

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 **June 30, 2022**

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
(State or other jurisdiction of
incorporation or organization)

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

18000 CANTRELL ROAD, LITTLE ROCK, ARKANSAS
(Address of principal executive offices)

72223
(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 during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer
Non-accelerated filer
Smaller reporting company

Accelerated filer
Emerging growth company

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

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

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

Class
Common Stock, \$0.01 par value per share

Outstanding at July 31, 2022
118,307,889

BANK OZK
FORM 10-Q
June 30, 2022

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BANK OZK
CONSOLIDATED BALANCE SHEETS
 Unaudited

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
(Dollars in thousands, except per share amounts)		
ASSETS		
Cash and cash equivalents	\$ 1,140,448	\$ 2,053,829
Investment securities – available for sale (“AFS”)	3,705,807	3,916,733
Investment securities – trading	4,080	14,957
Federal Home Loan Bank of Dallas (“FHLB”) and other bankers’ bank stocks	36,654	40,788
Non-purchased loans	18,297,638	17,791,610
Purchased loans	445,080	516,215
Allowance for loan losses	(190,795)	(217,380)
Net loans	18,551,923	18,090,445
Premises and equipment, net	687,093	695,857
Foreclosed assets	2,593	5,744
Accrued interest receivable	82,756	83,025
Bank owned life insurance (“BOLI”)	784,117	774,822
Goodwill and other intangible assets, net	666,029	669,063
Other, net	258,465	185,167
Total assets	<u>\$ 25,919,965</u>	<u>\$ 26,530,430</u>
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Deposits:		
Demand non-interest bearing	\$ 5,117,961	\$ 4,983,788
Savings and interest bearing transaction	9,655,436	9,245,727
Time	5,210,790	5,979,619
Total deposits	19,984,187	20,209,134
Other borrowings	505,221	756,321
Subordinated notes	346,536	346,133
Subordinated debentures	121,310	121,033
Reserve for losses on unfunded loan commitments	109,143	71,609
Accrued interest payable and other liabilities	243,666	186,840
Total liabilities	21,310,063	21,691,070
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock; \$0.01 par value; 100,000,000 shares authorized; 14,000,000 issued and outstanding at June 30, 2022 and December 31, 2021	338,980	338,980
Common stock; \$0.01 par value; 300,000,000 shares authorized; 118,996,021 and 125,443,748 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively	1,190	1,254
Additional paid-in capital	1,817,650	2,093,702
Retained earnings	2,563,130	2,378,466
Accumulated other comprehensive (loss) income	(114,168)	23,841
Total stockholders’ equity before noncontrolling interest	4,606,782	4,836,243
Noncontrolling interest	3,120	3,117
Total stockholders’ equity	4,609,902	4,839,360
Total liabilities and stockholders’ equity	<u>\$ 25,919,965</u>	<u>\$ 26,530,430</u>

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF INCOME
Unaudited

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
(Dollars in thousands, except per share amounts)				
Interest income:				
Non-purchased loans	\$ 256,264	\$ 238,554	\$ 496,259	\$ 478,381
Purchased loans	8,982	11,699	17,152	23,635
Investment securities:				
Taxable	10,367	9,467	20,978	17,550
Tax-exempt	4,020	3,883	7,006	7,563
Deposits with banks and federal funds sold	1,855	496	2,464	1,033
Total interest income	<u>281,488</u>	<u>264,099</u>	<u>543,859</u>	<u>528,162</u>
Interest expense:				
Deposits	10,855	18,231	19,347	42,582
Other borrowings	1,042	1,002	2,039	1,992
Subordinated notes	2,603	3,181	5,177	6,326
Subordinated debentures	1,195	939	2,159	1,881
Total interest expense	<u>15,695</u>	<u>23,353</u>	<u>28,722</u>	<u>52,781</u>
Net interest income	265,793	240,746	515,137	475,381
Provision for credit losses	7,025	(30,932)	11,215	(62,491)
Net interest income after provision for credit losses	<u>258,768</u>	<u>271,678</u>	<u>503,922</u>	<u>537,872</u>
Non-interest income:				
Service charges on deposit accounts:				
NSF/Overdraft fees	4,247	3,244	8,449	6,567
All other service charges	7,184	7,067	13,874	13,409
Trust income	1,911	1,911	4,005	4,118
BOLI income:				
Increase in cash surrender value	4,846	4,919	9,639	9,799
Death benefits	—	—	297	1,409
Loan service, maintenance and other fees	3,603	3,953	6,621	7,504
Gains on sales of other assets	784	2,341	7,776	8,169
Net gains on investment securities	531	—	441	—
Other	3,214	4,307	6,694	8,884
Total non-interest income	<u>26,320</u>	<u>27,742</u>	<u>57,796</u>	<u>59,859</u>
Non-interest expense:				
Salaries and employee benefits	54,412	52,119	109,060	105,764
Net occupancy and equipment	17,014	16,168	34,230	32,636
Other operating expenses	37,874	35,424	73,726	71,371
Total non-interest expense	<u>109,300</u>	<u>103,711</u>	<u>217,016</u>	<u>209,771</u>
Income before taxes	175,788	195,709	344,702	387,960
Provision for income taxes	39,375	45,161	75,786	88,978
Net income	136,413	150,548	268,916	298,982
Earnings attributable to noncontrolling interest	(8)	(13)	(3)	(32)
Preferred stock dividends	4,047	—	8,527	—
Net income available to common stockholders	<u>\$ 132,358</u>	<u>\$ 150,535</u>	<u>\$ 260,386</u>	<u>\$ 298,950</u>
Basic earnings per common share	<u>\$ 1.10</u>	<u>\$ 1.16</u>	<u>\$ 2.13</u>	<u>\$ 2.31</u>
Diluted earnings per common share	<u>\$ 1.10</u>	<u>\$ 1.16</u>	<u>\$ 2.12</u>	<u>\$ 2.30</u>

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Net income	\$ 136,413	\$ 150,548	\$ 268,916	\$ 298,982
Other comprehensive loss:				
Unrealized gains and losses on investment securities AFS	(44,149)	(553)	(182,422)	(11,044)
Tax effect of unrealized gains and losses on investment securities AFS	10,909	216	44,413	2,919
Total other comprehensive loss	(33,240)	(337)	(138,009)	(8,125)
Total comprehensive income	<u>\$ 103,173</u>	<u>\$ 150,211</u>	<u>\$ 130,907</u>	<u>\$ 290,857</u>

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 June 30, 2022:							
Balances – March 31, 2022	\$338,980	\$ 1,227	\$1,962,126	\$2,468,652	\$ (80,928)	\$ 3,112	\$4,693,169
Net income	—	—	—	136,413	—	—	136,413
Earnings attributable to noncontrolling interest	—	—	—	(8)	—	8	—
Total other comprehensive loss	—	—	—	—	(33,240)	—	(33,240)
Preferred stock dividends, \$0.28906 per share	—	—	—	(4,047)	—	—	(4,047)
Common stock dividends, \$0.31 per share	—	—	—	(37,880)	—	—	(37,880)
Issuance of 20,087 shares of common stock for exercise of stock options	—	—	594	—	—	—	594
Issuance of 21,416 shares of unvested restricted common stock	—	—	—	—	—	—	—
Repurchase and cancellation of 3,689,819 shares of common stock under share repurchase program	—	(37)	(147,396)	—	—	—	(147,433)
Stock-based compensation expense	—	—	2,326	—	—	—	2,326
Forfeitures of 32,858 shares of unvested restricted common stock	—	—	—	—	—	—	—
Balances – June 30, 2022	<u>\$338,980</u>	<u>\$ 1,190</u>	<u>\$1,817,650</u>	<u>\$2,563,130</u>	<u>\$ (114,168)</u>	<u>\$ 3,120</u>	<u>\$4,609,902</u>
Six months ended June 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	—	—	—	268,916	—	—	268,916
Earnings attributable to noncontrolling interest	—	—	—	(3)	—	3	—
Total other comprehensive loss	—	—	—	—	(138,009)	—	(138,009)
Preferred stock dividends, \$0.60906 per share	—	—	—	(8,527)	—	—	(8,527)
Common stock dividends, \$0.61 per share	—	—	—	(75,722)	—	—	(75,722)
Issuance of 69,107 shares of common stock for exercise of stock options	—	1	2,079	—	—	—	2,080
Issuance of 220,822 shares of unvested restricted common stock	—	2	(2)	—	—	—	—
Repurchase and cancellation of 6,572,832 shares of common stock under share repurchase program	—	(65)	(278,932)	—	—	—	(278,997)
Repurchase and cancellation of 112,974 of shares of common stock withheld for tax pursuant to restricted stock vesting	—	(1)	(5,398)	—	—	—	(5,399)
Stock-based compensation expense	—	—	6,200	—	—	—	6,200
Forfeitures of 51,850 shares of unvested restricted common stock	—	(1)	1	—	—	—	—
Balances – June 30, 2022	<u>\$338,980</u>	<u>\$ 1,190</u>	<u>\$1,817,650</u>	<u>\$2,563,130</u>	<u>\$ (114,168)</u>	<u>\$ 3,120</u>	<u>\$4,609,902</u>

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Unaudited

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non- Controlling Interest	Total
(Dollars in thousands, except per share amounts)						
Three months ended June 30, 2021:						
Balances – March 31, 2021	\$ 1,297	\$2,272,046	\$2,059,398	\$ 50,464	\$ 3,104	\$4,386,309
Net income	—	—	150,548	—	—	150,548
Earnings attributable to noncontrolling interest	—	—	(13)	—	13	—
Total other comprehensive loss	—	—	—	(337)	—	(337)
Common stock dividends, \$0.28 per share	—	—	(36,819)	—	—	(36,819)
Issuance of 14,300 shares of common stock for exercise of stock options	—	515	—	—	—	515
Issuance of 20,328 shares of unvested restricted common stock	—	—	—	—	—	—
Repurchase and cancellation of 153 shares of common stock withheld for tax pursuant to restricted stock vesting	—	(6)	—	—	—	(6)
Stock-based compensation expense	—	4,583	—	—	—	4,583
Forfeitures of 33,241 shares of unvested restricted common stock	—	—	—	—	—	—
Balances – June 30, 2021	<u>\$ 1,297</u>	<u>\$2,277,138</u>	<u>\$2,173,114</u>	<u>\$ 50,127</u>	<u>\$ 3,117</u>	<u>\$4,504,793</u>
Six months ended June 30, 2021:						
Balances – December 31, 2020	\$ 1,294	\$2,265,850	\$1,946,875	\$ 58,252	\$ 3,085	\$4,275,356
Net income	—	—	298,982	—	—	298,982
Earnings attributable to noncontrolling interest	—	—	(32)	—	32	—
Total other comprehensive loss	—	—	—	(8,125)	—	(8,125)
Common stock dividends, \$0.5575 per share	—	—	(72,711)	—	—	(72,711)
Issuance of 142,400 shares of common stock for exercise of stock options	1	5,007	—	—	—	5,008
Issuance of 332,831 shares of unvested restricted common stock	3	(3)	—	—	—	—
Repurchase and cancellation of 55,893 shares of common stock withheld for tax pursuant to restricted stock vesting	(1)	(1,976)	—	—	—	(1,977)
Stock-based compensation expense	—	8,260	—	—	—	8,260
Forfeitures of 49,646 shares of unvested restricted common stock	—	—	—	—	—	—
Balances – June 30, 2021	<u>\$ 1,297</u>	<u>\$2,277,138</u>	<u>\$2,173,114</u>	<u>\$ 50,127</u>	<u>\$ 3,117</u>	<u>\$4,504,793</u>

See accompanying notes to the consolidated financial statements.

BANK OZK
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Six Months Ended	
	June 30,	
	2022	2021
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	\$ 268,916	\$ 298,982
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	14,987	13,960
Amortization	3,714	3,799
Earnings attributable to noncontrolling interest	(3)	(32)
Provision for credit losses	11,215	(62,491)
Provision for losses on foreclosed and other assets	258	1,486
Net amortization of investment securities AFS	18,358	31,356
Net gains on investment securities	(441)	—
Amortization of operating lease right-of-use assets	3,570	3,640
Accretion of purchased loans	(5,349)	(6,561)
Gains on sales of other assets	(7,776)	(8,169)
Deferred income tax expense (benefit)	79,077	(26,088)
Increase in cash surrender value of BOLI	(9,639)	(9,799)
BOLI death benefits in excess of cash surrender value	(297)	(1,409)
Stock-based compensation expense	6,200	8,260
Changes in assets and liabilities:		
Accrued interest receivable	163	(6,201)
Other assets, net	(65,695)	9,811
Accrued interest payable and other liabilities	21,620	12,339
Cash provided by operating activities	338,878	262,883
Cash flows from investing activities:		
Proceeds from sales of FHLB and other bankers' bank stock	13,310	—
Purchases of FHLB and other bankers' bank stock	(9,176)	(2,123)
Purchases of trading securities	(240,345)	—
Proceeds from maturities/calls/paydowns of investment securities AFS	668,244	1,113,674
Proceeds from sales of investment securities	251,677	591,570
Purchases of investment securities AFS	(658,112)	(3,035,690)
Proceeds from sale of loans	51,659	170,418
Net (increase) decrease of non-purchased loans	(562,967)	614,512
Net payments received on purchased loans	75,111	147,253
Purchases of premises and equipment	(12,967)	(20,303)
Proceeds from BOLI death benefits	641	2,918
Proceeds from sales of other assets	13,658	14,680
Net cash invested in unconsolidated investments	(6,652)	(24,547)
Net cash paid in branch divestiture transaction	(21,346)	(102,063)
Net cash used by investing activities	(437,265)	(529,701)
Cash flows from financing activities:		
Net decrease in deposits	(197,765)	(633,149)
Net repayments of other borrowings	(251,100)	(264)
Proceeds from exercise of stock options	2,080	5,008
Cash dividends paid on common stock	(75,286)	(72,213)
Cash dividends paid on preferred stock	(8,527)	—
Repurchase and cancellation of shares of common stock – share repurchase program	(278,997)	(1,977)
Repurchase and cancellation of shares of common stock – withheld for taxes	(5,399)	—
Net cash used by financing activities	(814,994)	(702,595)
Net decrease in cash and cash equivalents	(913,381)	(969,413)
Cash and cash equivalents – beginning of period	2,053,829	2,393,662
Cash and cash equivalents – end of period	\$ 1,140,448	\$ 1,424,249

See accompanying notes to the consolidated financial statements.

