorate, we may experience increases in our ACL and provision for credit losses and, generally, if our reasonable and supportable forecast suggests economic conditions are expected to improve, we may experience decreases in our ACL and provision for credit losses. There may be periods when our reasonable and supportable forecast captures more or less risk related to the uncertainty of future U.S. economic conditions based upon how well we believe such uncertainty is reflected in the various Moody's macroeconomic scenarios. Thus, our weightings and selection of Moody's macroeconomic scenarios may vary significantly from period to period.

Our annualized return on average assets was 2.13% for the third quarter and 2.26% for the first nine months of 2023 compared to 1.97% for the third quarter and 1.99% for the first nine months of 2022. Our annualized return on average common stockholders' equity was 14.81% for the third quarter and 15.06% for the first nine months of 2023 compared to 11.85% for the third quarter and 11.97% for the first nine months of 2022. Our annualized return on average tangible common stockholders' equity was 17.33% for the third quarter and 17.68% for the first nine months of 2023 compared to 14.02% for the third quarter and 14.14% for the first nine months of 2022. The calculations of our average tangible common stockholders' equity and our annualized return on average tangible common stockholders' equity and the reconciliations to GAAP are included under the heading "Capital Management" in this MD&A.

Total assets were $32.77 billion at September 30, 2023 compared to $27.66 billion at December 31, 2022. Total loans were $25.33 billion at September 30, 2023 compared to $20.78 billion at December 31, 2022. Deposits were $25.55 billion at September 30, 2023 compared to $21.50 billion at December 31, 2022.

Common stockholders' equity was $4.56 billion at September 30, 2023 compared to $4.35 billion at December 31, 2022. Tangible common stockholders' equity was $3.90 billion at September 30, 2023 compared to $3.69 billion at December 31, 2022. Book value per common share was $40.35 at September 30, 2023 compared to $37.13 at December 31, 2022. Tangible book value per common share was $34.50 at September 30, 2023 compared to $31.47 at December 31, 2022. The calculations of our common stockholders' equity, tangible common stockholders' equity and tangible book value per common share and the reconciliations to GAAP are included under the heading "Capital Management" in this MD&A.

Net Interest Income

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

Net interest income and net interest margin are analyzed in this discussion on a fully taxable equivalent ("FTE") basis. The adjustment to convert net interest income to an FTE basis consists of dividing tax-exempt interest income by one minus the statutory federal income tax rate of 21%. The FTE adjustments to net interest income were $2.6 million and $2.2 million for the three months ended September 30, 2023 and 2022, respectively, and $5.2 million and $4.5 million for the nine months ended September 30, 2023 and 2022, respectively. No adjustments have been made in this analysis for income exempt from state income taxes or for interest expense deductions disallowed under the provisions of the Internal Revenue Code ("IRC") as a result of investments in certain tax-exempt securities.

Net interest income for the third quarter of 2023 increased 24.6% to $369.9 million compared to $296.8 million for the third quarter of 2022. Net interest income for the first nine months of 2023 increased 32.2% to $1.08 billion compared to $0.81 billion for the first nine months of 2022. The increase in net interest income for the third quarter and first nine months of 2023 was primarily due to increases in our average earning assets and net interest margin compared to the same periods in 2022. Our net interest margin was 5.05% for the third quarter and 5.29% for the first nine months of 2023 compared to 5.03% for the third quarter and 4.60% for the first nine months of 2022. The increase in our net interest margin for the third quarter and first nine months of 2023 was primarily due to the increase in the yield on average earnings assets, partially offset by the rates paid on average interest bearing liabilities. In the third quarter and first nine months of 2023, our cost of interest bearing deposits ("COIBD") increased more than the yield on our loan portfolio, as deposit rates began to catch-up with changes in variable rate loan yields. Assuming that the Fed is at or near the end of its tightening cycle, we expect our COIBD will continue to increase in the coming quarters at a faster rate than increases, if any, in our loan yields, resulting in decreases in our net interest margin.

The increase in net interest margin of two basis points ("bps") for the third quarter of 2023 compared to the same period in 2022 was due to a change in the mix of interest earning assets and interest bearing liabilities and a 224 bps increase in the yield on our interest earning assets partially offset by a 287 bps increase in the rate on our interest bearing liabilities. The increase in net interest margin of 69 bps for the first nine months of 2023 compared to the same period in 2022 was due to a change in the mix of interest earning assets and interest bearing liabilities and a 260 bps increase in the yield on our interest earnings assets, partially offset by a 255 bps increase in the rate on our interest bearing liabilities. Average total earnings assets increased 24.2% to $29.05 billion for the third quarter of 2023 compared to $23.39 billion for the third quarter of 2022, and increased 14.8% to $27.20 billion for the first nine months of 2023 compared to $23.69 billion for the first nine months of 2022.

The yield on total earning assets was 7.76% for the third quarter and 7.52% for the first nine months of 2023 compared to 5.52% for the third quarter and 4.92% for the first nine months of 2022. The increase in the yield on earning assets for the third quarter and first nine months of 2023 was primarily attributable to the increases in yield and volume of our non-purchased loans, compared to the same periods in 2022.

The yield on our interest earning deposits and federal funds sold increased 307 bps to 5.16% for the third quarter and 403 bps to 4.83% for the first nine months of 2023 compared to 2.09% for the third quarter and 0.80% for the first nine months of 2022.

The yield on our aggregate investment securities portfolio increased 60 bps to 2.66% for the third quarter and 86 bps to 2.59% for the first nine months of 2023 compared to 2.06% for the third quarter and 1.73% for the first nine months of 2022. At September 30, 2023, our investment securities portfolio was classified as available-for-sale and we had no investment securities classified as held-to-maturity.

The yield on our non-purchased loans increased 227 bps to 8.59% for the third quarter and 264 bps to 8.39% for the first nine months of 2023 compared to 6.32% for the third quarter and 5.75% for the first nine months of 2022. The yield on our purchased loan portfolio increased 136 bps to 7.97% for the third quarter and increased five bps to 7.05% for the first nine months of 2023 compared to 6.61% for the third quarter and 7.00% for the first nine months of 2022. At September 30, 2023, approximately 80% of the funded balance of our total loans had variable rates of which 84% were tied to 1-month term Secured Overnight Financing Rate ("SOFR"), 14% to Wall Street Journal Prime Rate ("WSJ Prime"), and 2% to other indexes.

The overall increase in the rates paid on our average interest bearing liabilities increased 287 bps to 3.59% for the third quarter and 255 bps to 3.02% for the first nine months of 2023 compared to the same periods in 2022. The increase in rates on interest bearing liabilities for the third quarter and first nine months of 2023 compared to the same periods in 2022 was primarily due to an increase in rates paid on our interest bearing deposits, other borrowings and subordinated debentures.

The rate on our interest bearing deposits increased 289 bps to 3.48% for the third quarter and 253 bps to 2.90% for the first nine months of 2023 compared to 0.59% for the third quarter and 0.37% for the first nine months of 2022. Like many banks within our industry, we have seen a shift in the mix of deposits away from non-interest bearing and lower cost deposits to more time deposits as many customers have been taking advantage of increases in time deposit rates. As a result, the increase in rates paid on our interest bearing deposits was primarily due to an increase in rates paid on our savings and interest bearing transaction accounts and our time deposits during the third quarter and first nine months of 2023 compared to the same periods in 2022. Because of recent and expected increases in the federal funds rate, we would expect to experience further increases in the rates on our interest-bearing deposits in future periods. Additionally, changes in expected deposit levels necessary to fund future potential growth in earning assets, the level of on-balance sheet liquidity, or competitive conditions, among other factors, could significantly affect deposit costs in future periods.

Our other borrowing sources include (i) other borrowings, comprised primarily of FHLB advances and, to a lesser extent, federal funds purchased, (ii) subordinated notes and (iii) subordinated debentures. The increase in rates paid on our other borrowings for the third quarter and first nine months of 2023 is due to increases in the federal funds rate beginning in March 2022. Beginning July 1, 2023, the rates paid on our subordinated debentures are tied to spreads over the 3-month term SOFR. Prior to July 1, 2023, the rates paid on our subordinated debentures were tied to spreads over the 90-day LIBOR. The rates paid on our subordinated debentures, increased primarily due to increases in LIBOR during the first six months of 2023 and increases in 3-month term SOFR during the third quarter of 2023, compared to the same periods in 2022.

The increase in average earning assets for the third quarter and first nine months of 2023 compared to the same period in 2022 was primarily due to an increase in non-purchased loans, partially offset by a decrease in the average balance of investment securities. The increase in the average balance of interest bearing liabilities for the third quarter and first nine months of 2023 compared to the same periods in 2022 was primarily due to an increase in the average balance of interest bearing deposits and, to a lesser extent, other borrowings needed to fund the increase in our average earning assets.

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

Average Consolidated Balance Sheets and Net Interest Analysis – FTE

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2023			2022			2023			2022		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
	(Dollars in thousands)											
ASSETS												
Interest earning assets:												
Interest earning deposits and federal funds sold	$ 1,312,533	$ 17,061	5.16%	$ 699,489	$ 3,690	2.09%	$ 1,005,263	$ 36,338	4.83%	$ 1,023,707	$ 6,155	0.80%
Investment securities:												
Taxable	2,243,378	9,887	1.75	2,809,479	10,269	1.45	2,351,707	29,761	1.69	3,080,645	31,246	1.36
Tax-exempt – FTE	1,031,685	12,068	4.64	907,955	9,020	3.94	1,033,430	35,807	4.63	706,628	17,889	3.38
Non-purchased loans – FTE	24,162,671	523,124	8.59	18,544,681	295,311	6.32	22,472,789	1,410,764	8.39	18,413,106	792,025	5.75
Purchased loans	298,817	6,005	7.97	429,312	7,148	6.61	338,537	17,845	7.05	464,205	24,300	7.00
Total earning assets – FTE	29,049,084	568,145	7.76	23,390,916	325,438	5.52	27,201,726	1,530,515	7.52	23,688,291	871,615	4.92
Non-interest earning assets	2,557,808			2,474,862			2,554,214			2,460,424		
Total assets	$31,606,892			$25,865,778			$29,755,940			$26,148,715		
LIABILITIES AND STOCKHOLDERS' EQUITY												
Interest bearing liabilities:												
Deposits:												
Savings and interest bearing transaction	$ 8,806,690	$ 56,169	2.53 %	$ 9,614,806	$ 13,639	0.56%	$ 9,201,712	$ 147,334	2.14%	$ 9,611,716	$ 21,801	0.30%
Time deposits	11,606,189	122,654	4.19	5,232,727	8,358	0.63	9,621,410	261,243	3.63	5,464,267	19,542	0.48
Total interest bearing deposits	20,412,879	178,823	3.48	14,847,533	21,997	0.59	18,823,122	408,577	2.90	15,075,983	41,343	0.37
Other borrowings	1,048,566	14,326	5.42	517,161	2,460	1.89	783,566	30,339	5.20	647,083	4,500	0.93
Subordinated notes	347,456	2,631	3.00	346,642	2,631	3.01	347,254	7,808	3.01	346,433	7,808	3.01
Subordinated debentures	121,652	2,472	8.06	121,382	1,582	5.17	121,647	7,017	7.71	121,239	3,741	4.13
Total interest bearing liabilities	21,930,553	198,252	3.59	15,832,718	28,670	0.72	20,075,589	453,741	3.02	16,190,738	57,392	0.47
Non-interest bearing liabilities:												
Non-interest bearing deposits	4,294,191			4,998,392			4,370,763			4,915,023		
Other non-interest bearing liabilities	495,147			395,671			499,163			359,327		
Total liabilities	26,719,891			21,226,781			24,945,515			21,465,088		
Total stockholders' equity before noncontrolling interest	4,885,620			4,635,887			4,809,053			4,680,513		
Noncontrolling interest	1,381			3,110			1,372			3,114		
Total liabilities and stockholders' equity	$31,606,892			$25,865,778			$29,755,940			$26,148,715		
Net interest income – FTE		$ 369,893			$ 296,768			$1,076,774			$ 814,223	
Net interest margin – FTE			5.05%			5.03%			5.29%			4.60%
Core spread [(1)]			5.11%			5.73%			5.49%			5.38%