BANK OZK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

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 June 30, 2022, 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 loans, foreclosed assets or tax credits or engage in other activities. The consolidated financial statements include the accounts of the Bank, the investment subsidiary, the real estate subsidiary, the aircraft subsidiary, 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, 2021.

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 six months ended June 30, 2022 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 2022 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 965,624 shares and 1,117,446 shares, respectively, of the Bank’s common stock for the three months ended June 30, 2022 and 2021 and options to purchase 989,490 shares and 1,127,321 shares, respectively, of the Bank’s common stock for the six months ended June 30, 2022 and 2021 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 months or six months ended June 30, 2022 or 2021.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
(In thousands, except per share amounts)				
Numerator:				
Net income available to common stockholders	\$ 132,358	\$ 150,535	\$ 260,386	\$ 298,950
Denominator:				
Denominator for basic EPS – weighted-average common shares	120,445	129,721	122,458	129,606
Effect of dilutive securities – stock options and PSUs	382	534	447	503
Denominator for diluted EPS – weighted-average common shares and assumed conversions	120,827	130,255	122,905	130,109
Basic EPS	\$ 1.10	\$ 1.16	\$ 2.13	\$ 2.31
Diluted EPS	\$ 1.10	\$ 1.16	\$ 2.12	\$ 2.30

4. Investment Securities AFS

The Bank's investment securities AFS are stated at estimated fair value in the consolidated financial statements with unrealized gains and losses, net of related income tax, that do not include a credit component reported 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"). At June 30, 2022 and December 31, 2021, no ACL was recorded for investment securities AFS as management does not believe that the Bank's investment securities in unrealized loss positions were impaired due to reasons of credit quality.

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)				
June 30, 2022:				
U.S. Government agency mortgage-backed securities	\$ 1,953,893	\$ 57	\$ (95,389)	\$ 1,858,561
Obligations of state and political subdivisions	1,110,069	5,165	(29,685)	1,085,549
Other U.S. Government agency securities	658,801	—	(27,723)	631,078
Corporate obligations	109,068	—	(2,616)	106,452
U.S. Treasuries	24,933	—	(766)	24,167
Total investment securities AFS	\$ 3,856,764	\$ 5,222	\$ (156,179)	\$ 3,705,807
December 31, 2021:				
U.S. Government agency mortgage-backed securities	\$ 2,203,398	\$ 26,473	\$ (12,590)	\$ 2,217,281
Obligations of state and political subdivisions	794,704	20,225	(1,716)	813,213
Other U.S. Government agency securities	556,290	35	(1,064)	555,261
Corporate obligations	305,966	236	(131)	306,071
U.S. Treasuries	24,910	—	(3)	24,907
Total investment securities AFS	\$ 3,885,268	\$ 46,969	\$ (15,504)	\$ 3,916,733

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.

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>
(Dollars in thousands)						
June 30, 2022:						
U.S. Government agency mortgage-backed securities	\$ 1,643,527	\$ 80,132	\$ 207,850	\$ 15,257	\$ 1,851,377	\$ 95,389
Obligations of state and political subdivisions	662,329	29,585	2,013	99	664,342	29,684
Other U.S. Government agency securities	631,078	27,723	—	—	631,078	27,723
Corporate obligations	106,159	2,616	—	—	106,159	2,616
U.S. Treasuries	24,167	767	—	—	24,167	767
Total investment securities AFS	\$3,067,260	\$ 140,823	\$ 209,863	\$ 15,356	\$3,277,123	\$156,179
December 31, 2021:						
U.S. Government agency mortgage-backed securities	\$ 1,361,532	\$ 12,568	\$ 1,293	\$ 22	\$ 1,362,825	\$ 12,590
Obligations of state and political subdivisions	212,249	1,703	167	13	212,416	1,716
Other U.S. Government agency securities	390,226	1,064	—	—	390,226	1,064
Corporate obligations	274,829	131	—	—	274,829	131
U.S. Treasuries	24,907	3	—	—	24,907	3
Total investment securities AFS	\$2,263,743	\$ 15,469	\$ 1,460	\$ 35	\$2,265,203	\$ 15,504

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 investment securities AFS in an unrealized loss position, the Bank does not believe the unrealized losses are the result of issues with credit quality; thus, no ACL was established for investment securities AFS as of June 30, 2022 or December 31, 2021.

The following table shows the amortized cost and estimated fair value of investment securities AFS by maturity or estimated date of repayment as of June 30, 2022.

<u>Maturity or Estimated Repayment</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
(Dollars in thousands)		
One year or less	\$ 709,991	\$ 689,147
After one year to five years	2,064,239	1,974,439
After five years to ten years	456,241	432,557
After ten years	626,293	609,664
Total	\$ 3,856,764	\$ 3,705,807

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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Sales proceeds ⁽¹⁾	\$ 24	\$ —	\$ 24	\$ 591,570
Gross realized gains	—	—	—	—
Gross realized losses	—	—	—	—
Net gains on investment securities AFS	\$ —	\$ —	\$ —	\$ —

(1) Sales proceeds for 2021 consisted entirely of variable rate demand notes that were put back to the issuer by the Bank prior to their maturity date during the first quarter of 2021. These notes were purchased at, carried at and called at their par value.

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 (Dollars in thousands)	Total Allowance for Credit Losses
Three months ended June 30, 2022:			
Balances – March 31, 2022	\$ 204,213	\$ 89,327	\$ 293,540
Net charge-offs	(627)	—	(627)
Provision for credit losses	(12,791)	19,816	7,025
Balances – June 30, 2022	\$ 190,795	\$ 109,143	\$ 299,938
Six months ended June 30, 2022:			
Balances – December 31, 2021	\$ 217,380	\$ 71,609	\$ 288,989
Net charge-offs	(266)	—	(266)
Provision for credit losses	(26,319)	37,534	11,215
Balances – June 30, 2022	\$ 190,795	\$ 109,143	\$ 299,938
Three months ended June 30, 2021:			
Balances – March 31, 2021	\$ 268,077	\$ 74,230	\$ 342,307
Net charge-offs	(3,811)	—	(3,811)
Provision for credit losses	(15,513)	(15,419)	(30,932)
Balances – June 30, 2021	\$ 248,753	\$ 58,811	\$ 307,564
Six months ended June 30, 2021:			
Balances – December 31, 2020	\$ 295,824	\$ 81,481	\$ 377,305
Net charge-offs	(7,250)	—	(7,250)
Provision for credit losses	(39,821)	(22,670)	(62,491)
Balances – June 30, 2021	\$ 248,753	\$ 58,811	\$ 307,564

The calculations of the Bank's provision for credit losses for the second quarter and first six months of 2022 and its total ACL at June 30, 2022 were based on a number of key estimates, assumptions and economic forecasts. The Bank utilized several economic forecasts provided by Moody's, including their Baseline forecast and certain of their other alternative economic scenarios. In selecting the weightings for the various economic scenarios for purposes of determining its ACL at June 30, 2022, the Bank assigned the largest weighting to the Moody's S4 (Alternative Downside) scenario and assigned smaller weightings to the Moody's S6 (Stagflation) and Baseline scenarios. 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 risk of a recession in the near-term, elevated inflationary pressures, the impacts of the ongoing war in Ukraine, the impacts of U.S. fiscal policy actions, increases in the Federal Funds Target Rate, prospects for a shrinking of the Federal Reserve balance sheet, supply chain disruptions, global trade, and geopolitical matters, uncertainties about the COVID-19 pandemic, 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 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 management believed were not fully reflected in the Bank's modeled results. Those qualitative adjustments are intended to adjust for imprecision in economic forecasts, model data limitations and other factors.

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

	<u>Beginning Balance</u>	<u>Charge-offs</u>	<u>Recoveries</u>	<u>Provision</u>	<u>Ending Balance</u>
	(Dollars in thousands)				
Three months ended June 30, 2022:					
Real estate:					
Residential 1-4 family	\$ 16,946	\$ (171)	\$ 258	\$ (1,025)	\$ 16,008
Non-farm/non-residential	68,049	(12)	602	(12,085)	56,554
Construction/land development	60,444	(3)	73	(259)	60,255
Agricultural	3,981	—	1	(521)	3,461
Multifamily residential	4,763	—	—	1,079	5,842
Commercial and industrial	7,306	(118)	154	(677)	6,665
Consumer	34,197	(1,151)	391	2,685	36,122
Other	8,527	(831)	180	(1,988)	5,888
Total ALL for funded loans	204,213	(2,286)	1,659	(12,791)	190,795
Reserve for losses on unfunded loan commitments	89,327	—	—	19,816	109,143
Total ACL	<u>\$ 293,540</u>	<u>\$ (2,286)</u>	<u>\$ 1,659</u>	<u>\$ 7,025</u>	<u>\$ 299,938</u>
Six months ended June 30, 2022:					
Real estate:					
Residential 1-4 family	\$ 18,675	\$ (312)	\$ 476	\$ (2,831)	\$ 16,008
Non-farm/non-residential	79,524	(2,720)	4,964	(25,214)	56,554
Construction/land development	54,036	(3)	84	6,138	60,255
Agricultural	3,070	(36)	1	426	3,461
Multifamily residential	6,424	—	89	(671)	5,842
Commercial and industrial	8,017	(289)	328	(1,391)	6,665
Consumer	37,430	(2,198)	683	207	36,122
Other	10,204	(1,701)	368	(2,983)	5,888
Total ALL for funded loans	217,380	(7,259)	6,993	(26,319)	190,795
Reserve for losses on unfunded loan commitments	71,609	—	—	37,534	109,143
Total ACL	<u>\$ 288,989</u>	<u>\$ (7,259)</u>	<u>\$ 6,993</u>	<u>\$ 11,215</u>	<u>\$ 299,938</u>

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 (Dollars in thousands)	Total Nonaccrual Loans
June 30, 2022:			
Real estate:			
Residential 1-4 family	\$ 19,398	\$ 1,224	\$ 20,622
Non-farm/non-residential	2,854	4,651	7,505
Construction/land development	588	1,328	1,916
Agricultural	999	—	999
Multifamily residential	—	—	—
Commercial and industrial	2,485	—	2,485
Consumer	2,266	—	2,266
Other	50	—	50
Total	<u>\$ 28,640</u>	<u>\$ 7,203</u>	<u>\$ 35,843</u>

December 31, 2021:			
Real estate:			
Residential 1-4 family	\$ 20,429	\$ 1,418	\$ 21,847
Non-farm/non-residential	14,895	721	15,616
Construction/land development	452	622	1,074
Agricultural	920	—	920
Multifamily residential	260	—	260
Commercial and industrial	2,127	2	2,129
Consumer	2,418	—	2,418
Other	1	—	1
Total	<u>\$ 41,502</u>	<u>\$ 2,763</u>	<u>\$ 44,265</u>

Interest income on nonperforming loans as of June 30, 2022 and December 31, 2021 is recognized on a cash basis when and if actually collected. Total interest income recognized on nonperforming loans for the three months and six months ended June 30, 2022 and 2021 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 June 30, 2022, the Bank had no loans risk rated as doubtful or loss. Loans are presented on an amortized cost basis which includes unamortized fees and costs but excludes accrued interest.

	Period of Origination						Revolving Loans Amortized Cost Basis	Total
	Six Months Ended June 30, 2022	Year Ended December 31,				Prior to January 1, 2018		
		2021	2020	2019	2018			
(Dollars in thousands)								
June 30, 2022:								
Residential 1-4 family ⁽¹⁾ :								
Pass	\$ 174,717	\$ 190,199	\$ 122,286	\$ 76,298	\$ 46,370	\$ 212,054	\$ 126,647	\$ 948,571
Special Mention	—	709	1,803	1,263	221	1,522	12	5,530
Substandard	—	251	972	6,095	2,407	11,819	149	21,693
Total residential 1-4 family	174,717	191,159	125,061	83,656	48,998	225,395	126,808	975,794
Non-farm/non-residential:								
Pass	448,114	581,429	1,122,997	335,746	365,335	1,252,384	16,710	4,122,715
Special Mention	—	223	3,286	1,990	896	55,308	—	61,703
Substandard	—	—	2,767	1,505	381	12,516	—	17,169
Total non-farm/ non-residential	448,114	581,652	1,129,050	339,241	366,612	1,320,208	16,710	4,201,587
Construction/land development:								
Pass	996,021	1,911,346	2,239,817	1,467,024	615,076	340,658	195,369	7,765,311
Special Mention	—	—	11	5,756	—	372	1,333	7,472
Substandard	—	—	65	775	—	1,307	35,293	37,440
Total construction/ land development	996,021	1,911,346	2,239,893	1,473,555	615,076	342,337	231,995	7,810,223
Agricultural:								
Pass	33,686	61,800	30,339	48,504	35,100	26,211	1,491	237,131
Special Mention	—	—	—	—	—	183	—	183
Substandard	—	—	—	—	322	974	—	1,296
Total agricultural	33,686	61,800	30,339	48,504	35,422	27,368	1,491	238,610
Multifamily residential:								
Pass	27,431	64,726	86,299	565,483	184,363	194,204	1,373	1,123,879
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	76	—	76
Total multifamily residential	27,431	64,726	86,299	565,483	184,363	194,280	1,373	1,123,955
Commercial and industrial:								
Pass	76,842	104,230	35,026	27,099	64,580	40,983	343,929	692,689
Special Mention	—	134	1	172	33	331	56	727
Substandard	—	30	92	689	1,164	714	—	2,689
Total commercial and industrial	76,842	104,394	35,119	27,960	65,777	42,028	343,985	696,105
Consumer ⁽¹⁾ :								
Pass	447,192	469,142	161,049	470,381	421,328	354,997	4,280	2,328,369
Special Mention	52	71	257	265	452	470	—	1,567
Substandard	25	8	143	416	871	803	—	2,266
Total consumer	447,269	469,221	161,449	471,062	422,651	356,270	4,280	2,332,202
Other ⁽¹⁾ :								
Pass	95,409	223,873	269,465	667,425	420	14,431	93,169	1,364,192
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	50	—	—	50
Total other	95,409	223,873	269,465	667,425	470	14,431	93,169	1,364,242
Total	\$ 2,299,489	\$ 3,608,171	\$ 4,076,675	\$ 3,676,886	\$ 1,739,369	\$ 2,522,317	\$ 819,811	\$ 18,742,718

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

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Total</u>
(Dollars in thousands)				
June 30, 2022				
Real estate:				
Residential 1-4 family ⁽¹⁾	\$ 948,571	\$ 5,530	\$ 21,693	\$ 975,794
Non-farm/non-residential	4,122,715	61,703	17,169	4,201,587
Construction/land development	7,765,311	7,472	37,440	7,810,223
Agricultural	237,131	183	1,296	238,610
Multifamily residential	1,123,879	—	76	1,123,955
Commercial and industrial	692,689	727	2,689	696,105
Consumer ⁽¹⁾	2,328,369	1,567	2,266	2,332,202
Other ⁽¹⁾	1,364,192	—	50	1,364,242
Total	\$ 18,582,857	\$ 77,182	\$ 82,679	\$ 18,742,718
December 31, 2021:				
Real estate:				
Residential 1-4 family ⁽¹⁾	\$ 857,517	\$ 7,234	\$ 22,273	\$ 887,024
Non-farm/non-residential	3,700,202	56,367	26,323	3,782,892
Construction/land development	8,200,366	2,181	44,127	8,246,674
Agricultural	246,312	165	1,250	247,727
Multifamily residential	925,165	9,327	353	934,845
Commercial and industrial	504,800	3,660	2,324	510,784
Consumer ⁽¹⁾	2,181,174	1,837	2,418	2,185,429
Other ⁽¹⁾	1,512,391	58	1	1,512,450
Total	\$ 18,127,927	\$ 80,829	\$ 99,069	\$ 18,307,825

- (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)					
June 30, 2022:						
Real estate:						
Residential 1-4 family	\$ 2,826	\$ 4,362	\$ 4,003	\$ 11,191	\$ 964,603	\$ 975,794
Non-farm/non-residential	1,008	276	4,568	5,852	4,195,735	4,201,587
Construction/land development	52	—	799	851	7,809,372	7,810,223
Agricultural	56	—	423	479	238,131	238,610
Multifamily residential	—	—	—	—	1,123,955	1,123,955
Commercial and industrial	113	232	1,972	2,317	693,788	696,105
Consumer	1,286	481	25	1,792	2,330,410	2,332,202
Other	—	—	50	50	1,364,192	1,364,242
Total	\$ 5,341	\$ 5,351	\$ 11,840	\$ 22,532	\$18,720,186	\$18,742,718

December 31, 2021:

Real estate:						
Residential 1-4 family	\$ 6,395	\$ 3,497	\$ 5,703	\$ 15,595	\$ 871,429	\$ 887,024
Non-farm/non-residential	2,816	5,123	2,130	10,069	3,772,823	3,782,892
Construction/land development	986	—	—	986	8,245,688	8,246,674
Agricultural	23	—	475	498	247,229	247,727
Multifamily residential	—	—	260	260	934,585	934,845
Commercial and industrial	4	21	1,793	1,818	508,966	510,784
Consumer	1,485	675	14	2,174	2,183,255	2,185,429
Other	58	—	—	58	1,512,392	1,512,450
Total	\$ 11,767	\$ 9,316	\$ 10,375	\$ 31,458	\$18,276,367	\$18,307,825

- (1) Includes \$2.0 million and \$3.4 million of loans on nonaccrual status at June 30, 2022 and December 31, 2021, respectively.
- (2) Includes \$2.5 million and \$2.2 million of loans on nonaccrual status at June 30, 2022 and December 31, 2021, respectively.
- (3) All loans greater than 90 days past due were on nonaccrual status at June 30, 2022 and December 31, 2021.
- (4) Includes \$19.5 million and \$28.3 million of loans on nonaccrual status at June 30, 2022 and December 31, 2021, respectively.

6. Supplemental Cash Flow Information

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

	Six Months Ended June 30,	
	2022	2021
	(Dollars in thousands)	
Cash paid during the period for:		
Interest	\$ 28,085	\$ 55,118
Income taxes	67,869	99,841
Supplemental schedule of non-cash investing and financing activities:		
Net change in unrealized gains/losses on investment securities AFS	(182,422)	(11,044)
Loans and other assets transferred to foreclosed assets	4,086	8,751

7. Commitments and Contingencies

Outstanding standby letters of credit are contingent commitments issued by the Bank generally to guarantee the performance of a customer in third party arrangements. The maximum amount of future payments the Bank could be required to make under these guarantees at June 30, 2022 is \$17.3 million. The Bank holds collateral to support guarantees when deemed necessary. Collateralized commitments at June 30, 2022 totaled \$16.6 million.

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

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

Contractual Maturities at June 30, 2022	
<u>Maturity</u>	<u>Amount</u>
(Dollars in thousands)	
2022	\$ 636,060
2023	2,111,321
2024	4,742,796
2025	5,207,341
2026	4,334,664
Thereafter	337,585
Total	<u>\$ 17,369,767</u>

On October 26, 2018, a purported class action complaint alleging violations of federal securities laws was filed against Bank OZK in the United States District Court for the Eastern District of Arkansas, captioned Jordan Colbert et al. v. Bank OZK et al., case number now 4:18-cv-793-DPM. Under applicable federal law, the federal district court in the Colbert Case named Strathclyde Pension Fund as the lead class plaintiff. The complaint, alleged violations of Section 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. The complaint identified the proposed class period as encompassing persons who purchased the Bank's common stock between February 19, 2016 and October 18, 2018, and sought damages against the Bank and individual defendants. In May 2022, the parties entered into an agreement to settle the claims for \$45 million and the court granted preliminary approval of the settlement in June 2022. The settlement is subject to final court approval and does not include or constitute an admission, concession, or finding of any fault, liability, or wrongdoing by the Bank or any other defendant. The Bank's insurance carriers have funded the \$45 million settlement into an escrow account as of June 30, 2022. If the court approves the settlement, the settlement will be paid from the escrow account.

The Bank is a party as both plaintiff and defendant in various legal or regulatory proceedings or claims, including claims related to employment, wage-hour and labor law claims, consumer and privacy claims, as well as claims of lender liability, breach of contract, and other similar lending-related claims encountered on a routine basis, some of which may be styled as "class action" or representative cases. While the ultimate resolution of these 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.

8. 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 Human Capital 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 June 30, 2022 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 months or six months ended June 30, 2022 or 2021.

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)
Six Months Ended June 30, 2022:				
Outstanding – January 1, 2022	1,253,604	\$ 48.14		
Granted	—	—		
Exercised	(69,107)	30.10		
Forfeited	(79,221)	50.70		
Outstanding – June 30, 2022	<u>1,105,276</u>	<u>49.08</u>	<u>1.9</u>	<u>\$ 993.0</u> ⁽¹⁾
Fully vested and exercisable – June 30, 2022	<u>1,105,276</u>	<u>\$ 49.08</u>	<u>1.9</u>	<u>\$ 993.0</u> ⁽¹⁾

(1) Based on closing price of \$37.53 per share on June 30, 2022.

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 and six months ended June 30, 2022 was \$0.2 million and \$1.0 million, respectively. The total intrinsic value of options exercised during the three months and six months ended June 30, 2021 was \$0.1 million and \$0.9 million, respectively.

Stock-based compensation expense for stock options included in non-interest expense was not material for both of the three month periods ended June 30, 2022 and 2021. There was no unrecognized compensation cost related to non-vested stock option grants at June 30, 2022.

During the six months ended June 30, 2022, the Bank issued 200,406 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 2009 Plan, Director Plan and Omnibus Plan for the period indicated.

	2009 Plan and Director Plan	Omnibus Plan	Total of All Plans
Six Months Ended June 30, 2022:			
Outstanding – January 1, 2022	290,954	647,495	938,449
Granted	—	220,822	220,822
Forfeited	(789)	(51,061)	(51,850)
Vested	(290,165)	(20,328)	(310,493)
Outstanding – June 30, 2022	<u>—</u>	<u>796,928</u>	<u>796,928</u>
Weighted-average grant date fair value	<u>\$ —</u>	<u>\$ 36.81</u>	<u>\$ 36.81</u>

Restricted stock awards totaling 220,822 shares with a grant date fair value of \$46.36 were granted pursuant to the Omnibus Plan during the six months ended June 30, 2022. 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 \$2.0 million and \$2.5 million for the three months ended June 30, 2022 and 2021, respectively and \$4.2 million and \$5.0 million for the six months ended June 30, 2022 and 2021, respectively. Unrecognized compensation expense for non-vested restricted stock awards was \$16.0 million at June 30, 2022 and is expected to be recognized over a weighted-average period of 2.0 years.

On January 26, 2022, pursuant to the Omnibus Plan, the Bank’s Compensation Committee awarded its executive officers an aggregate of 135,625 performance-based restricted stock units (“PSUs”). The PSUs granted contain both performance and market conditions. The PSUs will be earned and vest depending on the Bank’s relative performance with respect to total shareholder return (“TSR”), return on average equity (“ROAE”) and return on average assets (“ROAA”), over a three-year period, compared to the companies that comprise the KBW Regional Banking Index (“KRX”) at January 1 of the respective award year (for the TSR component) and compared to the Bank’s executive compensation peer group in the fiscal year prior to the award (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 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.

	Six Months Ended June 30,	
	2022	2021
Risk-free interest rate	0.70%	0.09%
Expected dividend yield	2.52%	2.86%
Expected stock volatility	29.85%	67.45%
Post-vest hold period	1 year	1 year

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

	Six Months Ended June 30, 2022
Outstanding – January 1, 2022	434,509
Granted	135,625
Forfeited	(70,419)
Vested	(131,032)
Outstanding – June 30, 2022	368,683

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.

	Six Months Ended June 30,	
	2022	2021
TSR	\$ 41.78	\$ 38.41
ROAE	42.14	33.20
ROAA	42.14	33.20
Valuation stock price index – TSR	99%	116%
Valuation stock price index – ROAE & ROAA	100%	100%
Estimated discount for illiquidity ⁽¹⁾	11.5%	14.5%

(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 \$0.3 million and \$2.0 million for the three months ended June 30, 2022 and 2021, respectively, and \$2.0 million and \$3.1 million for the six months ended June 30, 2022 and 2021, respectively. Unrecognized compensation expense for non-vested PSU awards was \$8.1 million at June 30, 2022 and is expected to be recognized over a weighted-average period of 2.0 years.

9. Fair Value Measurements

The Bank measures certain of its assets and liabilities on a fair value basis using various valuation techniques and assumptions, depending on the nature of the asset or liability. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, fair value is used either on a periodic basis, typically at least quarterly, or on a non-recurring basis to evaluate certain assets and liabilities for impairment or for disclosure purposes. At June 30, 2022 and December 31, 2021, 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)		
June 30, 2022:				
Investment securities: ⁽¹⁾				
U.S. Government agency mortgage-backed securities	\$ —	\$ 1,858,561	\$ —	\$ 1,858,561
Obligations of state and political subdivisions ⁽²⁾	—	1,081,225	8,404	1,089,629
Other U.S. Government agency securities	—	631,078	—	631,078
Corporate obligations	—	106,452	—	106,452
U.S. Treasuries	—	24,167	—	24,167
Total investment securities	—	3,701,483	8,404	3,709,887
Nonaccrual loans	—	—	27,371	27,371
Total assets at fair value	\$ —	\$ 3,701,483	\$ 35,775	\$ 3,737,258
December 31, 2021:				
Investment securities: ⁽¹⁾				
U.S. Government agency mortgage-backed securities	\$ —	\$ 2,217,281	\$ —	\$ 2,217,281
Obligations of state and political subdivisions ⁽²⁾	—	819,293	8,877	828,170
Other U.S. Government agency securities	—	555,261	—	555,261
Corporate obligations	—	306,071	—	306,071
U.S. Treasuries	—	24,907	—	24,907
Total investment securities	—	3,922,813	8,877	3,931,690
Nonaccrual loans	—	—	34,260	34,260
Total assets at fair value	\$ —	\$ 3,922,813	\$ 43,137	\$ 3,965,950

(1) Includes both AFS and trading securities.

(2) Obligations of state and political subdivisions include both AFS and approximately \$4.1 million and \$15.0 million of trading securities as of June 30, 2022 and December 31, 2021, respectively.

The following table presents information on Level 3 non-recurring fair value measurements related to the Level 3 non-accrual loans above.

Description	Fair Value at June 30, 2022	Technique	Unobservable Inputs
		(Dollars in thousands)	
Nonaccrual loans	\$ 27,371	Third party appraisal ⁽¹⁾ or discounted cash flows	1. Management discount based on underlying collateral characteristics and market conditions 2. Life of loan

(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 June 30, 2022. 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 \$8.4 million at June 30, 2022 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 June 30, 2022, the third parties' pricing matrices valued the Bank's portfolio of private placement bonds at approximately \$8.4 million, which was approximately the same as the aggregate par value of the private placement bonds. Accordingly, at June 30, 2022, the Bank reported the private placement bonds at \$8.4 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 June 30, 2022, the Bank had reduced the carrying value of its nonaccrual loans to the estimated fair value of \$27.4 million. The adjustment to reduce the carrying value of such nonaccrual loans to the estimated fair value included \$8.4 million of ACL allocations.

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, 2021	\$ 8,877
Total realized gains included in earnings	—
Total unrealized gains/(losses) included in other comprehensive income	(13)
Paydowns and maturities	(460)
Sales	—
Transfers in and/or out of Level 3	—
Balance – June 30, 2022	<u>\$ 8,404</u>
Balance – December 31, 2020	\$ 11,597
Total realized gains included in earnings	—
Total unrealized gains/(losses) included in other comprehensive income	—
Paydowns and maturities	(708)
Sales	—
Transfers in and/or out of Level 3	—
Balance – June 30, 2021	<u>\$ 10,889</u>

10. Fair Value of Financial Instruments

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

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

Investment securities – 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.

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

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

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

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

Off-balance sheet instruments – The fair values of outstanding commitments and letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements. The fair values of outstanding commitments and letters of credit were not material at June 30, 2022 or December 31, 2021.

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.