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

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

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

Analysis of Changes in Net Interest Income – FTE

	Three Months Ended September 30, 2023 Over Three Months Ended September 30, 2022			Nine Months Ended September 30, 2023 Over Nine Months Ended September 30, 2022		
	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	$ 7,968	$ 5,403	$ 13,371	$ (667)	$ 30,851	$ 30,184
Investment securities:						
Taxable	(2,495)	2,113	(382)	(9,225)	7,740	(1,485)
Tax-exempt – FTE	1,447	1,601	3,048	11,323	6,595	17,918
Non-purchased loans – FTE	121,630	106,183	227,813	254,853	363,887	618,740
Purchased loans	(2,621)	1,479	(1,142)	(6,624)	169	(6,455)
Total interest income – FTE	125,929	116,779	242,708	249,660	409,242	658,902
Interest expense:						
Savings and interest bearing transaction	(5,154)	47,684	42,530	(6,564)	132,097	125,533
Time deposits	67,354	46,942	114,296	112,876	128,825	241,701
Other borrowings	7,264	4,602	11,866	5,284	20,549	25,833
Subordinated notes	6	(6)	—	18	(18)	—
Subordinated debentures	6	884	890	24	3,252	3,276
Total interest expense	69,476	100,106	169,582	111,638	284,705	396,343
Increase in net interest income – FTE	$ 56,453	$ 16,673	$ 73,126	$ 138,022	$ 124,537	$ 262,559

Non-Interest Income

Our non-interest income consists primarily of service charges on deposit accounts, trust income, BOLI income, loan service, maintenance and other fees and net gains and losses on investment securities and sales of other assets. Non-interest income for the third quarter of 2023 was $25.7 million compared to $29.2 million for the third quarter of 2022. Non-interest income for the first nine months of 2023 was $85.5 million compared to $87.0 million for the first nine months of 2022.

Service charges on deposit accounts, our largest component of non-interest income, decreased 1.8% to $11.7 million for the third quarter of 2023 compared to $11.9 million for the third quarter of 2022. Service charges on deposit accounts decreased 0.6% to $34.0 million for the first nine months of 2023 compared to $34.2 million for the first nine months of 2022.

Included within service charges on deposit accounts are non-sufficient funds ("NSF") fees that totaled $1.1 million and $1.2 million for the third quarter of 2023 and 2022, respectively, and $3.1 million and $3.3 million for the first nine months of 2023 and 2022, respectively. Consistent with the industry trend, we have recently decided to eliminate NSF fees effective January 1, 2024, which we expect to result in a reduction in our service charges on deposit accounts by approximately $1.0 million per quarter.

Trust income increased 10.3% to $2.2 million for the third quarter of 2023 compared to $2.0 million for the third quarter of 2022 and increased 5.8% to $6.4 million for the first nine months of 2023 compared to $6.0 million for the first nine months of 2022. The increase in trust income for the third quarter and first nine months of 2023 was primarily due to increases in personal trust income.

BOLI income from the change in cash surrender value increased 6.3% to $5.3 million for the third quarter of 2023 compared to $4.9 million for the third quarter of 2022 and increased 4.9% to $15.3 million for the first nine months of 2023 compared to $14.6 million for the first nine months of 2022.

Loan service, maintenance, and other fees, which includes fees that are not considered yield adjustments, increased 16.9% to $4.0 million for the third quarter of 2023 compared to $3.4 million for the third quarter of 2022 and increased 21.2% to $12.2 million during the first nine months of 2023 compared to $10.0 million during the first nine months of 2022. Income from these items may vary significantly from period to period.

Gains on sales of other assets were $0.4 million for the third quarter and $5.7 million for the first nine months of 2023 compared to $3.2 million and $11.0 million for the third quarter and first nine months of 2022. Gains on sales of other assets may vary significantly from period to period.

We had net losses of $0.3 million and net gains of $2.1 million on trading investment securities sales during the third quarter and first nine months of 2023, respectively, compared to net gains of $0.3 million and $0.8 million on trading investment securities sales during the third quarter and first nine months of 2022, respectively.

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

Non-Interest Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Dollars in thousands)			
Service charges on deposit accounts:				
NSF fees	$ 1,102	$ 1,152	$ 3,097	$ 3,311
Overdraft fees	3,606	3,656	10,262	9,946
All other service charges	6,973	7,089	20,662	20,963
Trust income	2,213	2,007	6,358	6,012
BOLI income:				
Increase in cash surrender value	5,252	4,940	15,295	14,579
Death benefits	—	510	—	807
Loan service, maintenance and other fees	3,995	3,418	12,165	10,039
Gains on sales of other assets	364	3,182	5,740	10,957
Net gains (losses) on investment securities	(270)	321	2,066	762
Other	2,492	2,888	9,877	9,583
Total non-interest income	$ 25,727	$ 29,163	$ 85,522	$ 86,959

Non-Interest Expense

Our non-interest expense consists of salaries and employee benefits, net occupancy and equipment and other operating expenses. Non-interest expense increased 11.5% to $129.0 million for the third quarter of 2023 compared to $115.7 million for the third quarter of 2022. Non-interest expense increased 15.6% to $384.5 million for the first nine months of 2023 compared to $332.7 million for the first nine months of 2022. We expect continued increases in our total non-interest expenses in future quarters due to a combination of expected growth in our business and inflationary macroeconomic conditions.

Salaries and employee benefits, our largest component of non-interest expense, increased 11.7% to $64.1 million in the third quarter of 2023 compared to $57.4 million in the third quarter of 2022. Salaries and employee benefits increased 15.7% to $192.6 million in the first nine months of 2023 compared to $166.4 million in the first nine months of 2022. During the third quarter and first nine months of 2023, the increase in salaries and employee benefits was driven by competitive labor market conditions as well as an increase in staff to support the growth in our business. We expect further growth in headcount to support our anticipated growth in deposits, loans and other aspects of our business and this should result in further increases in non-interest expense in future quarters. Also, we believe that current economic conditions may present opportunities to add additional high-quality members to a number of our teams, which may result in further increases in salaries and benefits expense, while also producing future growth opportunities.

Net occupancy and equipment expenses decreased 2.5% to $17.8 million for the third quarter of 2023 compared to $18.2 million for the third quarter of 2022. Net occupancy and equipment expense increased 5.5% to $55.4 million for the first nine months of 2023 compared to $52.5 million for the first nine months of 2022.

Our aggregate other operating expenses increased 17.5% to $47.1 million for the third quarter of 2023 compared to $40.1 million for the third quarter of 2022. Our aggregate other operating expenses increased 20.0% to $136.6 million for the first nine months of 2023 compared to $113.8 million for the first nine months of 2022. The increase in our aggregate other operating expenses for the third quarter and first nine months of 2023 was primarily due to increases in our deposit insurance and assessments, amortization of CRA and tax credit investments and advertising and public relations, compared to the same periods in 2022.

Our efficiency ratio (non-interest expense divided by the sum of net interest income – FTE and non-interest income) was 32.6% for the third quarter and 33.1% for the first nine months of 2023 compared to 35.5% for the third quarter and 36.9% for the first nine months of 2022.

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

Non-Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Dollars in thousands)			
Salaries and employee benefits	$ 64,107	$ 57,367	$ 192,576	$ 166,427
Net occupancy and equipment	17,797	18,244	55,357	52,474
Other operating expenses:				
Software and data processing	9,584	8,700	28,634	25,861
Deposit insurance and assessments	5,500	2,650	14,548	6,900
Professional and outside services	4,640	5,403	15,190	15,929
Advertising and public relations	3,779	3,448	10,998	5,810
Telecommunication services	1,943	1,921	6,614	5,852
ATM expense	1,927	1,500	5,725	4,497
Travel and meals	1,926	1,962	5,644	5,906
Postage and supplies	1,716	2,035	5,859	5,240
Loan collection and repossession expense	1,210	402	2,113	1,081
Amortization of intangibles	376	1,298	2,754	4,331
Writedowns of foreclosed and other assets	141	87	1,106	345
Amortization of CRA and tax credit investments	8,171	5,155	20,151	14,885
Other	6,161	5,519	17,280	17,170
Total non-interest expense	$ 128,978	$ 115,691	$ 384,549	$ 332,708

We anticipate the FDIC will enact a special assessment in the fourth quarter of 2023 or first quarter of 2024 that could significantly increase our non-interest expense. Based on the FDIC's current proposal, the Bank estimates our total cost to be approximately $9.0 million that will be recognized in the quarter the FDIC finalizes the assessment. The ultimate impact and timing of recognition is subject to change pending the assessment's finalization.

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

PPNR is a measure of earnings before provision for credit losses and income tax expense. We use PPNR, which is a non-GAAP financial measure, to measure our core earnings and trends. PPNR increased 26.9% to $264.0 million for the third quarter and increased 36.5% to $769.9 million for the first nine months of 2023 compared to $208.1 million for the third quarter and $564.0 million for the first nine months of 2022. The increase in PPNR was primarily the result of increased net interest income, which is analyzed in the MD&A under the caption "Net Interest Income." This non-GAAP financial measure should not be viewed as a substitute for financial measures determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP financial measures that may be presented by other companies.

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

Calculation of Pre-Tax Pre-Provision Net Revenue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Dollars in thousands)			
Net income available to common stockholders	$ 169,746	$ 128,302	$ 503,517	$ 388,688
Preferred stock dividends	4,047	4,047	12,141	12,574
Earnings attributable to noncontrolling interest	37	—	50	3
Provision for income taxes	46,144	35,969	132,564	111,754
Provision for credit losses	44,036	39,771	121,638	50,986
Pre-tax pre-provision net revenue	$ 264,010	$ 208,089	$ 769,910	$ 564,005

Income Taxes

The provision for income taxes was $46.1 million for the third quarter and $132.6 million for the first nine months of 2023 compared to $36.0 million for the third quarter and $111.8 million for the first nine months of 2022. The effective income tax rate was 21.0% for the third quarter and 20.4% for the first nine months of 2023 compared to 21.4% for the third quarter and 21.8% for the first nine months of 2022. The decrease in the effective tax rate for the third quarter and first nine months of 2023 compared to the same periods in 2022 was primarily due to an increase in federal tax credits and changes in non-taxable income and non-deductible expenses. Accounting for our income taxes is deemed a critical accounting estimate and is discussed in the Critical Accounting Estimates section of our annual report on Form 10-K for the year ended December 31, 2022.

ANALYSIS OF FINANCIAL CONDITION

RISK ELEMENTS

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

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

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

- First line of defense activities provide for the identification, acceptance and ownership of risks. These defense activities are typically executed by various lines of business personnel and owners.

- Second line of defense activities provide for objective oversight of our risk-taking activities and assessment of our aggregate risk levels. These defense activities are executed under the leadership and guidance of our Corporate Risk Management Group ("CRMG") and our CRO, who reports directly to our BRC.

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

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

Credit Risk Management

Overview. Credit risk is defined as the risk that arises from the potential that a borrower or counterparty will fail to perform its financial or contractual obligations. Credit risk arises primarily from our lending activities, including our off-balance sheet credit instruments comprised primarily of construction loans that have closed but have not yet funded. The Board is responsible for approving overall credit policies relating to the management of credit risk and the Bank's overall credit risk appetite, along with overseeing and monitoring credit risk. Our lending policies also contain various measures to limit concentration exposures, including customer and commercial real estate ("CRE") exposures for both funded and unfunded balances in the aggregate, as well as by property type and geography. Our Loan Committee ("LC") has primary responsibility for monitoring our credit approval process. The LC consists of our Chairman & Chief Executive Officer ("CEO"), President, Chief Credit Officer ("CCO") and Chief Lending Officer ("CLO"). Loans and aggregate loan relationships exceeding $20 million up to the limits established by our Board must be approved by the LC. Our Portfolio Oversight Committee ("POC") oversees the performance and overall quality of our loan portfolio. The POC is comprised of three directors and is chaired by our CEO. At least quarterly, our Board and/or POC 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. The daily administration of our lending function is the responsibility of our CEO, President, CLO and CCO. We maintain a tiered loan limit authorization system. Loan authority is granted to the CEO, CLO and CCO by the Board. The loan authorities of other lending officers are granted by the LC (and ratified by the POC) on the recommendation of appropriate senior officers in amounts commensurate with the officer's skill level and knowledge.

We have detailed, comprehensive standards for evaluating credit risk, both at the point of origination and thereafter. We utilize a dual risk rating system that incorporates scorecards, which assess quantitative models and qualitative factors, in determining the risk rating for our commercial loans. This dual risk rating methodology incorporates an Obligor Risk Rating ("ORR") and a Facility Risk Rating ("FRR") which are combined to create a two-dimensional risk rating for commercial loans. The ORR is influenced by a loan's probability of default as determined from the scorecards. The FRR is influenced by a loan's loss given default as determined from the scorecards. The combined dual risk rating provides an annualized expected loss estimate for each commercial loan and, based on such loss estimate, a regulatory risk rating is assigned. Additionally, we may apply risk rating "overrides" whereby management may further adjust a loan's risk rating to the extent we believe there is information about a loan or a borrower that is not fully reflected in the ORR and/or the FRR. Our consumer loans and certain small business loans are not risk rated in the same manner as our other commercial loans. Instead, such consumer and small business loans are risk rated based on past due status with all such loans that are less than 30 days past due typically assigned a "pass rating" and all loans that are 30 days or more past due assigned a more adverse rating commensurate with each loan's perceived risk. While our consumer loans and certain small business loans are not risk rated using a dual risk rating scale that incorporates both an ORR and an FRR, we do utilize output from the scorecards on such consumer and small business loans for purposes of determining the necessary ACL for those consumer and small business loans.

Oversight of credit risk is provided through loan policy and various other credit-related policies, clearly defined processes and detailed procedures in conjunction with our credit risk appetite. These policies, processes and procedures place emphasis on strong underwriting standards and detection of potential credit problems in order to develop and implement any necessary action plan(s) on a timely basis to mitigate potential losses and are carried out by our lenders and lending support personnel, our credit administration group, our underwriters and various other officers and personnel in the Bank that have credit management responsibilities.

Additionally, our policies, process and procedures are subject to review by our Credit Risk Management ("CRM") group (second line oversight), our BRC and periodic audits by our Internal Audit group (third line oversight). Our Board approved credit risk appetite is monitored at least on a quarterly basis through our credit risk profile which is further categorized into default risk (risk of loss arising from a debtor being unlikely to pay its loan obligations in full) and concentration risk (risk associated with any single exposure or group of exposures with the potential to produce large enough losses to threaten the Bank's core operations).

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

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

Loan Portfolio. At September 30, 2023, the funded balance of our total loan portfolio was $25.33 billion, an increase of 21.9% from $20.78 billion at December 31, 2022. Real estate loans, our largest category of loans, include all loans made to finance the development of real property construction projects, provided such loans are secured by real estate and all other loans secured by real estate as evidenced by mortgages or other liens. Total real estate loans were $19.26 billion, or 76.0% of total loans, at September 30, 2023 compared to $15.60 billion, or 75.1% of total loans, at December 31, 2022.

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

Total Loan Portfolio

	September 30, 2023		December 31, 2022	
	(Dollars in thousands)			
Real estate:				
Residential 1-4 family	$ 960,262	3.8%	$ 981,567	4.7%
Non-farm/non-residential	5,251,392	20.7	4,665,268	22.5
Construction/land development	10,743,850	42.4	8,215,056	39.5
Agricultural	254,147	1.0	239,689	1.2
Multifamily residential	2,045,927	8.1	1,503,398	7.2
Total real estate	19,255,578	76.0	15,604,978	75.1
Commercial and industrial	1,257,018	5.0	902,321	4.3
Consumer	2,936,455	11.6	2,445,851	11.8
Other	1,882,689	7.4	1,825,641	8.8
Total loans	25,331,740	100.0%	20,778,791	100.0%
Allowance for loan losses	(303,358)		(208,858)	
Net loans	$ 25,028,382		$ 20,569,933	

Included in “other” loans at September 30, 2023 and December 31, 2022 are loans totaling approximately $1.10 billion and approximately $1.55 billion, respectively, made to non-depository financial institutions and typically collateralized by an assignment of a promissory note and all related note documents including mortgages, deeds of trust, or other documents (“debt-on-debt” loans). While such loans are considered “other” loans in accordance with FDIC instructions for the Federal Financial Institutions Examination Council 041 Consolidated Reports of Condition and Income (“Call Report”), we underwrite these lending transactions based on the fundamentals of the underlying collateral, repayment sources and guarantors, among other factors, consistent with other similar lending transactions.

Our credit risk management strategies include efforts to avoid risk of undue concentrations of credit in a particular collateral type, geography or with an individual customer. While we do have concentrations in CRE lending, our CRE loan portfolio is diversified by geography and collateral type. 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 stress testing activities and other factors.

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

Top Ten Geographies and MSAs for Real Estate Loans

Geography or MSA	Funded Balance	Unfunded Balance	Total Commitment
		(Dollars in thousands)	
September 30, 2023:			
New York–Newark–Jersey City, NY–NJ–PA MSA	$ 2,355,530	$ 1,768,450	$ 4,123,980
Miami–Fort Lauderdale–Pompano Beach, FL MSA	1,436,910	1,450,861	2,887,771
San Diego–Chula Vista–Carlsbad, CA MSA	742,858	1,252,495	1,995,353
Atlanta–Sandy Springs–Alpharetta, GA MSA	1,161,838	785,871	1,947,709
Los Angeles–Long Beach–Anaheim, CA MSA	1,396,644	488,929	1,885,573
Dallas–Fort Worth–Arlington, TX MSA	1,083,891	790,356	1,874,247
San Francisco–Oakland–Berkeley, CA MSA	705,146	836,016	1,541,162
Chicago–Naperville–Elgin, IL–IN–WI MSA	1,028,105	483,807	1,511,912
Phoenix–Mesa–Chandler, AZ MSA	348,838	925,563	1,274,401
Washington–Arlington–Alexandria, DC–VA–MD–WV MSA	430,414	842,497	1,272,911
All other geographies	8,565,404	7,576,690	16,142,094
Total real estate loans	$ 19,255,578	$ 17,201,535	$ 36,457,113
December 31, 2022:			
New York–Newark–Jersey City, NY–NJ–PA MSA	$ 2,006,978	$ 1,822,335	$ 3,829,313
Miami–Fort Lauderdale–Pompano Beach, FL MSA	1,205,576	1,248,235	2,453,811
Los Angeles–Long Beach–Anaheim, CA MSA	1,261,411	754,475	2,015,886
Atlanta–Sandy Springs–Alpharetta, GA MSA	844,264	1,109,441	1,953,705
Dallas–Fort Worth–Arlington, TX MSA	853,412	1,013,909	1,867,321
San Diego–Chula Vista–Carlsbad, CA MSA	351,711	1,332,696	1,684,407
San Francisco–Oakland–Berkeley, CA MSA	380,881	1,176,116	1,556,997
Chicago–Naperville–Elgin, IL–IN–WI MSA	910,818	561,949	1,472,767
Washington–Arlington–Alexandria, DC–VA–MD–WV MSA	316,493	1,025,137	1,341,630
Phoenix–Mesa–Chandler, AZ MSA	493,740	677,426	1,171,166
All other geographies	6,979,694	7,436,101	14,415,795
Total real estate loans	$ 15,604,978	$ 18,157,820	$ 33,762,798

Debt-on-debt loans are reported as “other” loans in accordance with Call Report instructions and are excluded from the above table.

In addition to the top ten geographies and MSAs shown above, as of September 30, 2023 and December 31, 2022, we had 82 and 88 additional geographies and MSAs that contain total committed balances (both funded and unfunded) of $10 million or more.

Given that we have substantial balances of certain categories of CRE lending (i.e., non-farm/non-residential and construction/land development lending), we have provided further detail on these two categories of loans. The funded amount and type of total non-farm/non-residential loans, as of the dates indicated, and their respective percentage of the total non-farm/non-residential loan portfolio are reflected in the following table.

Total Non-Farm/Non-Residential Loans

	September 30, 2023		December 31, 2022	
	(Dollars in thousands)			
Office, including medical offices	$ 2,087,920	39.8%	$ 1,696,572	36.4%
Hotels and motels	1,047,430	19.9	1,133,706	24.3
Manufacturing and industrial facilities	644,241	12.3	611,520	13.1
Retail, including shopping centers and strip centers	309,307	5.9	358,981	7.7
Churches and schools	214,979	4.1	196,752	4.2
Mixed use properties	207,548	4.0	61,069	1.3
Life Science	150,850	2.9	—	—
Office warehouse, warehouse and mini-storage	119,297	2.3	119,276	2.6
Restaurants and bars	116,370	2.2	109,016	2.3
Gasoline stations and convenience stores	90,615	1.7	91,012	2.0
Golf courses, entertainment and recreational facilities	38,358	0.7	38,273	0.8
Other non-farm/non-residential	224,477	4.2	249,091	5.3
Total	$ 5,251,392	100.0%	$ 4,665,268	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

	September 30, 2023		December 31, 2022	
	(Dollars in thousands)			
Unimproved land	$ 848,961	7.9%	$ 683,356	8.3%
Land development and lots:				
1-4 family residential and multifamily	641,527	6.0	706,483	8.6
Non-residential	492,474	4.6	483,294	5.9
Construction:				
1-4 family residential:				
Owner occupied	6,292	0.1	6,220	0.1
Non-owner occupied	1,617,381	15.1	1,295,091	15.8
Multifamily	2,671,699	24.9	1,916,637	23.3
Industrial, commercial and other:				
Mixed use properties	1,842,221	17.0	1,564,915	19.0
Life science	929,429	8.6	546,251	6.6
Manufacturing, industrial and warehouse	795,737	7.4	352,911	4.3
Offices, including medical offices	689,603	6.4	499,274	6.1
Hotels and motels	100,259	0.9	36,765	0.4
Agricultural	28,973	0.3	34,070	0.4
Retail, including shopping centers and strip centers	17,174	0.2	22,634	0.3
Churches and schools	16,750	0.2	26,031	0.3
Other	45,370	0.4	41,124	0.6
Total	$ 10,743,850	100.0%	$ 8,215,056	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, capital sources other than our loans, total an amount sufficient to cover all soft costs, including construction period interest and an appropriate portion of the hard costs. While we advance interest reserves as part of the funding process, this has been considered in determining the borrower's initial equity contribution. During the three and nine months ended September 30, 2023 and 2022, there were no situations where interest reserves were advanced outside of the terms of the contractual loan agreement to avoid such loan from becoming nonperforming. At September 30, 2023 and December 31, 2022, we had no construction and development loans with interest reserves that were nonperforming.