	Fair Value Hierarchy	June 30, 2022		December 31, 2021	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(Dollars in thousands)					
Financial assets:					
Cash and cash equivalents	Level 1	\$ 1,140,448	\$ 1,140,448	\$ 2,053,829	\$ 2,053,829
Investment securities ⁽¹⁾	Levels 2 and 3	3,709,887	3,709,887	3,931,690	3,931,690
Loans, net of ALL ⁽²⁾	Level 3	18,551,923	18,284,814	18,090,445	18,152,024
Financial liabilities:					
Demand, savings and interest bearing transaction deposits	Level 1	\$ 14,773,397	\$ 14,773,397	\$ 14,229,515	\$ 14,229,515
Time deposits	Level 2	5,210,790	5,128,730	5,979,619	5,972,506
Other borrowings	Level 2	505,221	505,131	756,321	767,761
Subordinated notes	Level 2	346,536	319,137	346,133	326,885
Subordinated debentures	Level 2	121,310	114,841	121,033	115,294

(1) Includes both AFS and trading securities.

(2) Excludes reserve for losses on unfunded loan commitments.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
(Dollars in thousands)				
Beginning balance of AOCI – unrealized gains and losses on investment securities AFS	\$ (80,928)	\$ 50,464	\$ 23,841	\$ 58,252
Other comprehensive loss:				
Unrealized gains and losses on investment securities AFS	(44,149)	(553)	(182,422)	(11,044)
Tax effect of unrealized gains and losses on investment securities AFS	10,909	216	44,413	2,919
Total other comprehensive loss	(33,240)	(337)	(138,009)	(8,125)
Ending balance of AOCI – unrealized gains and losses on investment securities AFS	\$ (114,168)	\$ 50,127	\$ (114,168)	\$ 50,127

12. Other Operating Expenses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Professional and outside services	\$ 8,461	\$ 7,724	\$ 15,543	\$ 14,050
Software and data processing	6,223	6,006	12,144	11,798
Travel and meals	2,186	1,419	3,944	2,194
Deposit insurance and assessments	2,100	2,885	4,250	6,405
Telecommunication services	1,921	2,165	3,931	4,397
Postage and supplies	1,507	1,544	3,205	3,188
ATM expense	1,488	1,486	2,997	2,769
Advertising and public relations	1,103	593	2,362	902
Loan collection and repossession expense	353	540	678	1,050
Writedowns of foreclosed and other assets	—	123	258	1,486
Amortization of intangibles	1,516	1,602	3,033	3,332
Amortization of CRA and tax credit investments	4,628	3,227	9,730	7,352
Other	6,388	6,110	11,651	12,448
Total other operating expense	<u>\$ 37,874</u>	<u>\$ 35,424</u>	<u>\$ 73,726</u>	<u>\$ 71,371</u>

13. Recent Accounting Pronouncements

In May 2020, FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. Reference rate reform relates to the effects undertaken to eliminate certain reference rates such as the London Interbank Offered Rate (“LIBOR”) and introduce new reference rates that may be based on larger or more liquid observations and transactions. ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other contracts. Generally, ASU 2020-04 would allow entities to consider contract modifications due to reference rate reform to be a continuation of an existing contract; thus, the Bank would not have to determine if the modification is considered insignificant. As a result of ASU 2020-04, the Bank created an internal working group that is managing its transition from LIBOR. This working group is a cross-functional team composed of representatives from credit, lending, deposits, retail, investment securities, loan administration, operations, compliance, legal and other support functions to address issues related to the LIBOR transition and phase-out. All of the Bank’s loans that are tied to LIBOR benchmark interest rates include fallback language for when LIBOR ceases to exist. As of January 1, 2022, the Bank is no longer originating loans that are tied to LIBOR benchmark interest rates. The Bank will continue to evaluate the financial impact regarding pricing, valuation and operations of the transition. While the Bank has yet to adopt the provisions of ASU 2020-04, the standard was effective upon issuance and terminates December 31, 2022 such that changes made to instruments or contracts beginning on or after January 1, 2023 would not apply. On April 20, 2022, FASB issued a proposed ASU that would defer the sunset date of ASU 2020-04 from December 31, 2022 to December 31, 2024. The Bank is currently evaluating the impact of ASU 2020-04 and has not determined if reference rate reform or ASU 2020-04 will have a material effect on the Bank’s financial position or results of operations.

On March 31, 2022, 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 is effective for years beginning after December 15, 2022, with early adoption permitted. The Bank is currently evaluating the impact of ASU 2022-02, including the additional disclosure requirements, and has not determined if ASU 2022-02 will have a significant impact on the Bank’s financial position, statement of operations and financial statement disclosures.

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 delays in identifying satisfactory sites, hiring or retaining qualified personnel, obtaining regulatory or other approvals, obtaining permits and designing, constructing and opening new offices or relocating, selling or closing existing offices; the ability to enter into and/or close additional acquisitions; the availability of and access to capital; possible downgrades in 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 or acquired deposits or to retain or grow loans, including growth from unfunded closed loans; the ability to generate future revenue growth or to control future growth in non-interest expense; interest rate fluctuations, including changes in the yield curve between short-term and long-term interest rates or changes in the relative relationships of various interest rate indices; the potential impact of the transition from the London Interbank Offered Rate (“LIBOR”) as a reference rate; 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; changes in legal, financial and/or regulatory requirements; recently enacted and potential legislation and regulatory actions and the costs and expenses to comply with new and/or existing legislation and regulatory actions, including those actions in response to the coronavirus (“COVID-19”) pandemic such as the Coronavirus Aid, Relief and Economic Security Act, the Consolidated Appropriations Act of 2021, the American Rescue Plan Act of 2021, and any similar or related laws, rules and regulations; changes in U.S. government monetary and fiscal policy; FDIC special assessments or changes to regular assessments; the ability to keep pace with technological changes, including changes regarding maintaining cybersecurity; the impact of failure in, or breach of, our operational or security systems or infrastructure, or those of third parties with whom we do business, including as a result of cyber-attacks or an increase in the incidence or severity of fraud, illegal payments, security breaches or other illegal acts impacting the Bank or its customers; natural disasters or acts of war or terrorism; the adverse effects of the ongoing global COVID-19 pandemic, including the duration of the pandemic and actions taken to contain or treat COVID-19, on the Bank, the Bank’s customers, the Bank’s staff, the global economy and the financial markets; the potential impact of continuing inflationary pressures; the potential impact of supply chain disruptions; national, international or political instability or military conflict, including the ongoing war in Ukraine; the competition and costs of recruiting and retaining human talent; impairment of our goodwill or other intangible assets; 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, 2021 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 six months ended June 30, 2022 and 2021. 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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
(Dollars in thousands, except per share amounts)				
Income statement data:				
Net interest income	\$ 265,793	\$ 240,746	\$ 515,137	\$ 475,381
Provision for credit losses	7,025	(30,932)	11,215	(62,491)
Non-interest income	26,320	27,742	57,796	59,859
Non-interest expense	109,300	103,711	217,016	209,771
Net income	136,413	150,548	268,916	298,982
Preferred stock dividends	4,047	—	8,527	—
Net income available to common stockholders	132,358	150,535	260,386	298,950
Pre-tax pre-provision net revenue	182,813	164,777	355,917	325,469
Common share and per common share data:				
Diluted earnings per common share	\$ 1.10	\$ 1.16	\$ 2.12	\$ 2.30
Book value per common share	35.87	34.70	35.87	34.70
Tangible book value per common share	30.27	29.52	30.27	29.52
Dividends per common share	0.31	0.28	0.61	0.5575
Weighted-average diluted shares outstanding (thousands)	120,827	130,255	122,905	130,109
End of period shares outstanding (thousands)	118,996	129,720	118,996	129,720
Balance sheet data at period end:				
Total assets	\$ 25,919,965	\$ 26,605,938	\$ 25,919,965	\$ 26,605,938
Total loans	18,742,718	18,271,670	18,742,718	18,271,670
Non-purchased loans	18,297,638	17,611,848	18,297,638	17,611,848
Purchased loans	445,080	659,822	445,080	659,822
Allowance for loan losses	190,795	248,753	190,795	248,753
Foreclosed assets	2,593	7,542	2,593	7,542
Investment securities – AFS	3,705,807	4,693,396	3,705,807	4,693,396
Goodwill and other intangible assets, net	666,029	672,125	666,029	672,125
Deposits	19,984,187	20,706,777	19,984,187	20,706,777
Other borrowings	505,221	758,677	505,221	758,677
Subordinated notes	346,536	224,236	346,536	224,236
Subordinated debentures	121,310	120,752	121,310	120,752
Unfunded balance of closed loans	17,369,767	11,709,818	17,369,767	11,709,818
Reserve for losses on unfunded loan commitments	109,143	58,811	109,143	58,811
Preferred stock	338,980	—	338,980	—
Total common stockholders' equity	4,267,802	4,501,676	4,267,802	4,501,676
Loan (including purchased loans) to deposit ratio	93.79%	88.24%	93.79%	88.24%
Average balance sheet data:				
Total average assets	\$ 26,224,924	\$ 26,945,053	\$ 26,292,526	\$ 26,995,485
Total average common stockholders' equity	4,280,053	4,423,093	4,364,216	4,365,454
Average common equity to average assets	16.32%	16.42%	16.60%	16.17%
Performance ratios:				
Return on average assets ⁽¹⁾	2.02%	2.24%	2.00%	2.23%
Return on average common stockholders' equity ⁽¹⁾	12.40	13.65	12.03	13.81
Return on average tangible common stockholders' equity ⁽¹⁾	14.69	16.10	14.20	16.33
Net interest margin – FTE ⁽¹⁾	4.52	3.95	4.38	3.91
Efficiency ratio	37.25	38.43	37.73	39.00
Common stock dividend payout ratio	28.62	24.46	29.08	24.32
Asset Quality ratios:				
Net charge-offs to average non-purchased loans ⁽¹⁾⁽²⁾	0.03%	0.09%	0.05%	0.08%
Net charge-offs to average total loans ⁽¹⁾	0.01	0.08	0.00	0.08
Nonperforming loans to total loans ⁽³⁾	0.16	0.22	0.16	0.22
Nonperforming assets to total assets ⁽³⁾	0.12	0.18	0.12	0.18
Allowance for loan losses as a percentage of: ⁽⁴⁾				
Total loans	1.02%	1.36%	1.02%	1.36%
Total nonperforming loans	517%	432%	517%	432%
Capital ratios at period end:				
Common equity tier 1	12.59%	14.51%	12.59%	14.51%
Tier 1 risk based capital	13.74	14.51	13.74	14.51
Total risk based capital	16.27	16.84	16.27	16.84
Tier 1 leverage	15.81	14.49	15.81	14.49

(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 months and six months ended June 30, 2022. 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, 2021. Annualized results for these interim periods may not be indicative of results for the full year or future periods.

Our primary business is commercial banking conducted by the Bank and various subsidiaries of the Bank. Our results of operations depend primarily on net interest income, which is the difference between the interest income from earning assets, such as loans and investments, and the interest expense incurred on interest bearing liabilities, such as deposits, borrowings, subordinated notes and subordinated debentures. We also generate non-interest income, including, among others, service charges on deposit accounts, trust income, BOLI income, 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.

RECENT DEVELOPMENTS RELATED TO COVID-19

We have been, and continue to be, impacted by the effects of the ongoing COVID-19 pandemic. Many uncertainties related to COVID-19 remain, including the duration of the outbreak and potential for additional outbreaks or new variants, the impact to our customers, employees and vendors, the impact on the financial services and banking industry and the economy as a whole, and the effect of fiscal, public health, and other actions taken by governmental authorities and officials. We are actively monitoring these and other developments. For further information regarding the impact of COVID-19 on our business, operations and results of operations, as well as the risks we face with respect to COVID-19, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments Related to COVID-19” and “Item 1A – Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2021.

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 to 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, 2021. 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, 2021.

ANALYSIS OF RESULTS OF OPERATIONS

General

Net income available to our common stockholders was \$132.4 million for the second quarter of 2022, compared to \$150.5 million for the second quarter of 2021. Net income available to our common stockholders was \$260.4 million for the first six months of 2022, compared to \$299.0 million for the first six months of 2021. Diluted earnings per common share were \$1.10 for the second quarter of 2022, compared to \$1.16 for the second quarter of 2021. Diluted earnings per common share were \$2.12 for the first six months of 2022, compared to \$2.30 for the first six months of 2021.

During the three months and six months ended June 30, 2022, we recorded provision for credit losses of \$7.0 million and \$11.2 million compared to negative provision for credit losses of \$30.9 million and \$62.5 million during the three months and six months ended June 30, 2021. 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. However, our ACL and provision for credit losses are impacted by Moody’s economic scenarios and our estimate of how closely those economic scenarios align with reality, including uncertainty about future U.S. economic conditions. 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 2.02% for the second quarter and 2.00% for the first six months of 2022 compared to 2.24% for the second quarter and 2.23% for the first six months of 2021. Our annualized return on average common stockholders' equity was 12.40% for the second quarter and 12.03% for the first six months of 2022 compared to 13.65% for the second quarter and 13.81% for the first six months of 2021. Our annualized return on average tangible common stockholders' equity was 14.69% for the second quarter and 14.20% for the first six months of 2022 compared to 16.10% for the second quarter and 16.33% for the first six months of 2021. 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 \$25.92 billion at June 30, 2022 compared to \$26.53 billion at December 31, 2021. Total loans were \$18.74 billion at June 30, 2022 compared to \$18.31 billion at December 31, 2021. Deposits were \$19.98 billion at June 30, 2022 compared to \$20.21 billion at December 31, 2021.

Common stockholders' equity was \$4.27 billion at June 30, 2022 compared to \$4.50 billion at December 31, 2021. Tangible common stockholders' equity was \$3.60 billion at June 30, 2022 compared to \$3.83 billion at December 31, 2021. Book value per common share was \$35.87 at June 30, 2022 compared to \$35.85 at December 31, 2021. Tangible book value per common share was \$30.27 at June 30, 2022 compared to \$30.52 at December 31, 2021. The calculations of our tangible common stockholders' equity and tangible book value per common share and the reconciliations to GAAP are included under the heading "Capital 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; our core spread, which is how we describe the difference between the yield on our non-purchased loans and our cost of interest bearing deposits; and other factors.

Net interest income and net interest margin are analyzed in this discussion on 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 \$1.3 million and \$1.4 million for the three months ended June 30, 2022 and 2021, respectively, and \$2.3 million and \$2.6 million for the six months ended June 30, 2022 and 2021, 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 second quarter of 2022 increased 10.3% to \$267.1 million compared to \$242.1 million for the second quarter of 2021. Net interest income for the first six months of 2022 increased 8.3% to \$517.5 million compared to \$478.0 million for the first six months of 2021. The increase in net interest income for the second quarter and first six months of 2022 compared to the same periods in 2021 was primarily due to an increase in our net interest margin which increased 57 basis points ("bps") for the second quarter of 2022 and 47 bps for the first six months of 2022 compared to the same period in 2021.

Our net interest margin was 4.52% for the second quarter and 4.38% for the first six months of 2022 compared to 3.95% for the second quarter and 3.91% for the first six months of 2021. The 57 basis point increase in net interest margin for the second quarter of 2022 compared to the same period in 2021 was due primarily to a 45 basis point increase in the rate on our interest earning assets and a 14 basis point decrease in the rate on our interest bearing liabilities. The 47 basis point increase in net interest margin for the first six months of 2022 compared to the same period of 2021 was due primarily to a 28 basis point increase in the rate on our interest earnings assets and a 24 basis point decrease in the rate of our interest bearing liabilities.

The yield on total earning assets was 4.78% for the second quarter and 4.62% for the first six months of 2022 compared to 4.33% for the second quarter and 4.34% for the first six months of 2021. The increase in the yield on earning assets for the second quarter and first six months of 2022 was primarily attributable to the increases in yield on our investment securities and total loans portfolios compared to the same periods in 2021.

The yield on our aggregate investment securities portfolio increased 39 bps to 1.68% for the second quarter of 2022 compared to 1.29% for the second quarter of 2021. The yield on our aggregate investment securities portfolio increased 21 bps to 1.57% for the first six months of 2022 compared to 1.36% for the first six months of 2021.

The yield on our non-purchased loans increased nine bps to 5.55% for the second quarter of 2022 compared to 5.46% for the second quarter of 2021 and increased five bps to 5.46% for the first six months of 2022 compared to 5.41% for the first six months of 2021. At June 30, 2022, approximately 77% of the funded balance of our non-purchased loans were variable rate and generally reprice with movements in various LIBOR tenors, Wall Street Journal Prime Rate ("WSJ Prime"), or the 1-month term Secured Overnight Financing

Rate (“SOFR”). The prospect for further increases in the Fed funds target rate, coupled with our substantial volume of variable rate loans, should have a positive impact on our non-purchased loan yields.

The yield on our purchased loan portfolio increased 102 bps to 7.75% for the second quarter of 2022 compared to 6.73% for the second quarter of 2021 and 71 bps to 7.18% for the first six months of 2022 compared to 6.47% for the first six months of 2021. The yield on our purchased loan portfolio is significantly affected by both the volume and timing of early payoffs and paydowns which typically result in any remaining purchase accounting valuation amounts treated as yield adjustments. Because the volume and timing of purchased loan payoffs and paydowns may vary significantly from period to period, the yield on such loans may also vary significantly from period to period. At June 30, 2022, approximately 38% of our purchased loans had variable interest rates and generally reprice with movements in LIBOR, WSJ Prime and various other rates.

At June 30, 2022, approximately 46% of the funded balance of our total variable rate loans were at their floor rates. Given the high percentage of variable rate loans within our portfolio and considering that most of those loans are either already above or will likely move above their floor rates during the third quarter of 2022, we expect our yield on non-purchased loans to continue to increase throughout the Federal Reserve’s tightening cycle. We also expect our cost of interest bearing deposits to increase throughout the Federal Reserve’s tightening cycle. In the quarter just ended, our non-purchased loan yields increased more than our cost of interest bearing deposits since deposit rates naturally tend to lag early in the Federal Reserve’s tightening cycle. However, in future periods, our cost of interest bearing deposits may increase in tandem with or more than our non-purchased loan yields later in the Federal Reserve’s tightening cycle when we also expect to be growing deposits to fund increasing loan growth.

The overall decrease in rates on average interest bearing liabilities, which decreased 14 bps for the second quarter and 24 bps for the first six months of 2022 compared to the same periods in 2021, was primarily due to a decrease in rates on interest bearing deposits, the largest component of our interest bearing liabilities, which decreased 15 bps during the second quarter of 2022 and 24 bps for the first six months of 2022. The decrease in rates on our interest bearing deposits was primarily due to decreases in the rates paid on time deposits and a shift in the composition of our deposit base to include a larger percentage of lower cost consumer and commercial deposits and a smaller percentage of time deposits. Because of recent and expected increases in the federal funds rate, we would expect to experience increases in the rates on our interest-bearing deposits in future periods. Additionally, changes in expected deposit levels necessary to fund future potential growth, if any, in our earning assets, changes in our level of on-balance sheet liquidity, or changes in competitive conditions, among other factors, could significantly affect deposit costs in future periods.

Our other borrowing sources include (i) other borrowings, comprised primarily of FHLB advances and, to a lesser extent, federal funds purchased, (ii) subordinated notes and (iii) subordinated debentures. In July 2021, we redeemed our \$225 million of 5.50% fixed-to-floating rate subordinated notes and, subsequently, in September 2021, we issued \$350 million in aggregate principal amount of 2.75% fixed-to-floating subordinated notes. As a result of these transactions, the rate on our subordinated notes decreased 268 bps for the second quarter and first six months of 2022 compared to the same period in 2021. The rate on these subordinated notes includes amortization of debt issuance costs. The rates paid on our subordinated debentures, which are tied to spreads over the 90-day LIBOR and reset periodically, increased primarily due to increases in LIBOR during the second quarter and first six months of 2022 compared to the same periods in 2021.

The decrease in average earning assets for the second quarter and first six months of 2022 compared to the same periods in 2021 was primarily due to decreases in interest earning deposits and federal funds sold and, to a lesser extent, our investment securities, partially offset by an increase in the average balance of total loans. The decrease in the average balance of interest bearing liabilities was primarily due to a decrease in the average balance of interest bearing deposits needed to fund 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 June 30,						Six Months Ended June 30,					
	2022			2021			2022			2021		
	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	\$ 1,019,374	\$ 1,856	0.73%	\$ 1,886,166	\$ 496	0.11%	\$ 1,188,502	\$ 2,465	0.42%	\$ 2,048,521	\$ 1,033	0.10%
Investment securities:												
Taxable	3,060,097	10,367	1.36	3,508,655	9,467	1.08	3,218,475	20,978	1.31	2,968,393	17,550	1.19
Tax-exempt – FTE	637,235	5,088	3.20	963,522	4,915	2.05	604,295	8,868	2.96	1,065,110	9,574	1.81
Non-purchased loans – FTE	18,535,726	256,495	5.55	17,544,405	238,877	5.46	18,346,228	496,714	5.46	17,864,558	479,001	5.41
Purchased loans	464,655	8,982	7.75	697,136	11,699	6.73	481,941	17,152	7.18	736,399	23,635	6.47
Total earning assets – FTE	23,717,087	282,788	4.78	24,599,884	265,454	4.33	23,839,441	546,177	4.62	24,682,981	530,793	4.34
Non-interest earning assets												
Total assets	<u>\$26,224,924</u>			<u>\$26,945,053</u>			<u>\$26,292,526</u>			<u>\$26,995,485</u>		
LIABILITIES AND STOCKHOLDERS' EQUITY												
Interest bearing liabilities:												
Deposits:												
Savings and interest bearing transaction	\$ 9,697,128	\$ 5,379	0.22%	\$ 8,735,178	\$ 3,338	0.15%	\$ 9,610,145	\$ 8,162	0.17%	\$ 8,537,681	\$ 6,954	0.16%
Time deposits	5,404,880	5,476	0.41	8,000,214	14,893	0.75	5,581,955	11,185	0.40	8,495,453	35,628	0.85
Total interest bearing deposits	15,102,008	10,855	0.29	16,735,392	18,231	0.44	15,192,100	19,347	0.26	17,033,134	42,582	0.50
Other borrowings	670,599	1,042	0.62	757,435	1,002	0.53	713,121	2,040	0.58	756,813	1,992	0.53
Subordinated notes	346,426	2,603	3.01	224,188	3,181	5.69	346,327	5,177	3.01	224,140	6,326	5.69
Subordinated debentures	121,234	1,195	3.95	120,680	939	3.12	121,166	2,159	3.59	120,610	1,881	3.14
Total interest bearing liabilities	16,240,267	15,695	0.39	17,837,695	23,353	0.53	16,372,714	28,723	0.35	18,134,697	52,781	0.59
Non-interest bearing liabilities:												
Non-interest bearing deposits	4,970,380			4,366,380			4,872,646			4,170,685		
Other non-interest bearing liabilities	392,126			314,768			340,854			321,546		
Total liabilities	21,602,773			22,518,843			21,586,214			22,626,928		
Total stockholders' equity before noncontrolling interest												
Noncontrolling interest	4,619,033			4,423,093			4,703,196			4,365,454		
Total liabilities and stockholders' equity	<u>\$26,224,924</u>			<u>\$26,945,053</u>			<u>\$26,292,526</u>			<u>\$26,995,485</u>		
Net interest income – FTE		<u>\$267,093</u>			<u>\$242,101</u>			<u>\$517,454</u>			<u>\$478,012</u>	
Net interest margin – FTE			<u>4.52%</u>			<u>3.95%</u>			<u>4.38%</u>			<u>3.91%</u>
Core spread ⁽¹⁾			<u>5.26%</u>			<u>5.02%</u>			<u>5.20%</u>			<u>4.91%</u>

(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 June 30, 2022 Over Three Months Ended June 30, 2021			Six Months Ended June 30, 2022 Over Six Months Ended June 30, 2021		
	Volume	Yield/ Rate	Net Change	Volume	Yield/ Rate	Net Change
(Dollars in thousands)						
Increase (decrease) in:						
Interest income – FTE:						
Interest earning deposits and federal funds sold	\$ (1,578)	\$ 2,938	\$ 1,360	\$ (1,784)	\$ 3,216	\$ 1,432
Investment securities:						
Taxable	(1,520)	2,420	900	1,630	1,798	3,428
Tax-exempt – FTE	(2,606)	2,779	173	(6,762)	6,056	(706)
Non-purchased loans – FTE	13,718	3,900	17,618	13,041	4,672	17,713
Purchased loans	(4,494)	1,777	(2,717)	(9,056)	2,573	(6,483)
Total interest income – FTE	<u>3,520</u>	<u>13,814</u>	<u>17,334</u>	<u>(2,931)</u>	<u>18,315</u>	<u>15,384</u>
Interest expense:						
Savings and interest bearing transaction	534	1,507	2,041	911	297	1,208
Time deposits	(2,630)	(6,787)	(9,417)	(5,838)	(18,605)	(24,443)
Other borrowings	(134)	174	40	(124)	172	48
Subordinated notes	918	(1,496)	(578)	1,826	(2,975)	(1,149)
Subordinated debentures	5	251	256	10	268	278
Total interest expense	<u>(1,307)</u>	<u>(6,351)</u>	<u>(7,658)</u>	<u>(3,215)</u>	<u>(20,843)</u>	<u>(24,058)</u>
Increase (decrease) in net interest income – FTE	<u>\$ 4,827</u>	<u>\$ 20,165</u>	<u>\$ 24,992</u>	<u>\$ 284</u>	<u>\$ 39,158</u>	<u>\$ 39,442</u>

Non-Interest Income

Our non-interest income consists primarily of, among others, service charges on deposit accounts, trust income, BOLI income, loan service, maintenance and other fees and net gains and losses on investment securities and on sales of other assets. Non-interest income for the second quarter of 2022 was \$26.3 million compared to \$27.7 million for the second quarter of 2021. Non-interest income for the first six months of 2022 was \$57.8 million compared to \$59.9 million for the first six months of 2021.

Service charges on deposit accounts, our largest component of non-interest income, increased 10.9% to \$11.4 million for the second quarter of 2022 compared to \$10.3 million for the second quarter of 2021. Service charges on deposit accounts increased 11.7% to \$22.3 million for the first six months of 2022 compared to \$20 million for the first six months of 2021. This increase was primarily due to an increase in customer activity that resulted in growth of service charges.

Trust income was \$1.9 million for both the second quarters of 2022 and 2021. Trust income decreased 2.7% to \$4.0 million for the first six months of 2022 compared to \$4.1 million for the first six months of 2021. The decrease in trust income for the first six months of 2022 was primarily due to a decrease in both corporate and personal trust income.

BOLI income from the change in cash surrender value decreased 1.5% to \$4.8 million for the second quarter of 2022 compared to \$4.9 million for the second quarter of 2021 and decreased 1.6% to \$9.6 million for the first six months of 2022 compared to \$9.8 million the first six months of 2021. There was no BOLI income from death benefits for the second quarters of 2022 or 2021. BOLI income from death benefits was \$0.3 million in the first six months of 2022 compared to \$1.4 million for the first six months of 2021.

Loan service, maintenance, and other fees, which includes fees that are not considered yield adjustments, decreased 8.9% to \$3.6 million for the second quarter of 2022 compared to \$4.0 million for the second quarter of 2021 and decreased 11.8% to \$6.6 million during the first six months of 2022 compared to \$7.5 million during the first six months of 2021. Income from these items may vary significantly from period to period.

Gains on sales of other assets were \$0.8 million and \$7.8 million for the second quarter and the first six months of 2022 compared to \$2.3 million and \$8.2 million for the second quarter and first six months of 2021. Gains on sales of other assets for the second quarter of 2022, included \$0.1 million in gains on the sale of loans compared to \$1.1 million in gains on the sale of loans for the second quarter of 2021. Gains on sales of other assets for the first six months of 2022 included a gain of \$1.8 million from the sale of our Magnolia, Arkansas branch and \$0.5 million from the sales of loans compared to a gain of \$4.4 million from the sale of our South Carolina branch and \$1.7 million from the sales of loans during the first six months of 2021. Gains on sales of other assets may vary significantly from period to period.

We had \$0.5 million and \$0.4 million in net gains on investment securities sales during the second quarter and first six months of 2022 compared to no net gains or losses on investment securities sales during the second quarter and first six months of 2021.