During the third quarter and first nine months of 2023, we recognized approximately $109.0 million and $285.6 million, respectively, of interest income on construction and development loans from the advance of interest reserves, compared to approximately $86.9 million and $240.0 million during the comparable periods in 2022. We advanced construction period interest on construction and development loans totaling approximately $101.7 million and $273.7 million, respectively, in the third quarter and in the first nine months of 2023 compared to approximately $85.4 million and $244.8 million, respectively, in the third quarter and first nine months of 2022.

The maximum committed balance of all construction and development loans which provide for the use of interest reserves at September 30, 2023 was approximately $24.92 billion, of which $9.66 billion was outstanding at September 30, 2023 and $15.26 billion remained to be advanced. The weighted-average loan-to-cost ("LTC") on such loans, assuming such loans are ultimately fully advanced, was approximately 54%, which means that the weighted-average cash equity contributed on such loans, assuming such loans are ultimately fully advanced, was approximately 46%. The weighted-average loan-to-value ("LTV") on such loans, based on the most recent appraisals and assuming such loans are ultimately fully advanced, was approximately 44%.

Purchased Loans. Between 2010 and 2016, we made 15 acquisitions. Purchased loans, which are the remaining loans from those 15 acquisitions, accounted for 1.1% of our total loan portfolio at September 30, 2023 compared to 1.8% at December 31, 2022. This portfolio is expected to continue to decrease in future periods as such loans are repaid.

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

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

Purchased Loans

	September 30, 2023	December 31, 2022
	(Dollars in thousands)	
Loans not deemed PCD:		
Unpaid principal balance	$ 268,392	$ 362,548
Valuation discount	(2,995)	(4,079)
Carrying value	265,397	358,469
PCD loans:		
Unpaid principal balance	17,588	23,009
Valuation discount	(2,459)	(2,841)
Carrying value	15,129	20,168
Total carrying value	$ 280,526	$ 378,637

Nonperforming Assets. Our nonperforming assets consist of (1) nonaccrual loans, (2) accruing loans 90 days or more past due and (3) real estate or other assets that have been acquired in partial or full satisfaction of loan obligations or upon foreclosure or former branches which are no longer being utilized for banking purposes.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. We generally place a loan on nonaccrual status when such loan is (i) deemed nonperforming or (ii) 90 days or more past due, or earlier when doubt exists as to the ultimate collection of payments. We may continue to accrue interest on certain loans contractually past due 90 days or more if such loans are both well secured and in the process of collection. At the time a loan is placed on nonaccrual status, interest previously accrued but uncollected is reversed and charged against interest income. Nonaccrual loans are generally returned to accrual status when payments are no longer past due, the loan has performed in accordance with its contractual terms for a reasonable period of time (generally at least six months) and is expected to continue to perform in accordance with its contractual terms. If a loan is determined to be uncollectible, the portion of the principal determined to be uncollectible is charged against the ACL.

The following table presents information concerning nonperforming assets as of the dates indicated.

Nonperforming Assets

	September 30, 2023	December 31, 2022
	(Dollars in thousands)	
Nonaccrual loans (1)	$ 62,648	$ 37,079
Accruing loans 90 days or more past due	—	—
TDRs – nonaccruing (1) (4)	—	6,332
TDRs – accruing (1) (4)	—	1,680
Total nonperforming loans, excluding purchased loans	62,648	45,091
Nonaccrual purchased loans	5,585	5,513
TDRs – nonaccruing purchased (4)	—	1,519
TDRs – accruing purchased (4)	—	239
Total nonperforming loans	68,233	52,362
Foreclosed assets	68,738	6,616
Total nonperforming assets	$ 136,971	$ 58,978
Nonperforming loans to total loans, excluding purchased loans (1)	0.25%	0.22%
Nonperforming loans to total loans	0.27	0.25
Nonaccrual loans to total loans	0.27	0.24
Nonperforming assets to total assets, excluding purchased loans (2)	0.40	0.19
Nonperforming assets to total assets	0.42	0.21
ALL to nonaccrual loans (3)	445%	414%

(1) Excludes purchased loans.
(2) Excludes purchased loans, except for their inclusion in total assets.
(3) Excludes reserve for losses on unfunded loan commitments.
(4) On January 1, 2023, the Bank adopted ASU 2022-02 *"Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures"* which eliminated the TDR recognition and measurement guidance upon adoption.

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

At September 30, 2023, we had reduced the carrying value of our nonperforming loans to the estimated fair value of such loans of $54.8 million. The adjustment to reduce the carrying value of such nonperforming loans to the estimated fair value consisted of $13.4 million of allowance for loan loss allocations.

At September 30, 2023 and December 31, 2022 substandard loans not designated as nonperforming, nonaccrual or 90 days past due, totaled $52.6 million and $52.5 million, respectively. No loans were designated as doubtful or loss at September 30, 2023 or December 31, 2022. Included in substandard loans not deemed as nonperforming, nonaccrual or 90 days or more past due at September 30, 2023 and December 31, 2022 was a single credit originated by our Real Estate Specialties Group ("RESG"). This credit consisted of a $56 million commitment that has been substandard accrual since 2019 and is collateralized by a lot development and a townhouse construction project near Lake Tahoe, California. This credit was not past due at September 30, 2023 or December 31, 2022.

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

Foreclosed Assets

	September 30, 2023	December 31, 2022
	(Dollars in thousands)	
Real estate:		
Non-farm/non-residential	$ 8,018	$ 6,133
Construction/land development	59,975	11
Total real estate	67,993	6,144
Consumer	745	472
Total foreclosed assets	$ 68,738	$ 6,616

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

Activity Within Foreclosed Assets

	Nine Months Ended September 30,	
	2023	2022
	(Dollars in thousands)	
Balance – beginning of period	$ 6,616	$ 5,744
Loans and other assets transferred into foreclosed assets	72,419	9,364
Sales of foreclosed assets	(9,191)	(8,204)
Writedowns of foreclosed assets	(1,106)	(345)
Balance – end of period	$ 68,738	$ 6,559

The following table presents information concerning the geographic location of nonperforming assets at September 30, 2023. Nonperforming loans are reported in the physical location of the principal collateral. Foreclosed assets are reported in the physical location of the asset. Repossessions are reported at the physical location where the borrower resided or had its principal place of business at the time of repossession.

Geographic Distribution of Nonperforming Assets

	Total Nonperforming Loans	Foreclosed Assets and Repossessions	Total Nonperforming Assets
		(Dollars in thousands)	
California	$ 1,205	$ 59,964	$ 61,169
Minnesota	19,944	—	19,944
Arkansas	14,476	253	14,729
Florida	5,146	6,983	12,129
Texas	9,804	931	10,735
Georgia	8,600	11	8,611
North Carolina	3,143	—	3,143
Alabama	520	—	520
All other	5,395	596	5,991
Total	$ 68,233	$ 68,738	$ 136,971

Allowance for Credit Losses. Our provision for credit losses for the third quarter of 2023 was $44.0 million, including a provision expense of $49.5 million related to our allowance for loan losses ("ALL") for outstanding loans and a negative provision of $5.5 million related to our reserve for losses on unfunded loan commitments. Our provision for credit losses for the first nine months ended September 30, 2023 was $121.6 million, including a provision expense of $119.9 million related to our ALL for outstanding loans and a provision expense of $1.7 million related to our reserve for losses on unfunded loan commitments. Our provision for credit losses for the third quarter of 2022 was $39.8 million, including a provision expense of $13.4 million related to our ALL for outstanding loans and a provision expense of $26.4 million related to our reserve for losses on unfunded loan commitments. Our provision for credit losses for the nine months ended September 30, 2022 was $51.0 million, including a negative provision of $12.9 million related to our ALL for outstanding loans and a provision expense of $63.9 million related to our reserve for losses on unfunded loan commitments.

The calculations of our provision for credit losses for the third quarter and first nine months of 2023 and our total ACL at September 30, 2023 were based on a number of key estimates, assumptions and economic forecasts. Management utilized recent economic forecasts provided by Moody's, including the Moody's updates released in September 2023. In selecting the weightings for the various economic scenarios for purposes of determining our ACL at September 30, 2023, we remain weighted to the downside as the combined weightings assigned to the Moody's S4 (Alternative Adverse Downside) and the Moody's S6 (Stagflation) scenarios exceeded that of the Moody's Baseline scenario. The Bank's selection and weightings of these scenarios reflected its assessment of conditions in the U.S. economy, and acknowledged the uncertainty regarding future U.S. economic conditions, including the elevated risks from: a possible recession; inflationary pressures; increases in the Fed funds target rate and quantitative tightening; U.S. fiscal policy actions; banking industry turmoil; supply chain disruptions; global trade and geopolitical matters; the ongoing war in Ukraine, the conflict in the Middle East, and various other factors. These forecasts included a number of economic variables, including gross domestic product, unemployment rates, commercial and residential real estate prices and consumer price index, among others. For purposes of the forecasts used in our Current Expected Credit Loss ("CECL") methodology, management utilized a reasonable and supportable forecast period of two years, followed by a reversion of estimated losses on a systematic basis back to our historical mean. Management also utilized certain qualitative adjustments to increase our ACL estimates to capture items that management believed were not fully reflected in our modeled results. Those qualitative adjustments are intended to adjust for imprecision in economic forecasts, model data limitations and other factors. CECL has and is expected to continue to increase the volatility in our provision for credit losses and associated ACL from period to period.

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

Allowance for Credit Losses

	Allowance for Loan Losses	Reserve for Losses on Unfunded Loan Commitments	Total Allowance for Credit Losses
		(Dollars in thousands)	
Three months ended September 30, 2023:			
Balances – June 30, 2023	$ 263,188	$ 163,632	$ 426,820
Net charge-offs	(9,370)	—	(9,370)
Provision for credit losses	49,540	(5,504)	44,036
Balances – September 30, 2023	$ 303,358	$ 158,128	$ 461,486
Nine months ended September 30, 2023:			
Balances – December 31, 2022	$ 208,858	$ 156,419	$ 365,277
Net charge-offs	(25,429)	—	(25,429)
Provision for credit losses	119,929	1,709	121,638
Balances – September 30, 2023	$ 303,358	$ 158,128	$ 461,486
Three months ended September 30, 2022:			
Balances – June 30, 2022	$ 190,795	$ 109,143	$ 299,938
Net charge-offs	(4,074)	—	(4,074)
Provision for credit losses	13,377	26,394	39,771
Balances – September 30, 2022	$ 200,098	$ 135,537	$ 335,635
Nine months ended September 30, 2022:			
Balances – December 31, 2021	$ 217,380	$ 71,609	$ 288,989
Net charge-offs	(4,340)	—	(4,340)
Provision for credit losses	(12,942)	63,928	50,986
Balances – September 30, 2022	$ 200,098	$ 135,537	$ 335,635

The amount of our provision to the ACL is based on our analysis of the adequacy of the ACL utilizing the criteria discussed in the Critical Accounting Estimates section of our annual report on Form 10-K for the year ended December 31, 2022.