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

Non-Interest Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
(Dollars in thousands)				
Service charges on deposit accounts:				
NSF fees	\$ 1,079	\$ 848	\$ 2,159	\$ 1,710
Overdraft fees	3,168	2,396	6,290	4,857
All other service charges	7,184	7,067	13,874	13,409
Trust income	1,911	1,911	4,005	4,118
BOLI income:				
Increase in cash surrender value	4,846	4,919	9,639	9,799
Death benefits	—	—	297	1,409
Loan service, maintenance and other fees	3,603	3,953	6,621	7,504
Gains on sales of other assets	784	2,341	7,776	8,169
Net gains on investment securities	531	—	441	—
Other	3,214	4,307	6,694	8,884
Total non-interest income	<u>\$ 26,320</u>	<u>\$ 27,742</u>	<u>\$ 57,796</u>	<u>\$ 59,859</u>

Non-Interest Expense

Our non-interest expense consists of salaries and employee benefits, net occupancy and equipment and other operating expenses. Non-interest expense was \$109.3 million for the second quarter of 2022 compared to \$103.7 million for the second quarter of 2021. Non-interest expense was \$217.0 million for the first six months of 2022 compared to \$209.8 million for the first six months of 2021.

Salaries and employee benefits, our largest component of non-interest expense, increased 4.4% to \$54.4 million in the second quarter of 2022 compared to \$52.1 million in the second quarter of 2021. Salaries and employee benefits increased 3.1% to \$109.1 million in the first six months of 2022 compared to \$105.8 million in the first six months of 2021. During the second quarter and first six months of 2022, competition in the labor market has resulted in increases in our salaries and employee benefits expense compared to the same periods in 2021. We expect upward pressure on salaries and employee benefit costs in future quarters as we continue to respond to the ongoing competitive conditions in the labor market, fill currently unfilled positions, and add team members to support future growth. We have recently seen an acceleration in our filling of open job positions which, among other factors, should result in increases in our non-interest expense over the next several quarters.

Net occupancy and equipment expenses increased 5.2% to \$17.0 million for the second quarter of 2022 compared to \$16.2 million for the second quarter of 2021. Net occupancy and equipment expense increased 4.9% to \$34.2 million for the first six months of 2022 compared to \$32.6 million for the first six months of 2021.

Our aggregate other operating expenses increased 6.9% to \$37.9 million for the second quarter of 2022 compared to \$35.4 million for the second quarter of 2021. Our aggregate other operating expenses increased 3.3% to \$73.7 million for the first six months of 2022 compared to \$71.4 million for the first six months of 2021. The increase in our aggregate other operating expenses for the second quarter and first six months of 2022 was primarily due to increases in our amortization of CRA and tax credit investments and, to a lesser extent, increases in travel and meals expense, partially offset by decreases in our deposit insurance and assessments expense compared to the same periods in 2021.

Our efficiency ratio (non-interest expense divided by the sum of net interest income – FTE and non-interest income) was 37.3% for the second quarter and 37.7% for the first six months of 2022 compared to 38.4% for the second quarter and 39.0% for the first six months of 2021.

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

Non-Interest Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Salaries and employee benefits	\$ 54,412	\$ 52,119	\$ 109,060	\$ 105,764
Net occupancy and equipment	17,014	16,168	34,230	32,636
Other operating expenses:				
Professional and outside services	8,461	7,724	15,543	14,050
Software and data processing	6,223	6,006	12,144	11,798
Travel and meals	2,186	1,419	3,944	2,194
Deposit insurance and assessments	2,100	2,885	4,250	6,405
Telecommunication services	1,921	2,165	3,931	4,397
Postage and supplies	1,507	1,544	3,205	3,188
ATM expense	1,488	1,486	2,997	2,769
Advertising and public relations	1,103	593	2,362	902
Loan collection and repossession expense	353	540	678	1,050
Writedowns of foreclosed and other assets	—	123	258	1,486
Amortization of intangibles	1,516	1,602	3,033	3,332
Amortization of CRA and tax credit investments	4,628	3,227	9,730	7,352
Other	6,388	6,110	11,651	12,448
Total non-interest expense	<u>\$ 109,300</u>	<u>\$ 103,711</u>	<u>\$ 217,016</u>	<u>\$ 209,771</u>

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 thereof. PPNR was \$182.8 million for the second quarter and \$355.9 million for the first six months of 2022 compared to \$164.8 million for the second quarter and \$325.5 million for the first six months of 2021. 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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Income before taxes	\$ 175,788	\$ 195,709	\$ 344,702	\$ 387,960
Provision for credit losses	7,025	(30,932)	11,215	(62,491)
PPNR	<u>\$ 182,813</u>	<u>\$ 164,777</u>	<u>\$ 355,917</u>	<u>\$ 325,469</u>

Income Taxes

The provision for income taxes was \$39.4 million for the second quarter and \$75.8 million for the first six months of 2022 compared to \$45.2 million for the second quarter and \$89.0 million for the first six months of 2021. The effective income tax rate was 22.4% for the second quarter and 22.0% for the first six months of 2022 compared to 23.1% for the second quarter and 22.9% for the first six months of 2021. The decrease in the effective tax rate for the second quarter and first six months of 2022 compared to the same periods in 2021 was primarily due to a reduction of tax expense associated with the vesting of equity grants, 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, 2021.

ANALYSIS OF FINANCIAL CONDITION

RISK ELEMENTS

Risk is inherent in substantially all of the Bank's operations, and our business exposes us to strategic risk, credit risk, market risk (including interest rate risk), liquidity risk, operational risk, reputational risk and compliance and regulatory risk. We use an enterprise-wide risk management framework to identify, measure, monitor, manage and report risks that affect or could affect the achievement of our strategic, financial and other goals and objectives. Accordingly, risk management is an essential element in managing our operations and is a key determinant of our overall performance. Our Board of Directors (the "Board") is responsible for approving our overall risk management framework, including 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 risk, strategic risk, compliance risk (including regulatory risk), reputational risk and operational risk (including, among others, information technology risk, business resilience risk, model risk, third party vendor risk, fraud risk, legal risk and cyber security risk). Our BRC and/or our ERC review the framework, policies, procedures and processes employed by us to manage and monitor each of these risks, including strategies for reducing such risks to appropriate levels consistent with Board-approved risk appetite. Additionally, we use various other committees and management councils to monitor risk for each of these specific risk categories.

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

- First line of defense activities provide for the identification, acceptance and ownership of risks. These defense activities are typically executed by various lines of business personnel and owners.
- Second line of defense activities provide for objective oversight of our risk-taking activities and assessment of our aggregate risk levels. These defense activities are executed under the leadership and guidance of our Corporate Risk Management Group ("CRMG") and our CRO, who reports directly to our BRC.

- Third line of defense activities provide for independent reviews and assessments of 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. At least quarterly, our Board, BRC and/or LC review various reports regarding our credit management activities including, but not limited to, summary reports of past due loans, internally classified and criticized list loans, lending concentration reports, and various other loan and credit management reports.

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

We have detailed, comprehensive standards for evaluating credit risk, both at the point of origination and thereafter. We utilize a dual risk rating system that incorporates score cards, 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 score cards. The FRR is influenced by a loan's loss given default as determined from the score cards. The combined dual risk rating provides an annualized expected loss estimate for each commercial loan and, based on such loss 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 additional 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 score cards 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 and 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, our loan portfolio, including detailed credit reviews performed for the purpose of reviewing the adequacy of documentation, compliance with loan policy and other credit policies, reviewing individual loan grading, evaluating asset quality, performing and reporting to ERC and BRC credit risk analytics (which includes assessing the trend of credit risk metrics 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 their credit risk oversight activities, including identification of underwriting or other deficiencies in the loan approval or credit monitoring process, establishing recommendations for improvement and outlining management's proposed action plan(s) 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 June 30, 2022, our total loan portfolio was \$18.74 billion, an increase of 2.4% from \$18.31 billion at December 31, 2021. 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 \$14.35 billion, or 76.6% of total loans, at June 30, 2022 compared to \$14.10 billion, or 77.0% of total loans, at December 31, 2021.

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

	June 30, 2022		December 31, 2021	
	(Dollars in thousands)			
Real estate:				
Residential 1-4 family	\$ 975,794	5.2%	\$ 887,024	4.8%
Non-farm/non-residential	4,201,587	22.4	3,782,892	20.7
Construction/land development	7,810,223	41.7	8,246,674	45.0
Agricultural	238,610	1.3	247,727	1.4
Multifamily residential	1,123,955	6.0	934,845	5.1
Total real estate	14,350,169	76.6	14,099,162	77.0
Commercial and industrial ⁽¹⁾	696,105	3.7	510,784	2.8
Consumer	2,332,202	12.4	2,185,429	11.9
Other	1,364,242	7.3	1,512,450	8.3
Total loans	18,742,718	100.0%	18,307,825	100.0%
Allowance for loan losses	(190,795)		(217,380)	
Net loans	<u>\$ 18,551,923</u>		<u>\$ 18,090,445</u>	

(1) Included approximately \$0.02 billion and \$0.08 billion of loans at June 30, 2022 and December 31, 2021, respectively, provided through the SBA's PPP.

Included in "other" loans at June 30, 2022 and December 31, 2021 are loans totaling approximately \$1.17 billion and approximately \$1.27 billion, respectively, that were originated to acquire promissory notes from non-depository financial institutions and are typically collateralized by an assignment of the promissory note and all related note documents including mortgages, deeds of trust, etc. While such loans are considered "other" loans in accordance with FDIC instructions for the Federal Financial Institutions Examination Council 041 Consolidated Reports of Condition and Income ("Call Report"), we underwrite these lending transactions based on the fundamentals of the underlying collateral, repayment sources and guarantors, among other factors, consistent with other similar lending transactions.

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

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

Top Ten Geographies and MSAs for Real Estate Loans

Geography or MSA	Funded Balance	Unfunded Balance	Total Commitment
(Dollars in thousands)			
June 30, 2022:			
New York–Newark–Jersey City, NY–NJ–PA MSA	\$ 2,104,033	\$ 1,429,970	\$ 3,534,003
Miami–Fort Lauderdale–Pompano Beach, FL MSA	1,368,053	1,151,884	2,519,937
Los Angeles–Long Beach–Anaheim, CA MSA	1,227,312	790,374	2,017,686
Dallas–Fort Worth–Arlington, TX MSA	739,999	1,088,813	1,828,812
Atlanta–Sandy Springs–Alpharetta, GA MSA	668,971	868,945	1,537,916
San Francisco–Oakland–Berkeley, CA MSA	294,095	1,031,467	1,325,562
Chicago–Naperville–Elgin, IL–IN–WI MSA	865,950	371,267	1,237,217
Washington–Arlington–Alexandria, DC–VA–MD–WV MSA	218,532	971,488	1,190,020
Boston–Cambridge–Newton, MA–NH MSA	315,710	845,518	1,161,228
Tampa–St. Petersburg–Clearwater, FL MSA	773,135	355,604	1,128,739
All other geographies	5,774,379	6,332,952	12,107,331
Total real estate loans	<u>\$ 14,350,169</u>	<u>\$ 15,238,282</u>	<u>\$ 29,588,451</u>
December 31, 2021:			
New York–Newark–Jersey City, NY–NJ–PA MSA	\$ 2,624,677	\$ 606,806	\$ 3,231,483
Miami–Fort Lauderdale–Pompano Beach, FL MSA	1,110,064	1,274,278	2,384,342
Los Angeles–Long Beach–Anaheim, CA MSA	1,151,494	694,071	1,845,565
Atlanta–Sandy Springs–Alpharetta, GA MSA	592,394	801,326	1,393,720
San Francisco–Oakland–Berkeley, CA MSA	464,664	923,056	1,387,720
Chicago–Naperville–Elgin, IL–IN–WI MSA	803,682	518,276	1,321,958
Dallas–Fort Worth–Arlington, TX MSA	733,196	570,469	1,303,665
Tampa–St. Petersburg–Clearwater, FL MSA	784,484	362,244	1,146,728
Boston–Cambridge–Newton, MA–NH MSA	168,912	887,159	1,056,071
Philadelphia–Camden–Wilmington, PA–NJ–DE–MD MSA	499,736	461,269	961,005
All other geographies	5,165,859	5,038,188	10,204,047
Total real estate loans	<u>\$ 14,099,162</u>	<u>\$ 12,137,142</u>	<u>\$ 26,236,304</u>

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

In addition to the top ten geographies and MSAs shown above, as of June 30, 2022 and December 31, 2021, we had 82 and 78, respectively, of 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

	June 30, 2022		December 31, 2021	
	(Dollars in thousands)			
Office, including medical offices	\$ 1,433,016	34.1%	\$ 1,044,105	27.6%
Hotels and motels	1,263,511	30.1	1,330,743	35.2
Retail, including shopping centers and strip centers	287,786	6.8	266,372	7.0
Manufacturing and industrial facilities	272,570	6.5	197,834	5.2
Churches and schools	216,752	5.2	222,171	5.9
Restaurants and bars	120,467	2.9	128,853	3.4
Office warehouse, warehouse and mini-storage	113,256	2.7	99,127	2.6
Gasoline stations and convenience stores	83,766	2.0	69,067	1.8
Mixed use properties	62,377	1.5	50,276	1.3
Nursing homes and assisted living centers	42,897	1.0	55,559	1.5
Golf courses, entertainment and recreational facilities	37,724	0.9	38,740	1.0
Hospitals, surgery centers and other medical	10,197	0.2	15,673	0.4
Other non-farm/non-residential	257,268	6.1	264,372	7.1
Total	<u>\$ 4,201,587</u>	<u>100.0%</u>	<u>\$ 3,782,892</u>	<u>100.0%</u>

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

	June 30, 2022		December 31, 2021	
	(Dollars in thousands)			
Unimproved land	\$ 645,289	8.3%	\$ 434,939	5.3%
Land development and lots:				
Non-residential	560,589	7.2	619,197	7.5
1-4 family residential and multifamily	454,736	5.8	378,050	4.6
Construction:				
1-4 family residential:				
Non-owner occupied	1,588,691	20.3	1,889,248	22.9
Owner occupied	6,154	0.1	8,589	0.1
Multifamily	1,418,157	18.2	890,910	10.8
Industrial, commercial and other:				
Mixed use properties	1,832,723	23.5	2,337,064	28.3
Manufacturing, industrial and warehouse	436,252	5.6	299,795	3.6
Offices, including medical offices	354,324	4.5	780,345	9.5
Life science	235,451	3.0	131,455	1.6
Hotels and motels	162,159	2.1	396,602	4.8
Churches and schools	28,118	0.4	26,406	0.3
Agricultural	25,766	0.3	18,015	0.2
Retail, including shopping centers and strip centers	23,738	0.3	4,617	0.1
Restaurants and bars	7,891	0.1	7,667	0.1
Other	30,185	0.3	23,775	0.3
Total	<u>\$ 7,810,223</u>	<u>100.0%</u>	<u>\$ 8,246,674</u>	<u>100.0%</u>

Many of our construction and development loans provide for the use of interest reserves. When we underwrite construction and development loans, we consider the expected total project costs, including hard costs such as land, site work and construction costs and soft costs such as architectural and engineering fees, closing costs, leasing commissions and construction period interest, among others. For any construction and development loan with interest reserves, we also consider the construction period interest in our underwriting process (otherwise, our underwriting of such loans with and without interest reserves is virtually identical). Based on the

total project costs and other factors, we determine the required borrower cash equity contribution and the maximum amount we are willing to lend. In the vast majority of cases, we require that all of the borrower's equity and all other required subordinated elements of the capital structure be fully funded prior to any significant loan advance. As a result of this practice, the borrower's cash equity typically goes toward the purchase of the land and early stage hard costs and soft costs. This results in our funding the loan later as the project progresses, and accordingly, we typically fund the majority of the construction period interest through loan advances.