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

Net Charge-off and ACL/ALL Ratios

	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,		As of and for the Year Ended December 31,
	2023	2022	2023	2022	2022
Net charge-offs of non-purchased loans to total average non-purchased loans (1)(2)	0.17%	0.09%	0.12%	0.07%	0.07%
Net charge-offs of total loans to total average loans (1)	0.15	0.09	0.15	0.03	0.04
ALL to total loans (3)	1.20	1.03	1.20	1.03	1.01
Reserve for losses on unfunded loan commitments to total unfunded loan commitments	0.77	0.67	0.77	0.67	0.74
ACL to total loans	1.82	1.72	1.82	1.72	1.76
ACL to total loans and unfunded loan commitments	1.00	0.85	1.00	0.85	0.87
ALL to nonperforming loans (3)	445	582	445	582	399
ACL to nonperforming loans	676	976	676	976	698

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

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

Allocation of the ALL

	September 30, 2023			December 31, 2022		
	ALL	% of ALL to Loans	% of Loans to Total Loans	ALL	% of ALL to Loans	% of Loans to Total Loans
	(Dollars in thousands)					
ALL for loans:						
Real estate:						
Residential 1-4 family	$ 19,020	2.0%	3.8%	$ 19,506	2.0%	4.7%
Non-farm/non-residential	43,369	0.8	20.7	43,605	0.9	22.5
Construction/land development	93,477	0.9	42.4	66,467	0.8	39.5
Agricultural	3,762	1.5	1.0	3,512	1.5	1.2
Multifamily residential	13,836	0.7	8.1	5,345	0.4	7.2
Commercial and industrial	7,437	0.6	5.0	8,728	1.0	4.3
Consumer	106,394	3.6	11.6	50,202	2.1	11.8
Other	16,063	0.9	7.4	11,493	0.6	8.8
Total ALL	$ 303,358	1.2%	100.0%	$ 208,858	1.0%	100.0%

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

Allocation of ACL

	ALL	Reserve for Losses on Unfunded Loan Commitments	Total ACL
		(Dollars in thousands)	
September 30, 2023:			
Real estate:			
Residential 1-4 family	$ 19,020	$ 1,282	$ 20,302
Non-farm/non-residential	43,369	4,403	47,772
Construction/land development	93,477	108,300	201,777
Agricultural	3,762	59	3,821
Multifamily residential	13,836	1,219	15,055
Commercial and industrial	7,437	15,348	22,785
Consumer	106,394	138	106,532
Other	16,063	27,379	43,442
Total	$ 303,358	$ 158,128	$ 461,486
December 31, 2022:			
Real estate:			
Residential 1-4 family	$ 19,506	$ 1,192	$ 20,698
Non-farm/non-residential	43,605	2,665	46,270
Construction/land development	66,467	125,818	192,285
Agricultural	3,512	22	3,534
Multifamily residential	5,345	479	5,824
Commercial and industrial	8,728	8,641	17,369
Consumer	50,202	145	50,347
Other	11,493	17,457	28,950
Total	$ 208,858	$ 156,419	$ 365,277

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 obtain adequate funding or liquidate assets (referred to as "funding liquidity risk") or that we cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions (referred to as "market liquidity risk"). Our Board-approved liquidity risk appetite, which is monitored through our liquidity risk profile, is further categorized into the following risks: liquid asset management risk (risk of acute funding stress related to insufficient levels of liquid assets), funding diversity and stability risk (risk of loss of a single large funding source that may lead to an inability to fund our business strategy and require us to sell assets or curtail growth) and funding capacity/contingency planning risk (risk of unanticipated growth from lending businesses or unexpected customer activity may lead to unexpected increases in demands on liquidity). Our Assets and Liability Committee ("ALCO") has primary responsibility for oversight of, among other responsibilities, our liquidity, funds management, asset/liability (interest rate risk) position, capital and our investment portfolio functions.

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

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

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

Deposits – By Account Type

	September 30, 2023		December 31, 2022	
	(Dollars in thousands)			
Non-interest bearing	$ 4,283,925	16.8%	$ 4,658,451	21.7%
Interest bearing:				
Transaction (NOW)	4,319,285	16.9	4,097,532	19.1
Savings and money market	4,710,325	18.4	5,808,185	27.0
Time deposits	12,239,321	47.9	6,935,975	32.2
Total deposits	$ 25,552,856	100.0%	$ 21,500,143	100.0%

Our total deposits increased 18.8% to $25.55 billion at September 30, 2023 compared to $21.50 billion at December 31, 2022. Our loan-to-deposit ratio at September 30, 2023 was 99.1% compared to 96.6% at December 31, 2022.

In recent years, we have worked to improve the mix and quality of our deposit base by focusing significant efforts on growing our core relationships. This groundwork has been very helpful in the current environment, allowing us to continue to grow deposits even as many banks have seen deposit outflows. Like many in the industry, we have seen a shift in the mix of deposits away from noninterest bearing and lower cost deposits to more time deposits as many customers have been taking advantage of increases in time deposit rates. Most of our deposits are generated through our network of 229 retail branches in Arkansas, Georgia, Florida, North Carolina and Texas. Because of the substantial "retail" nature of our deposit base, the majority of our deposits are insured (67% at September 30, 2023) and, in the case of public funds deposits, secured (approximately 14% at September 30, 2023). As of September 30, 2023, our average deposit account balance was approximately $42,000. The diversity of our deposit base is an important factor in the stability of our deposits, as demonstrated in recent quarters.

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

Deposits – By Customer Type

	September 30, 2023		December 31, 2022	
	(Dollars in thousands)			
Non-interest bearing	$ 4,283,925	16.8%	$ 4,658,451	21.7%
Interest bearing:				
Consumer and commercial:				
Consumer – Non-Time	2,928,352	11.5	3,916,078	18.2
Consumer – Time	8,756,078	34.3	4,936,061	23.0
Commercial – Non-Time	2,320,691	9.1	2,741,007	12.7
Commercial – Time	683,849	2.7	516,477	2.4
Public funds	2,992,447	11.7	2,103,392	9.8
Brokered	2,774,888	10.9	2,050,294	9.5
Reciprocal	812,626	3.0	578,383	2.7
Total deposits	$ 25,552,856	100.0%	$ 21,500,143	100.0%

At September 30, 2023, brokered deposits totaled $2.77 billion, compared to $2.05 billion at December 31, 2022. Brokered deposits totaled 10.9% and 9.5% of total deposits as of September 30, 2023 and December 31, 2022, respectively. 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 primary source of funding. Our Board has established policies and procedures with respect to the use of brokered deposits. Such policies and procedures require, among other things, that (i) we limit the amount of brokered deposits as a percentage of total deposits and (ii) ALCO monitor our use of brokered deposits on a regular basis, including interest rates and the volume of such deposits in relation to our total deposits.

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

Average Deposit Balances and Rates

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(Dollars in thousands)							
Interest bearing:								
Transaction (NOW)	$ 4,130,496	2.94%	$ 3,452,271	0.66%	$ 4,138,807	2.51%	$ 3,417,634	0.34%
Savings and money market	4,676,194	2.17	6,162,535	0.51	5,062,905	1.84	6,194,082	0.28
Time deposits	11,606,189	4.19	5,232,727	0.63	9,621,410	3.63	5,464,267	0.48
Total interest-bearing deposits	20,412,879	3.48	14,847,533	0.59	18,823,122	2.90	15,075,983	0.37
Non-interest bearing	4,294,191	—	4,998,392	—	4,370,763	—	4,915,023	—
Total deposits	$ 24,707,070	2.87	$ 19,845,925	0.44	$ 23,193,885	2.36	$ 19,991,006	0.28

The calculation of the average rate paid on total interest bearing deposits of 3.48% for the three months and 2.90% for the nine months ended September 30, 2023 and 0.59% for the three months and 0.37% for the nine months ended September 30, 2022, 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 2.87% for the three months and 2.36% for the nine months ended September 30, 2023 and 0.44% for the three months and 0.28% for the nine months ended September 30, 2022. Because of the recent and possible further increases in the federal funds target rate, we expect further increases in our rates on interest-bearing deposits in future periods. Future increases or decreases in the rate paid on our interest bearing deposits will depend on funding needs to support growth in our earning assets, changes in the federal funds rate and other interest rates, competitive conditions and other factors.

The estimated amount of uninsured deposits at September 30, 2023 was $8.29 billion compared to $7.43 billion at December 31, 2022. Estimated uninsured deposits exclude intercompany deposits that are eliminated in financial consolidation. The following table sets forth time deposits that exceed FDIC insurance limits or are otherwise uninsured as of the dates indicated.

Maturity Distribution of Time Deposits

	Individual Time Deposits that Exceed the FDIC Insurance Limit	Estimated Aggregate Time Deposits that Exceed the FDIC Insurance Limit or Otherwise Uninsured Time Deposits
	(Dollars in thousands)	
September 30, 2023:		
3 months or less	$ 555,152	$ 632,365
Over 3 to 6 months	825,867	931,633
Over 6 to 12 months	1,537,837	1,874,166
Over 12 months	186,436	236,514
Total	$ 3,105,292	$ 3,674,678
December 31, 2022:		
3 months or less	$ 254,155	$ 317,037
Over 3 to 6 months	237,911	299,104
Over 6 to 12 months	602,943	748,172
Over 12 months	448,614	610,962
Total	$ 1,543,623	$ 1,975,275

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

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

Deposits by State

Deposits Attributable to Offices In	September 30, 2023		December 31, 2022	
	(Dollars in thousands)			
Arkansas	$ 9,716,836	38.0%	$ 7,195,562	33.5%
Georgia	7,160,499	28.0	6,009,361	28.0
Florida	4,084,520	16.0	3,467,406	16.1
Texas	2,806,392	11.1	3,323,357	15.5
North Carolina	1,784,609	6.9	1,504,457	6.9
Total	$ 25,552,856	100.0%	$ 21,500,143	100.0%

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

Loan Portfolio. In addition to customer deposits, cash flows from our loan portfolio provide us with a significant source of liquidity. The following table reflects total loans grouped by remaining maturities at September 30, 2023 by type and by fixed or floating interest rates. This table is based on actual maturities and does not reflect amortizations, projected paydowns or the earliest repricing for floating rate loans. Many loans have principal paydowns scheduled in periods prior to the period in which they mature. In addition, many floating rate loans are subject to repricing in periods prior to the period in which they mature.

Loan Maturities

	1 Year or Less	Over 1 Through 5 Years	Over 5 Through 15 Years	Over 15 Years	Total
			(Dollars in thousands)		
Real estate	$ 6,512,694	$ 11,263,756	$ 865,113	$ 614,015	$ 19,255,578
Commercial and industrial	655,991	558,602	42,116	309	1,257,018
Consumer	8,637	24,332	834,796	2,068,690	2,936,455
Other	786,697	1,074,302	16,803	4,887	1,882,689
Total	$ 7,964,019	$ 12,920,992	$ 1,758,828	$ 2,687,901	$ 25,331,740
Fixed rate	$ 227,588	$ 1,491,511	$ 946,388	$ 2,277,275	$ 4,942,762
Floating rate (not at a floor or ceiling rate) (1)	7,634,951	11,214,695	234,911	219,213	19,303,770
Floating rate (at floor rate) (1)	53,144	193,728	564,974	191,392	1,003,238
Floating rate (at ceiling rate)	48,336	21,058	12,555	21	81,970
Total	$ 7,964,019	$ 12,920,992	$ 1,758,828	$ 2,687,901	$ 25,331,740

(1) We have included a floor rate in many of our floating rate loans. At September 30, 2023, the majority of our floating rate loans were above their floor rate. In a rising rate environment, floating rate loans that are at their floor rate may not immediately reprice if the interest rate index and margin on such loans continue to result in a computed interest rate less than the applicable floor rate. In a declining rate environment, such loans will reprice immediately until they reach their 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 and market conditions, adverse trends or events affecting business industry groups or specific businesses, declines in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and other factors. Furthermore, loans generally are not readily convertible to cash.