Generally, as part of our underwriting process, we require the borrower's cash equity to cover a majority, or all, of the soft costs, including an amount equal to construction period interest and an appropriate portion of the hard costs. While we advance interest reserves as part of the funding process, we believe that the borrowers have in most cases provided for these sums as part of their initial equity contribution. During the three and six months ended June 30, 2022 and 2021, 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 June 30, 2022 and December 31, 2021, we had no construction and development loans with interest reserves that were nonperforming.

During the second quarter and first six months of 2022, we recognized approximately \$76.8 million and \$153.1 million, respectively, of interest income on construction and development loans from the advance of interest reserves, compared to approximately \$67.3 million and \$133.8 million during the comparable periods in 2021. We advanced construction period interest on construction and development loans totaling approximately \$81.4 million and \$159.4 million, respectively, in the second quarter and first six months of 2022 compared to approximately \$70.4 million and \$137.8 million, respectively, in the second quarter and in the first six months of 2021.

The maximum committed balance of all construction and development loans which provide for the use of interest reserves at June 30, 2022 was approximately \$21.17 billion, of which \$7.25 billion was outstanding at June 30, 2022 and \$13.92 billion remained to be advanced. The weighted-average loan-to-cost ("LTC") on such loans, assuming such loans are ultimately fully advanced, was approximately 55%, which means that the weighted-average cash equity contributed on such loans, assuming such loans are ultimately fully advanced, was approximately 45%. The weighted-average LTV ratio on such loans, based on the most recent appraisals and assuming such loans are ultimately fully advanced, was approximately 45%.

Purchased Loans. Between 2010 and 2016, we made 15 acquisitions. Purchased loans, which are the remaining loans from those 15 acquisitions, accounted for 2.4% of our total loan portfolio at June 30, 2022 compared to 2.8% at December 31, 2021. 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

	June 30, 2022	December 31, 2021
	(Dollars in thousands)	
Loans not deemed PCD:		
Unpaid principal balance	\$ 422,143	\$ 487,341
Valuation discount	(4,794)	(6,029)
Carrying value	<u>417,349</u>	<u>481,312</u>
PCD loans:		
Unpaid principal balance	31,173	40,320
Valuation discount	(3,442)	(5,417)
Carrying value	<u>27,731</u>	<u>34,903</u>
Total carrying value	<u>\$ 445,080</u>	<u>\$ 516,215</u>

Nonperforming Assets. Our nonperforming assets consist of (1) nonaccrual loans, (2) accruing loans 90 days or more past due, (3) certain troubled and restructured loans for which a concession has been granted by us to the borrower because of a deterioration in the financial position of the borrower and (4) real estate or other assets that have been acquired in partial or full satisfaction of loan obligations or upon foreclosure 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. Loans for which the terms have been modified and for which (i) the borrower is experiencing financial difficulties and (ii) we have granted a concession to the borrower are considered troubled debt restructurings (“TDRs”) and are included in nonperforming loans. Income on nonaccrual loans is recognized on a cash basis when and if actually collected. Income on TDRs is recognized on a cash basis until such time as the TDR has performed in accordance with its modified terms for a reasonable period of time (generally at least six months) and is expected to continue to perform. Once such performance and expected performance conditions are met, the TDR is returned to accrual status but continues to be reported as a nonperforming loan.

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

Nonperforming Assets

	June 30, 2022	December 31, 2021
	(Dollars in thousands)	
Nonaccrual loans ⁽¹⁾	\$ 22,131	\$ 29,480
Accruing loans 90 days or more past due	—	—
TDRs – nonaccruing ⁽¹⁾	6,040	3,794
TDRs – accruing ⁽¹⁾	1,032	1,285
Total nonperforming loans, excluding purchased loans	29,203	34,559
Nonaccrual purchased loans	7,672	10,991
TDRs – accruing purchased	42	45
Total nonperforming loans	36,917	45,595
Foreclosed assets	2,593	5,744
Total nonperforming assets	<u>\$ 39,510</u>	<u>\$ 51,339</u>
Nonperforming loans to total loans, excluding purchased loans ⁽¹⁾	0.16%	0.19%
Nonperforming loans to total loans	0.20	0.25
Nonaccrual loans to total loans	0.20	0.24
Nonperforming assets to total assets, excluding purchased loans ⁽²⁾	0.12	0.15
Nonperforming assets to total assets	0.15	0.19
ALL to nonaccrual loans ⁽³⁾	532%	491%

(1) Excludes purchased loans.

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

(3) Excludes reserve for losses on unfunded loan commitments.

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 June 30, 2022, we had reduced the carrying value of our nonperforming loans to the estimated fair value of such loans of \$28.5 million. The adjustment to reduce the carrying value of such nonperforming loans to the estimated fair value consisted of \$8.4 million of allowance for loan loss allocations. Nonperforming non-purchased loans at June 30, 2022 and December 31, 2021 included \$1.0 million and \$1.3 million, respectively, of accruing loans that were determined to be TDRs.

At June 30, 2022 and December 31, 2021 substandard loans, excluding purchased loans, not designated as nonperforming, nonaccrual or 90 days past due, totaled \$45.0 million and \$52.3 million, respectively. No loans were designated as doubtful or loss at June 30, 2022 or December 31, 2021. Included in substandard loans not deemed as nonperforming, nonaccrual or 90 days or more past due at June 30, 2022 and December 31, 2021 is a single credit at our Real Estate Specialty Group that was downgraded to substandard during the fourth quarter of 2019. This credit, which is collateralized by a lot development and townhouse construction project near Lake Tahoe, California, had an outstanding balance of \$35.3 million at June 30, 2022 and \$42.8 million at December 31, 2021. This credit was not past due at June 30, 2022 or December 31, 2021.

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

Foreclosed Assets

	June 30, 2022	December 31, 2021
	(Dollars in thousands)	
Real estate:		
Residential 1-4 family	\$ 35	\$ —
Non-farm/non-residential	1,510	2,786
Construction/land development	—	1,990
Agricultural	701	701
Total real estate	2,246	5,477
Commercial and industrial	—	—
Consumer	347	267
Total foreclosed assets	<u>\$ 2,593</u>	<u>\$ 5,744</u>

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

Activity Within Foreclosed Assets

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Balance – beginning of period	\$ 3,417	\$ 8,436	\$ 5,744	\$ 11,085
Loans and other assets transferred into foreclosed assets	1,307	4,747	4,086	8,751
Sales of foreclosed assets	(2,131)	(5,518)	(6,979)	(10,808)
Writedowns of foreclosed assets	0	(123)	(258)	(1,486)
Balance – end of period	<u>\$ 2,593</u>	<u>\$ 7,542</u>	<u>\$ 2,593</u>	<u>\$ 7,542</u>

The following table presents information concerning the geographic location of nonperforming assets at June 30, 2022. 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)		
Arkansas	\$ 10,267	\$ 551	\$ 10,818
Georgia	9,251	—	9,251
Texas	7,634	1,013	8,647
Florida	3,957	136	4,093
North Carolina	3,099	—	3,099
Mississippi	798	701	1,499
All other	1,911	192	2,103
Total	<u>\$ 36,917</u>	<u>\$ 2,593</u>	<u>\$ 39,510</u>

Allowance for Credit Losses. Our provision for credit losses for the quarter just ended was \$7.0 million, including a negative provision of \$12.8 million related to our allowance for loan losses (“ALL”) for outstanding loans and a provision expense of \$19.8 million related to our reserve for losses on unfunded loan commitments. Our provision for credit losses for the six months ended June 30, 2022 was \$11.2 million, including a negative provision of \$26.3 million related to our ALL for outstanding loans and a provision expense of \$37.5 million related to our reserve for losses on unfunded loan commitments. Our provision for credit losses for the second quarter of 2021 was a negative \$30.9 million, including a negative \$15.5 million related to our ALL for outstanding loans and a negative \$15.4 million related to our reserve for losses on unfunded loan commitments. Our provision expense for the six months ended June 30, 2021 was a negative \$62.5 million, including a negative \$39.8 million related to our ALL for outstanding loans and a negative \$22.7 million related to our reserve for losses and unfunded loan commitments. Our provision for credit losses recorded during the first six months of 2022 decreased our ALL for outstanding loans to \$190.8 million, or 1.02% of total loans, and increased our reserve for losses on unfunded loan commitments to \$109.1 million, or 0.63% of unfunded loan commitments, bringing our total

ACL to \$299.9 million at June 30, 2022. Our negative provision for credit losses recorded during the first six months of 2021 decreased our ALL for outstanding loans to \$248.8 million, or 1.36% of total loans, and decreased our reserve for losses on unfunded loan commitments to \$58.8 million, or 0.5% of unfunded loan commitments, bringing our total ACL to \$307.6 million at June 30, 2021.

The calculations of our provision for credit losses for the second quarter and first six months of 2022 and our total ACL at June 30, 2022 were based on a number of key estimates, assumptions and economic forecasts. Management utilized several economic forecasts provided by Moody's, including their Baseline forecast and certain of their other alternative economic scenarios. In selecting the weightings for the various economic scenarios for purposes of determining our ACL at June 30, 2022, we assigned the largest weighting to the Moody's S4 (Alternative Downside) scenario and assigned smaller weightings to the Moody's S6 (Stagflation) and Baseline scenarios. Our selection and weightings of these scenarios reflected our assessment of conditions in the U.S. economy, and acknowledged the uncertainty regarding future U.S. economic conditions, including the risk of a recession in the near-term, elevated inflationary pressures, the impacts of the ongoing war in Ukraine, the impacts of U.S. fiscal policy actions, increases in the Federal Funds Target Rate, prospects for a shrinking of the Federal Reserve balance sheet, supply chain disruptions, global trade and geopolitical matters, uncertainties about the COVID-19 pandemic, 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 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 utilized at June 30, 2022 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 current situation surrounding the COVID-19 pandemic, the ongoing war in Ukraine, U.S. fiscal policy, inflation, Federal Reserve Bank ("FRB") monetary policy, global trade and geopolitical matters, supply chain disruptions and other factors continues to evolve and the ultimate depth and duration of the resulting economic impacts are not yet fully known.

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 (Dollars in thousands)	Total Allowance for Credit Losses
Three months ended June 30, 2022:			
Balances – March 31, 2022	\$ 204,213	\$ 89,327	\$ 293,540
Net charge-offs	(627)	—	(627)
Provision for credit losses	(12,791)	19,816	7,025
Balances – June 30, 2022	<u>\$ 190,795</u>	<u>\$ 109,143</u>	<u>\$ 299,938</u>
Six months ended June 30, 2022:			
Balances – December 31, 2021	\$ 217,380	\$ 71,609	\$ 288,989
Net charge-offs	(266)	—	(266)
Provision for credit losses	(26,319)	37,534	11,215
Balances – June 30, 2022	<u>\$ 190,795</u>	<u>\$ 109,143</u>	<u>\$ 299,938</u>
Three months ended June 30, 2021:			
Balances – March 31, 2021	\$ 268,077	\$ 74,230	\$ 342,307
Net charge-offs	(3,811)	—	(3,811)
Provision for credit losses	(15,513)	(15,419)	(30,932)
Balances – June 30, 2021	<u>\$ 248,753</u>	<u>\$ 58,811</u>	<u>\$ 307,564</u>
Six months ended June 30, 2021:			
Balances – December 31, 2020	\$ 295,824	\$ 81,481	\$ 377,305
Net charge-offs	(7,250)	—	(7,250)
Provision for credit losses	(39,821)	(22,670)	(62,491)
Balances – June 30, 2021	<u>\$ 248,753</u>	<u>\$ 58,811</u>	<u>\$ 307,564</u>

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, 2021.