At September 30, 2023, we had $20.63 billion in unfunded balances on loans already closed, the majority of which is attributable to construction and development loans. In most cases the borrower's equity and all or most other required subordinated elements of the capital structure must be fully funded before we advance funds. In many cases we do not advance funds on construction and development loans for many months after closing because the borrower's equity and a majority of other funding sources must fund first. This conservative practice for handling construction loans has led to the large unfunded balance of closed loans. As a result, we maintain a detailed 36-month forward funding forecast projecting loan fundings and loan repayments. Our ability to project periodic net portfolio growth with a reasonable degree of accuracy is an important part of our liquidity management process.

Investment Securities – Available for Sale ("AFS"). We classify all of our securities as either available-for-sale or trading; thus, we have no securities classified as held-to-maturity. Cash flows from our investment securities portfolio also provide us with an additional source of liquidity. The following table reflects the expected maturity distribution of our investment securities AFS, at estimated fair value, at September 30, 2023 and weighted average yields (for tax exempt obligations on FTE basis) of such securities.

Expected Maturity Distribution of Investment Securities AFS

	1 Year Or Less	Weighted Average Yield-FTE	Over 1 Through 5 Years	Weighted Average Yield-FTE	Over 5 Through 10 Years	Weighted Average Yield-FTE	Over 10 Years	Weighted Average Yield-FTE	Total	Weighted Average Yield-FTE
	(Dollars in thousands)									
U.S. Government agency mortgage-backed	$ 323,161	1.45%	$ 734,021	1.28%	$ 158,686	1.16%	$ 7,297	2.92%	$1,223,165	1.32%
Obligations of state and political subdivisions	77,004	1.02	128,590	4.56	192,642	4.51	847,990	5.15	1,246,225	4.74
Other U.S. Government agency securities	62,385	0.43	564,984	1.14	—	—	—	—	627,369	1.07
Corporate obligations	1,500	3.20	18,584	4.38	4,525	4.15	7,646	4.68	32,256	4.38
U.S. Treasuries	24,802	0.69	—	—	—	—	—	—	24,802	0.69
Total	$ 488,852	1.23%	$1,446,179	1.55%	$ 355,853	2.96%	$ 862,933	5.12%	$3,153,817	2.63%
Percentage of total	15.5%		45.9%		11.3%		27.3%		100.0%	
Cumulative percentage of total	15.5%		61.4%		72.7%		100.0%			

The maturity for all investment securities AFS is shown based on each security's contractual maturity date, except (1) mortgage-backed securities, which are allocated among various maturities based on an estimated repayment schedule utilizing third party median prepayment speeds or other estimates of prepayment speeds and interest rate levels at September 30, 2023 and (2) callable investment securities for which we have received notification of call, which are included in the maturity category in which the call occurs or is expected to occur. Actual maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. The weighted-average yields-FTE are calculated based on the coupon rate and amortized cost for such securities and includes any projected discount accretion or premium amortization.

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

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

Average Balances and Rates of Other Interest Bearing Liabilities

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
	Average Balance	Rate Paid	Average Balance	Rate Paid	Average Balance	Rate Paid	Average Balance	Rate Paid
	(Dollars in thousands)							
Other borrowings	$1,048,566	5.42%	$ 517,161	1.89%	$ 783,566	5.20%	$ 647,083	0.93%
Subordinated notes	347,456	3.00	346,642	3.01	347,254	3.01	346,433	3.01
Subordinated debentures	121,652	8.06	121,382	5.17	121,647	7.71	121,239	4.13
Total other interest bearing liabilities	$1,517,674	5.08%	$ 985,185	2.69%	$1,252,467	4.82%	$1,114,755	1.92%

We have traditionally utilized FHLB advances, and to a lesser extent, federal funds purchased to support our funding sources and provide additional on-balance sheet liquidity to the Bank. Details of our FHLB advances, at September 30, 2023, are shown in the following table.

FHLB Advances

Borrowing Type		Balance	Interest Rate	Maturity Date
		(Dollars in thousands)		
FHLB advances	$	1,300,000	5.65 %	10/2/2023
Fed Funds Purchased		125,000	5.60	10/2/2023

At September 30, 2023, we had substantial unused borrowing availability. This availability was primarily comprised of the following four options: (1) $4.9 billion of available blanket borrowing capacity with the FHLB, (2) $2.3 billion of investment securities available to pledge for federal funds or other borrowings, (3) $0.9 billion of available unsecured federal funds borrowing lines, and (4) up to $0.4 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 and federal funds purchased, will be used to augment our primary funding sources.

Sources and Uses of Funds. Operating activities provided net cash of $0.68 billion for the first nine months of 2023 and $0.59 billion for the first nine months of 2022. 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 $4.43 billion in the first nine months of 2023 and $1.21 billion in the first nine months of 2022. The increase in net cash used by investing activities in the first nine months of 2023 was primarily the result of changes in the net cash used for our growth in non-purchased loans, which used $4.72 billion in the first nine months of 2023 and $1.33 billion in the first nine months of 2022, partially offset by an increase in the net cash provided from our investments securities AFS, which provided net cash of $0.30 billion in the first nine months of 2023 and $0.03 billion in the first nine months of 2022.

Financing activities provided net cash of $4.58 billion in the first nine months of 2023 and used net cash of $0.54 billion in the first nine months of 2022. The increase in net cash provided by financing activities was primarily the result of an increase in deposits which provided $4.05 billion in the first nine months of 2023 and $0.22 billion in the first nine months of 2022, an increase in proceeds from other borrowings that provided $0.82 billion in the first nine months of 2023 compared to using $0.30 billion the first nine months of 2022 partially offset by a decrease in the repurchase of our common stock under our share repurchase program through which the Bank repurchased $0.15 billion in the first nine months of 2023 compared to $0.33 billion in the first nine months of 2022.

Market and Interest Rate Risk Management

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

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

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

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

The following table presents the earnings simulation model's projected impact of a change in interest rates on the projected baseline net interest income for the 12-month period commencing October 1, 2023. This change in interest rates is assumed to occur ratably over that 12-month period, and also assumes parallel shifts in the yield curve and does not take into account changes in the slope of the yield curve.

Earnings Simulation Model Results

Change in Interest Rates (in bps)	% Change in Projected Baseline Net Interest Income
+300	15.4%
+200	10.2
+100	5.0
-100	(5.1)
-200	(10.0)
-300	(14.5)

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

EVE Model. EVE is calculated as the fair value of all assets minus the fair value of liabilities and incorporates a number of assumptions including (1) the timing and amount of cash flows expected to be received or paid on various assets and liabilities, (2) the expected exercise of call features on various assets and liabilities, (3) estimated discount rates, and (4) other relevant factors. We measure changes in the dollar amount of EVE for parallel shifts in interest rates. Due to embedded optionality and asymmetric rate risk, changes in EVE can be useful in quantifying risks not apparent for small rate changes.

The following table presents our EVE results as of September 30, 2023.

EVE Model Results

Change in Interest Rates (in bps)	% Change in Projected Baseline EVE
+200	0.1%
+100	0.3
-100	(1.2)
-200	(2.8)

Variable Rate Loans and Loan Repricing. At September 30, 2023, approximately 80% of our funded balance of total loans had variable rates. Additionally, approximately 98% of our variable rate loans had floor rates. The following table reflects total loans as of September 30, 2023 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	$ 429,428	$ 414,733	$ 550,738	$ 1,008,608	$ 2,539,255	$ 4,942,762
Floating rate (not at a floor or ceiling rate) [(1)]	19,045,599	67,745	65,346	114,489	10,591	19,303,770
Floating rate (at floor rate) [(1)]	165,279	188,136	232,542	363,117	54,164	1,003,238
Floating rate (at ceiling rate)	81,510	67	286	107	—	81,970
Total	$19,721,816	$ 670,681	$ 848,912	$ 1,486,321	$ 2,604,010	$25,331,740
Percentage of total	77.9%	2.6%	3.4%	5.9%	10.2%	100.0%
Cumulative percentage of total	77.9%	80.5%	83.9%	89.8%	100.0%	

(1) We have included a floor rate in many of our floating rate loans. At September 30, 2023, the majority of our floating rate loans were above their floor rate. In a rising rate environment, floating rate loans that are at their floor rate may not immediately reprice if the interest rate index and margin on such loans continue to result in a computed interest rate less than the applicable floor rate. In a declining rate environment, such loans will reprice immediately until they reach their floor rate.

Most of our floating rate loans are tied to the 1-month term SOFR and WSJ Prime benchmark interest rates. The following table is a summary of our floating rate loan portfolio and contractual interest rate indices at September 30, 2023.

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 term SOFR	$ 1,966	$ 17,045,264	$ —	$ 17,047,230
Wall Street Journal Prime	944,460	1,922,610	81,970	2,949,040
Other contractual interest rate indices	56,812	335,896	—	392,708
Total	$ 1,003,238	$ 19,303,770	$ 81,970	$ 20,388,978

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. Prior to July 1, 2023, our subordinated debentures and related trust preferred securities and portions of our loan portfolio were tied to LIBOR benchmark interest rates. On July 1, 2023, we converted our loan portfolio tied to LIBOR benchmark interest rates, our subordinated debentures and related trust preferred securities to corresponding SOFR-based benchmark rates. For further details see “Item 1A. - Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2022.

Market Risk Management. We are exposed to market risk primarily through changes in fair value of our fixed income investment securities portfolio. Investment portfolio strategies are set by senior management and are subject to the oversight and direction of ALCO. At September 30, 2023, all of our investment securities portfolio was classified as available for sale. At December 31, 2022, in addition to our AFS portfolio, we held a small balance of investment securities designated as “trading”. Accordingly, our investment securities AFS are reported at estimated fair value with the unrealized gains and losses, net of related income tax, reported as a separate component of stockholders’ equity and included in other comprehensive income (loss). At September 30, 2023, we had $199.0 million of net unrealized losses in our investment securities portfolio that was reported, net of applicable income taxes, in accumulated other comprehensive income. Our investment securities designated as trading are reported at estimated fair value with unrealized gains and losses included in earnings. We have no investment securities classified as held-to-maturity.

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

Investment Securities – AFS

	September 30, 2023		December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
U.S. Government agency mortgage-backed securities	$ 1,366,247	$ 1,223,165	$ 1,692,828	$ 1,548,540
Obligations of state and political subdivisions	1,327,968	1,246,225	1,310,362	1,268,924
Other U.S. Government agency securities	658,843	627,369	658,818	615,920
Corporate obligations	36,425	32,256	38,304	34,176
U.S. Treasuries	24,992	24,802	24,957	24,053
Total	$ 3,414,475	$ 3,153,817	$ 3,725,269	$ 3,491,613

Our investment securities portfolio is reported at estimated fair value, which included gross unrealized gains of $0.7 million and gross unrealized losses of $261.3 million at September 30, 2023 and gross unrealized gains of $4.1 million and gross unrealized losses of $237.8 million at December 31, 2022. We believe that the vast majority of unrealized losses on individual investment securities at September 30, 2023 and December 31, 2022 are the result of fluctuations in interest rates. If we intend to sell an AFS security in an unrealized loss position, or if it is more likely than not that we will be required to sell an AFS security in an unrealized loss position before recovery of its amortized cost basis, the security's amortized cost basis is written down to fair value through current period expense. If we do not intend to sell an AFS security in an unrealized loss position or if it is more likely than not that we will not sell an AFS security that is in an unrealized loss position, we are required to assess whether the decline in fair value has resulted from credit losses or non-credit factors. If our assessment determines a credit loss exists, the present value of cash flows expected to be collected from the AFS security is compared to the amortized cost basis of the security and if the present value cash flows expected to be collected is less than amortized cost, an allowance for credit losses and a provision for credit loss expense is recorded. If our assessment determines that a credit loss does not exist, we record the decline in fair value through other comprehensive income, net of related tax effects.

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

Unaccreted Discount and Unamortized Premium

	Amortized Cost	Unaccreted Discount	Unamortized Premium	Par Value
	(Dollars in thousands)			
September 30, 2023:				
U.S. Government agency mortgage-backed securities	$ 1,366,247	$ 36	$ (33,600)	$ 1,332,683
Obligations of state and political subdivisions	1,327,968	23,540	(24,859)	1,326,649
Other U.S. Government agency securities	658,843	17	—	658,860
Corporate obligations	36,425	198	(1,727)	34,896
U.S. Treasuries	24,992	8	—	25,000
Total	$ 3,414,475	$ 23,799	$ (60,186)	$ 3,378,088
December 31, 2022:				
U.S. Government agency mortgage-backed securities	$ 1,692,828	$ 55	$ (44,533)	$ 1,648,350
Obligations of state and political subdivisions	1,310,362	10,408	(29,178)	1,291,592
Other U.S. Government agency securities	658,818	42	—	658,860
Corporate obligations	38,304	220	(2,075)	36,449
U.S. Treasuries	24,957	43	—	25,000
Total	$ 3,725,269	$ 10,768	$ (75,786)	$ 3,660,251

We recognized premium amortization, net of discount accretion, of $4.8 million during the three months and $15.8 million during the nine months ended September 30, 2023 compared to $7.4 million during the three months and $25.8 million during the nine months ended September 30, 2022. Any premium amortization or discount accretion is considered an adjustment to the yield of our investment securities.

We had no sales of investment securities AFS in the third quarter and had $2.3 million in sales of investment securities AFS for the first nine months of 2023 which resulted in no net gains or losses. We had no sales of investment securities AFS in the third quarter of 2022 and no gains or losses from the sale of $0.02 million in investment securities for the first nine months of 2022. We purchased $0.69 billion of investment securities AFS in the third quarter and $0.14 billion in the first nine months of 2023 compared to $0.25 billion of investment securities AFS purchased during the third quarter and $0.94 billion in the first nine months of 2022.

We invest in securities we believe offer good relative value at the time of purchase. 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.

Our trading investment securities are intended to help us capitalize on additional investment opportunities. Our trading securities are carried at estimated fair value with unrealized and realized gains and losses reported in net income. At September 30, 2023 the Bank had no trading securities compared to $2.5 million at September 30, 2022. During the three months and nine months ended September 30, 2023, the Bank had net losses of $0.3 million and net gains of $2.1 million from the sale of approximately $244.9 million and $958.6 million of trading securities, respectively compared to net gains of $0.3 million and $0.8 million from the sale of approximately $118.7 million and $369.9 million of trading securities during the three and nine months ended September 30, 2022, respectively.

At September 30, 2023, approximately 94% of our investment securities had an investment grade credit rating and approximately 6% of our investment securities were not rated. For those securities that were not rated, we have performed our own evaluation of the security and/or the underlying issuer and believe that such security or its issuer has credit characteristics equivalent to those which would warrant an investment grade credit rating.

Capital Management

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

Capital Management. We primarily rely on our total stockholders' equity, comprised of preferred and common stock, additional paid-in capital, our retained earnings and our accumulated other comprehensive income (loss) to support our operations and act as a cushion to absorb unanticipated losses. Our total stockholders' equity totaled $4.90 billion at September 30, 2023 compared to $4.69 billion at December 31, 2022. Our common stockholders' equity totaled $4.56 billion at September 30, 2023 compared to $4.35 billion at December 31, 2022. Included below in this Capital Management section of our MD&A is the calculation and reconciliation of our common stockholders' equity to the most directly comparable GAAP measure. Additionally, our common stockholders' equity is augmented by our preferred stock, our subordinated notes, our subordinated debentures and our ACL.

Common Stock Repurchase Program. On November 14, 2022, our Board announced the approval of a stock repurchase program pursuant to which we may repurchase up to $300 million of our outstanding shares of common stock. The repurchase program will expire on the earlier to occur of: (i) the Bank repurchasing shares of its common stock at an aggregate cost of $300 million, or (ii) November 9, 2023. The Bank did not repurchase any shares during the third quarter of 2023. During the first nine months of 2023, the Bank repurchased 4.3 million shares for $151.5 million, which equates to a weighted average cost of approximately $35.19 per share. As of September 30, 2023, our current stock repurchase program had $133.4 million of authorization remaining.

We have achieved substantial growth in recent quarters, which has helped us profitably deploy some of our excess capital. We expect further growth in 2024, likely resulting in less of a focus on stock repurchases. Notwithstanding this, we expect to pursue a new share repurchase authorization during 2024. In evaluating a future stock repurchase authorization, management will consider a variety of other factors including our capital position, expected growth, alternative uses of capital, liquidity, financial performance, expected macroeconomic environment and regulatory requirements.

Preferred Stock. At September 30, 2023, we had 14,000,000 shares issued and outstanding of 4.625% Series A Non-Cumulative Perpetual Preferred Stock, par value $0.01 per share, with a liquidation preference of $25 per share (the "Preferred Stock"), totaling $339.0 million net of the initial purchaser discount and estimated offering expenses. We pay cash dividends on our Preferred Stock, when, as, and if declared by our Board. Subject to declaration by our Board, cash dividends accrue and are payable from the original date of issuance at a rate of 4.625% per annum, payable quarterly, in arrears, on February 15, May 15, August 15, and November 15 of each year. Dividends on our Preferred Stock are not cumulative or mandatory. During the third quarter and first nine months of 2023, we paid dividends on our Preferred Stock of $4.0 million and $12.1 million, respectively.

Subordinated Notes. At September 30, 2023, we had $350 million in aggregate principal amount of our 2.75% Fixed-to-Floating rate Subordinated Notes (the "2.75% Notes") due 2031, which bear interest at a fixed rate of 2.75% per annum until September 30, 2026. On October 1, 2026, the 2.75% Notes will bear interest at a floating rate equal to a benchmark (which is expected to be three-month SOFR) plus 209 basis points. The 2.75% Notes are unsecured, subordinated debt obligations and mature on October 1, 2031. As of September 30, 2023, the Bank's 2.75% Notes had a carrying value of $350 million and the remaining discounts and offering expenses totaled $2.4 million.

Subordinated Debentures. We own eight 100%-owned finance subsidiary business trusts – Ozark Capital Statutory Trust II ("Ozark II"), Ozark Capital Statutory Trust III ("Ozark III"), Ozark Capital Statutory Trust IV ("Ozark IV"), Ozark Capital Statutory Trust V ("Ozark V"), Intervest Statutory Trust II ("Intervest II"), Intervest Statutory Trust III ("Intervest III"), Intervest Statutory Trust IV ("Intervest IV") and Intervest Statutory Trust V ("Intervest V"), (collectively, the "Trusts"). At September 30, 2023, we had the following issues of trust preferred securities and subordinated debentures owed to the Trusts.

Trust Preferred Securities and Subordinated Debentures

	Subordinated Debentures Owed to Trusts	Carrying Value of Subordinated Debentures at September 30, 2023	Trust Preferred Securities of the Trusts	Contractual Interest Rate at September 30, 2023	Final Maturity Date
			(Dollars in thousands)		
Ozark II	$ 14,433	$ 14,433	$ 14,000	8.56%	September 29, 2033
Ozark III	14,434	14,434	14,000	8.52	September 25, 2033
Ozark IV	15,464	15,464	15,000	7.86	September 28, 2034
Ozark V	20,619	20,619	20,000	7.27	December 15, 2036
Intervest II	15,464	15,464	15,000	8.62	September 17, 2033
Intervest III	15,464	15,464	15,000	8.46	March 17, 2034
Intervest IV	15,464	15,464	15,000	8.06	September 20, 2034
Intervest V	10,310	10,310	10,000	7.32	December 15, 2036
	$ 121,652	$ 121,652	$ 118,000		

On July 1, 2023, our trust preferred securities and related subordinated debentures converted from a spread over 90 day LIBOR to three-month term SOFR plus the existing spread plus a spread adjustment of 0.26%. See Risk Elements-Market and Interest Rate Risk Management-LIBOR Transition for additional information about the phase out of LIBOR. Our subordinated debentures and related trust preferred securities generally mature 30 years after issuance and may be prepaid at par, subject to regulatory approval. These subordinated debentures and the related trust preferred securities provide us additional Tier 2 regulatory capital.

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

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

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

	September 30,		December 31,
	2023	2022	2022
	(Dollars in thousands)		
Total stockholders' equity before noncontrolling interest	$ 4,903,504	$ 4,539,424	$ 4,689,579
Less preferred stock	(338,980)	(338,980)	(338,980)
Total common stockholders' equity	$ 4,564,524	$ 4,200,444	$ 4,350,599
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	—	(3,943)	(2,754)
Total intangibles	(660,789)	(664,732)	(663,543)
Total tangible common stockholders' equity	$ 3,903,735	$ 3,535,712	$ 3,687,056
Total assets	$ 32,767,328	$ 26,232,119	$ 27,656,568
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	—	(3,943)	(2,754)
Total intangibles	(660,789)	(664,732)	(663,543)
Total tangible assets	$ 32,106,539	$ 25,567,387	$ 26,993,025
Ratio of total common stockholders' equity to total assets	13.93%	16.01%	15.73%
Ratio of total tangible common stockholders' equity to total tangible assets	12.16%	13.83%	13.66%

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

	September 30,		December 31,
	2023	2022	2022
	(In thousands, except per share amounts)		
Total stockholders' equity before noncontrolling interest	$ 4,903,504	$ 4,539,424	$ 4,689,579
Less preferred stock	(338,980)	(338,980)	(338,980)
Total common stockholders' equity	$ 4,564,524	$ 4,200,444	$ 4,350,599
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	—	(3,943)	(2,754)
Total intangibles	(660,789)	(664,732)	(663,543)
Total tangible common stockholders' equity	$ 3,903,735	$ 3,535,712	$ 3,687,056
Shares of common stock outstanding	113,136	117,762	117,177
Book value per common share	$ 40.35	$ 35.67	$ 37.13
Tangible book value per common share	$ 34.50	$ 30.02	$ 31.47

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Dollars in thousands)			
Net income available to common stockholders	$ 169,746	$ 128,302	$ 503,517	$ 388,688
Average stockholders' equity before noncontrolling interest	$ 4,885,620	$ 4,635,887	$ 4,809,053	$ 4,680,513
Less average preferred stock	(338,980)	(338,980)	(338,980)	(338,980)
Total average common stockholders' equity	$ 4,546,640	$ 4,296,907	$ 4,470,073	$ 4,341,533
Less average intangible assets:				
Goodwill	(660,789)	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	—	(4,747)	(1,098)	(6,124)
Total average intangibles	(660,789)	(665,536)	(661,887)	(666,913)
Average tangible common stockholders' equity	$ 3,885,851	$ 3,631,371	$ 3,808,186	$ 3,674,620
Return on average common stockholders' equity[1]	14.81%	11.85%	15.06%	11.97%
Return on average tangible common stockholders' equity[1]	17.33%	14.02%	17.68%	14.14%

(1) Ratios annualized based on actual days.

Common Stock Dividend Policy. During the third quarter of 2023, we paid cash dividends of $0.36 per common share. On October 2, 2023, our Board approved a cash dividend of $0.37 per common share that was paid on October 20, 2023. The determination of future dividends on our common stock will depend on conditions existing at that time and approval of our Board. In addition, our ability to pay common stock dividends to our shareholders is subject to the restrictions set forth in Arkansas law, by our federal regulator, the relative powers, preferences and other rights of the holders of our Preferred Stock and by certain covenants contained in the indentures governing the trust preferred securities, the subordinated debentures and the 2.75% Notes.

Preferred Stock Dividend Policy. As previously disclosed in the Capital Management section, we have 14,000,000 shares issued and outstanding of 4.625% non-cumulative preferred stock totaling $339.0 million, net of the initial purchaser discount and offering expenses. During the third quarter of 2023, we paid cash dividends of $4.0 million on our Preferred Stock. On October 2, 2023, our Board declared a quarterly cash dividend of $0.28906 per share on Preferred Stock for the period covering August 15, 2023 through, but excluding November 15, 2023. The Preferred Stock dividend is payable on November 15, 2023, to the holders of record of the Preferred Stock at the close of business on November 1, 2023. We will pay cash dividends on the Preferred Stock, when, as, and if declared by our Board. If declared, we would expect our cash dividends on shares of the Preferred Stock to be approximately $4.0 million per quarter. The determination of future dividends on our Preferred Stock will depend on conditions at that time and approval by our Board. In addition, our ability to pay dividends on our preferred shares is subject to the restrictions set forth in Arkansas law and by our federal regulator.

Regulatory Capital. We are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can result in 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.

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

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

Tier 1 capital includes common equity tier 1 capital and certain additional tier 1 items as provided under the Basel III Rules. At September 30, 2023 and December 31, 2022, our tier 1 capital includes both our common equity tier 1 capital and our Preferred Stock.

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

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

Basel III Rules allowed for insured depository institutions to make a one-time election not to include most elements of accumulated other comprehensive income (loss) in regulatory capital and instead effectively use the existing treatment under the general risk-based capital rules. We made this opt-out election to avoid variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of our investments 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" in addition to the amount necessary to meet minimum risk-based capital requirements for common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets. The Basel III Rules required us to maintain (i) a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 7.0%, (ii) a minimum ratio of tier 1 capital to risk-weighted assets of at least 6.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 8.5%, (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 10.5% and (iv) a minimum leverage ratio of 4.0%. Additionally, in order to be considered well-capitalized under the Basel III Rules, we must maintain (i) a ratio of common equity tier 1 capital to risk-weighted assets of at least 6.5%, (ii) a ratio of tier 1 capital to risk-weighted assets of at least 8.0%, (iii) a ratio of total capital to risk-weighted assets of at least 10.0% and (iv) a leverage ratio of at least 5.0%.

The following table presents actual and required capital ratios as of the dates indicated under the Basel III Rules. The minimum required capital amounts presented include the minimum required capital levels, plus the capital conservation buffer. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Rules. At September 30, 2023 and December 31, 2022, our capital levels exceeded all minimum capital requirements and requirements to be considered well capitalized under the Basel III Rules.

Regulatory Capital Ratios

	Actual		Minimum Capital Required - Basel III		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
	(Dollars in thousands)					
September 30, 2023:						
Common equity tier 1 to risk-weighted assets	$ 4,096,090	10.77%	$ 2,552,006	7.00%	$ 2,369,720	6.50%
Tier 1 capital to risk-weighted assets	4,435,070	11.66	3,098,864	8.50	2,916,578	8.00
Total capital to risk-weighted assets	5,363,691	14.10	3,828,009	10.50	3,645,723	10.00
Tier 1 leverage to average assets	4,435,070	14.24	1,167,591	4.00	1,459,488	5.00
December 31, 2022:						
Common equity tier 1 to risk-weighted assets	$ 3,872,792	11.54%	$ 2,349,834	7.00%	$ 2,181,989	6.50%
Tier 1 capital to risk-weighted assets	4,211,772	12.55	2,853,370	8.50	2,685,524	8.00
Total capital to risk-weighted assets	5,026,214	14.97	3,524,751	10.50	3,356,906	10.00
Tier 1 leverage to average assets	4,211,772	15.90	1,059,363	4.00	1,324,204	5.00

Capital Stress Testing. We completed our annual capital stress tests during the third quarter of 2023 utilizing multiple economic scenarios, including an adverse idiosyncratic scenario unique to our Bank. The results of our most recent stress test completed in the third quarter of 2023 reflected that we would maintain well-capitalized status for all capital ratios over the stress test time horizon.

Our historically strong earnings and earnings retention rate have contributed to our building robust capital ratios. To achieve the best long-term interests of our shareholders, we continue to focus on strategies to deploy our capital, including organic loan growth, adding new business lines, continuing to increase our quarterly cash dividend, financially attractive acquisitions for cash or some combination of cash and stock and stock repurchases.

Growth and Branching. During the first nine months of 2023, we relocated a retail branch in Jacksonville, Florida, opened our third retail branch in Jacksonville, Florida and closed one of our 25 branches in the Little Rock-North Little Rock-Conway, AR MSA.

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

Capital Expenditures. During the first nine months of 2023, we spent approximately $13.4 million on capital expenditures for premises and equipment. Our capital expenditures for the remainder of 2023 are expected to be in the range of $5 million to $15 million, including progress payments on construction projects expected to be completed in 2023 or 2024, furniture and equipment costs, network equipment and other information technology costs and acquisition of sites for future development. Actual expenditures may vary significantly from those expected, depending on the number and cost of additional branch offices acquired or constructed and sites acquired for future development, progress or delays encountered on ongoing and new construction projects, delays in obtaining or inability to obtain required approvals, potential premises and equipment expenditures associated with acquisitions, if any, and other factors.

Operational Risk Management

Overview. Operational risk is the risk to current or anticipated earnings or capital arising from inadequate or failed internal processes or systems, human errors or misconduct, reputational damage or other adverse internal or external events. Operational risk is inherent in all of our businesses. To assist in our operational risk management, in addition to monitoring our operational risk appetite using key performance and risk metrics, we utilize risk control 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. We also mitigate certain operational risks through the purchase of insurance. Our Operational Risk Management group, which reports to our CRO, has responsibilities for assisting the business units in identifying, managing and monitoring operational risks including risks resulting from the use of technology, cyber security risk, third party vendor management risk, risks associated with the introduction of new products and services, and various other operational risks.

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

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

Reputational Risk Management

Reputational risk is the risk that adverse perceptions regarding our business practices or financial health, or adverse developments, customer sentiment or other external perceptions regarding the practices of our competitors, or the financial services industry, may adversely impact our reputation and business prospects. We have a team of bankers and risk professionals that monitor our reputational risk exposure by, among others, (i) tracking and measuring a variety of social media posts, (ii) enforcing detailed policies and procedures that are intended to govern our employees regarding the use of social media, websites and other external communications made by employees, and (iii) coordinating with our learning and development team enterprise-wide training focused on reputational risk and how to reduce our exposure to such risk. Additionally, we also monitor our reputational risk exposure by frequently monitoring other financial and non-financial reputational risk-related metrics.

Strategic Risk Management

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

Compliance Risk Management

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

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

RECENTLY ISSUED ACCOUNTING STANDARDS

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information required by this Item is included in “Market and Interest Rate Risk Management” in the MD&A beginning on page 55 and is hereby incorporated by reference.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

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

(b) Changes in Internal Control over Financial Reporting.

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There are no material changes from the risk factors disclosed under Item 1A. of our annual report on Form 10-K for the year ended December 31, 2022, as filed with the FDIC on February 27, 2023.

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

Recent Sales of Unregistered Securities

During the third quarter of 2023, the Bank issued 2,446 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.

Repurchases of Equity Securities by Issuer

On November 14, 2022, we announced that our board of directors approved a new stock repurchase program authorizing the repurchase of up to $300 million of our outstanding shares of common stock (the "2022 Stock Repurchase Program"). The 2022 Stock Repurchase Program will be in effect until November 9, 2023 unless extended or shortened by the board of directors. Under the 2022 Stock Repurchase Program, repurchases may be made from time to time in open market transactions, through privately negotiated transactions or otherwise in accordance with applicable federal securities laws, including through Rule 10b5-1 trading plans and under Rule 10b-18 of the Exchange Act. The timing and amount of repurchases will be determined by management based on a variety of factors such as the Bank's capital position, expected growth, alternative uses of capital, liquidity, financial performance, stock price, current and expected macroeconomic environment, regulatory requirements and other factors.

The Bank did not repurchase any shares in the third quarter of 2023. At September 30, 2023, $133.4 million remained available for repurchase under the 2022 Stock Repurchase Program.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Securities Trading Plans of Directors and Executive Officers

During the quarter ended September 30, 2023, no director or Section 16 officer of the Bank adopted or terminated any Rule 10b5-1 trading arrangement (as defined in Item 408(a) of Regulation S-K) or non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K).

Item 6. Exhibits

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

SIGNATURE

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

	Bank OZK
DATE: November 7, 2023	/s/ Tim Hicks
	Tim Hicks Chief Financial Officer (Principal Financial Officer and Authorized Officer)

Bank OZK

Exhibit Index

Exhibit Number	
3.1	Amended and Restated Articles of Incorporation of Bank of the Ozarks (previously filed as Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on June 26, 2017, and incorporated herein by reference).
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation of Bank OZK (previously filed as Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on July 16, 2018, and incorporated herein by reference).
3.3	Articles of Amendment to the Amended and Restated Articles of Incorporation of Bank OZK (previously filed as Exhibit 3.3 to the Bank's Registration Statement on Form 8-A filed with the FDIC on November 4, 2021, and incorporated herein by reference).
3.4	Second Amended and Restated Bylaws of Bank OZK (previously filed as Exhibit 3.1 to the Bank's Current Report on Form 8-K filed with the FDIC on August 10, 2018, and incorporated herein by reference).
4.1	Instruments defining the rights of security holders, including indentures. The Bank hereby agrees to furnish to the FDIC upon request copies of instruments defining the rights of holders of long-term debt of the Bank and its consolidated subsidiaries; no issuance of debt exceeds ten percent of the assets of the Bank and its subsidiaries on a consolidated basis.
4.2	Form of Common Stock Certificate (previously filed as Exhibit 4.2 to the Bank's Current Report on Form 8-K filed with the FDIC on July 16, 2018, and incorporated herein by reference).
4.3	Form of Certificate Representing Series A Preferred Stock (previously filed as Exhibit 4.1 to the Bank's Registration Statement on Form 8-A filed with the FDIC on November 4, 2021, and incorporated herein by reference).
31.1	Certification of Chairman and Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002, filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002, filed herewith.
32.1	Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.

Exhibit 31.1

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

I, George Gleason, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 7, 2023

/s/ George Gleason

George Gleason
Chairman and Chief Executive Officer

Exhibit 31.2

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

I, Tim Hicks, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 7, 2023

/s/ Tim Hicks
Tim Hicks
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 Quarterly Report of Bank OZK (the Bank) on Form 10-Q for the period ended September 30, 2023, as filed with the Federal Deposit Insurance Corporation on the date hereof (the Report), I, George Gleason, Chairman and Chief Executive Officer of the Bank, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

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

Date: November 7, 2023

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

Exhibit 32.2

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

In connection with the accompanying Quarterly Report of Bank OZK (the Bank) on Form 10-Q for the period ended September 30, 2023, as filed with the Federal Deposit Insurance Corporation on the date hereof (the Report), I, Tim Hicks, Chief Financial Officer of the Bank, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

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

Date: November 7, 2023

/s/ Tim Hicks
Tim Hicks
Chief Financial Officer