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 June 30,		As of and for the Six Months Ended June 30,		As of and for the Year Ended December 31,
	2022	2021	2022	2021	2021
	Net charge-offs of non-purchased loans to total average non-purchased loans ⁽¹⁾⁽²⁾	0.03%	0.09%	0.05%	0.08%
Net charge-offs of total loans to total average loans ⁽¹⁾	0.01	0.08	0.00	0.08	0.06
ALL to total loans ⁽³⁾	1.02	1.36	1.02	1.36	1.19
Reserve for losses on unfunded loan commitments to total unfunded loan commitments	0.63	0.50	0.63	0.50	0.53
ACL to total loans	1.60	1.68	1.60	1.68	1.58
ACL to total loans and unfunded loan commitments	0.83	1.03	0.83	1.03	0.91
ALL to nonperforming loans ⁽³⁾	517%	432%	517%	432%	477%

(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

	June 30, 2022		December 31, 2021	
	ALL	% of Loans to Total Loans	ALL	% of Loans to Total Loans
(Dollars in thousands)				
ALL for loans:				
Real estate:				
Residential 1-4 family	\$ 16,008	5.2%	\$ 18,675	4.8%
Non-farm/non-residential	56,554	22.4	79,524	20.7
Construction/land development	60,255	41.7	54,036	45.0
Agricultural	3,461	1.3	3,070	1.4
Multifamily residential	5,842	6.0	6,424	5.1
Commercial and industrial	6,665	3.7	8,017	2.8
Consumer	36,122	12.4	37,430	11.9
Other	5,888	7.3	10,204	8.3
Total ALL	<u>\$ 190,795</u>		<u>\$ 217,380</u>	

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)	
June 30, 2022:			
Real estate:			
Residential 1-4 family	\$ 16,008	\$ 1,114	\$ 17,122
Non-farm/non-residential	56,554	1,875	58,429
Construction/land development	60,255	85,814	146,069
Agricultural	3,461	168	3,629
Multi-family residential	5,842	531	6,373
Commercial and industrial	6,665	9,386	16,051
Consumer	36,122	169	36,291
Other	5,888	10,086	15,974
Total	<u>\$ 190,795</u>	<u>\$ 109,143</u>	<u>\$ 299,938</u>
December 31, 2021:			
Real estate:			
Residential 1-4 family	\$ 18,675	\$ 1,172	\$ 19,847
Non-farm/non-residential	79,524	2,122	81,646
Construction/land development	54,036	56,364	110,400
Agricultural	3,070	53	3,123
Multi-family residential	6,424	654	7,078
Commercial and industrial	8,017	987	9,004
Consumer	37,430	166	37,596
Other	10,204	10,091	20,295
Total	<u>\$ 217,380</u>	<u>\$ 71,609</u>	<u>\$ 288,989</u>

Liquidity Risk Management

Overview. Liquidity risk is the potential that we will be unable to meet our obligations as they come due because of an inability to liquidate assets or obtain adequate funding (referred to as “funding liquidity risk”) or that we cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions (referred to as “market liquidity risk”). Our 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 our 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 Actions. Generally, we rely on deposits, repayments of loans, and cash flows from our investment securities as our primary sources of funds. Our principal deposit sources include consumer and commercial customers in our markets. We have used these funds, together with public funds customers, FHLB advances and 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

	June 30, 2022		December 31, 2021	
	(Dollars in thousands)			
Non-interest bearing	\$ 5,117,961	25.6%	\$ 4,983,788	24.7%
Interest bearing:				
Transaction (NOW)	3,393,659	17.0	3,412,369	16.9
Savings and money market	6,261,777	31.3	5,833,358	28.9
Time deposits	5,210,790	26.1	5,979,619	29.5
Total deposits	\$ 19,984,187	100.0%	\$ 20,209,134	100.0%

Our deposits decreased 1.1% to \$19.98 billion at June 30, 2022 compared to \$20.21 billion at December 31, 2021. Our loan-to-deposit ratio at June 30, 2022 was 93.8% compared to 90.6% at December 31, 2021. In recent years, we have operated with a loan-to-deposit ratio that has ranged from about 90% up to approximately 96%.

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

	June 30, 2022		December 31, 2021	
	(Dollars in thousands)			
Non-interest bearing	\$ 5,117,961	25.6%	\$ 4,983,788	24.7%
Interest bearing:				
Consumer and commercial:				
Consumer – non-time	4,462,108	22.3	4,334,378	21.4
Consumer – time	3,939,342	19.7	4,318,742	21.4
Commercial – non-time	2,788,061	14.0	2,634,817	13.0
Commercial – time	641,777	3.2	905,347	4.5
Public funds	1,828,026	9.1	2,094,800	10.4
Brokered	814,633	4.1	452,137	2.2
Reciprocal	392,279	2.0	485,125	2.4
Total deposits	\$ 19,984,187	100.0%	\$ 20,209,134	100.0%

At June 30, 2022 brokered deposits totaled \$0.81 billion, or 4.1% of total deposits, compared to \$0.45 billion, or 2.2% of total deposits, at December 31, 2021. We use brokered deposits, subject to certain limitations and requirements, as a source of funding to augment deposits generated from our branch network, which are our principal source of funding. Our Board has established policies and procedures with respect to the use of brokered deposits. Such policies and procedures require, among other things, that (i) we limit the amount of brokered deposits as a percentage of total deposits and (ii) ALCO 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 June 30,				Six Months Ended June 30,			
	2022		2021		2022		2021	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(Dollars in thousands)							
Non-interest bearing	\$ 4,970,380	—	\$ 4,366,380	—	\$ 4,876,646	—	\$ 4,170,685	—
Interest bearing:								
Transaction (NOW)	3,379,371	0.24%	3,256,777	0.15%	3,400,029	0.17%	3,211,335	0.15%
Savings and money market	6,317,757	0.21	5,478,401	0.16	6,210,116	0.17	5,326,346	0.17
Time deposits	5,404,880	0.41	8,000,214	0.75	5,581,955	0.40	8,495,453	0.85
Total deposits	<u>\$20,072,388</u>	0.29%	<u>\$21,101,772</u>	0.44%	<u>\$20,068,746</u>	0.26%	<u>\$21,203,819</u>	0.50%

The calculation of the average rate paid on total interest bearing deposits of 0.29% for the three months and 0.26% for the six months ended June 30, 2022 and 0.44% for the three months and 0.50% for the six months ended June 30, 2021 includes interest paid and average balances of all categories of interest bearing deposits. The average rate paid for all deposits, including both interest bearing and non-interest bearing deposits, was 0.22% for the three months and 0.19% for the six months ended June 30, 2022 and 0.35% for the three months and 0.40% for the six months ended June 30, 2021. 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 activities.

The estimated amount of uninsured deposits at June 30, 2022 was \$8.06 billion compared to \$8.77 billion at December 31, 2021. 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)	
June 30, 2022:		
3 months or less	\$ 443,691	\$ 608,273
Over 3 to 6 months	364,145	515,848
Over 6 to 12 months	342,308	490,244
Over 12 months	154,232	319,369
Total	<u>\$ 1,304,376</u>	<u>\$ 1,933,734</u>
December 31, 2021:		
3 months or less	\$ 403,773	\$ 510,507
Over 3 to 6 months	391,809	542,862
Over 6 to 12 months	640,309	808,725
Over 12 months	217,942	395,360
Total	<u>\$ 1,653,833</u>	<u>\$ 2,257,454</u>

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	June 30, 2022		December 31, 2021	
	(Dollars in thousands)			
Arkansas	\$ 6,126,888	30.7%	\$ 6,224,650	30.8%
Georgia	5,511,627	27.6	5,579,130	27.6
Florida	3,670,640	18.4	3,639,634	18.0
Texas	3,208,599	16.1	3,280,149	16.2
North Carolina	1,466,433	7.2	1,485,571	7.4
Total	\$ 19,984,187	100.0%	\$ 20,209,134	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 June 30, 2022 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	\$ 4,045,416	\$ 8,719,049	\$ 919,057	\$ 666,647	\$ 14,350,169
Commercial and industrial	240,913	396,587	58,075	530	696,105
Consumer	1,681	23,399	579,062	1,728,060	2,332,202
Other	489,802	863,124	6,211	5,105	1,364,242
Total	\$ 4,777,812	\$ 10,002,159	\$ 1,562,405	\$ 2,400,342	\$ 18,742,718
Fixed rate	\$ 323,369	\$ 1,445,867	\$ 725,884	\$ 1,946,803	\$ 4,441,923
Floating rate (not at a floor or ceiling rate) ⁽¹⁾	2,015,988	5,255,174	213,317	211,680	7,696,159
Floating rate (at floor rate) ⁽¹⁾	2,436,691	3,299,282	617,154	240,446	6,593,573
Floating rate (at ceiling rate)	1,764	1,836	6,050	1,413	11,063
Total	\$ 4,777,812	\$ 10,002,159	\$ 1,562,405	\$ 2,400,342	\$ 18,742,718

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

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

At June 30, 2022, we had outstanding approximately \$0.24 billion in PPP loans. All such loans we originated were structured to be fully guaranteed by the SBA. Our current expectation is that a large portion of our PPP loans that remain outstanding will be forgiven and repaid by the SBA during the remainder of 2022.

At June 30, 2022, we had \$17.37 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 all loan fundings and loan pay downs and pay offs. Our ability to project monthly net portfolio growth with a substantial degree of accuracy is an important part of our liquidity management process.

Investment Securities – Available for Sale (“AFS”). Cash flows from our investment securities portfolio also provide us with an additional source of liquidity. The following table reflects the expected maturity distribution of our investment securities, at estimated fair value, at June 30, 2022 and weighted average yields (for tax exempt obligations on FTE basis) of such securities.

Expected Maturity Distribution of Investment Securities

	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)										
Obligations of state and political subdivisions	\$ 159,303	1.77%	\$ 209,015	2.55%	\$ 125,906	4.10%	\$ 591,325	4.79%	\$ 1,085,549	3.58%
U.S. Government agency mortgage-backed securities	460,361	1.50	1,096,419	1.36	291,923	1.08	9,858	2.85	1,858,561	1.36
Other U.S. Government agency securities	—	—	631,078	1.08	—	—	—	—	631,078	1.08
Corporate obligations	69,483	0.42	13,760	3.69	14,728	4.58	8,481	4.61	106,452	1.75
U.S. Treasuries	—	—	24,167	0.69	—	—	—	—	24,167	0.69
Total	<u>\$ 689,147</u>	<u>1.46</u>	<u>\$ 1,974,439</u>	<u>1.40</u>	<u>\$ 432,557</u>	<u>2.07</u>	<u>\$ 609,664</u>	<u>4.76</u>	<u>\$ 3,705,807</u>	<u>1.97</u>
Percentage of total	18.6%		53.3%		11.7%		16.4%		100.0%	
Cumulative percentage of total	18.6%		71.9%		83.6%		100.0%			

The maturity for all investment securities is shown based on each security’s contractual maturity date, except (1) mortgage-backed securities, which are allocated among various maturities based on an estimated repayment schedule utilizing third party median prepayment speeds or other estimates of prepayment speeds and interest rate levels at June 30, 2022 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 June 30,				Six Months Ended June 30,			
	2022		2021		2022		2021	
	Average Balance	Rate Paid	Average Balance	Rate Paid	Average Balance	Rate Paid	Average Balance	Rate Paid
(Dollars in thousands)								
Other borrowings	\$ 670,599	0.62%	\$ 757,435	0.53%	\$ 713,121	0.58%	\$ 756,813	0.53%
Subordinated notes	346,426	3.01	224,188	5.69	346,327	3.01	224,140	5.69
Subordinated debentures	121,234	3.95	120,680	3.12	121,166	3.59	120,610	3.14
Total other interest bearing liabilities	<u>\$ 1,138,259</u>	<u>1.71%</u>	<u>\$ 1,102,303</u>	<u>1.86%</u>	<u>\$ 1,180,614</u>	<u>1.60%</u>	<u>\$ 1,101,563</u>	<u>1.87%</u>

In recent quarters, we have utilized FHLB advances to support our funding sources and provide additional on-balance sheet liquidity to the Bank. Details of our FHLB advances, at June 30, 2022, are shown in the following table.

FHLB Advances

Borrowing Type	Balance	Interest Rate	Maturity Date	Expiration of Lockout Term
(Dollars in thousands)				
Fixed-rate FHLB advance	\$ 125,000	1.16%	July 5, 2022	N/A
Fixed-rate FHLB advance	125,000	1.18%	August 1, 2022	N/A
Fixed-rate FOTO advance ⁽¹⁾	250,000	0.65%	February 28, 2035	Currently callable
Other FHLB advances	27	2.37%	Various	N/A
Total	<u>\$ 500,027</u>	<u>0.54%</u>		

- (1) These borrowings are FHLB advances where the FHLB owns the option (“FOTO”), at its sole discretion, to terminate the advance on a quarterly basis after expiration of the lockout term.

At June 30, 2022, we had substantial unused borrowing availability. This availability was primarily comprised of the following four options: (1) \$4.96 billion of available blanket borrowing capacity with the FHLB, (2) \$2.86 billion of investment securities available to pledge for federal funds or other borrowings, (3) \$1.08 billion of available unsecured federal funds borrowing lines and (4) up to \$0.45 billion of available borrowing capacity from borrowing programs of the FRB.

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

Sources and Uses of Funds. Operating activities provided net cash of \$0.34 billion for the first six months of 2022 and \$0.26 billion for the first six months of 2021. 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 \$0.44 billion in the first six months of 2022 and \$0.53 billion in the first six months of 2021. The decrease in net cash used by investing activities in the first six months of 2022 was primarily the result of changes in the net cash used for our investment securities portfolio, which provided \$0.02 billion in the first six months of 2022 and used \$1.33 billion in the first six months of 2021, offset by changes in our total loan portfolio, which used net cash of \$0.44 billion in the first six months of 2022 and provided net cash of \$0.93 billion in the first six months of 2021.

Financing activities used net cash of \$0.81 billion in the first six months of 2022 and \$0.70 billion in the first six months of 2021. The increase in net cash used by financing activities was primarily the result of changes in our net repayments of other borrowings and repurchase and cancellation of shares of common stock from our share repurchase program, partially offset by changes in our deposits.

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 systematic or unsystematic risk. Unsystematic risk can be mitigated through diversification, whereas systematic cannot be. In a global economic crisis, price risk is systematic because it affects multiple asset classes.

Interest Rate Risk Management Actions. 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 prepayments that are anticipated from our loan portfolio, (9) the need, if any, for additional capital and/or debt to support continued growth and (10) other relevant factors. Inclusion of these factors in the model is intended to more accurately project our expected changes in net interest income resulting from interest rate changes. 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 administered rates on interest bearing deposit accounts, competition and a variety of other factors that are difficult to accurately predict. Accordingly, there can be no assurance the earnings simulation model will accurately reflect future results. 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 July 1, 2022. 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	14.1%
+200	9.3
+100	4.6
-100	(4.6)

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 June 30, 2022.

EVE Model Results

Change in Interest Rates (in bps)	% Change in Projected Baseline EVE
+200	1.6%
+100	0.8
-100	(2.2)

Variable Rate Loans and Loan Repricing. At June 30, 2022, approximately 76% of our total loans had variable rates. Additionally, approximately 98% of our variable rate loans had floor rates. The following table reflects a summary, at June 30, 2022, of the percentage of our variable rate loans currently at a floor and changes in such percentage of variable rate loans at a floor given changes in interest rates.

Variable Rate Loan Analysis

Changes in Interest Rate	Percentage of Variable Rate Loans at Floor
Up 150 bps	0.0%
Up 125 bps	7.0
Up 100 bps	10.0
Up 75 bps	14.0
Up 50 bps	27.0
Up 25 bps	38.0
Currently at floor	46.0
Down 25 bps	52.0
Down 50 bps	58.0
Down 75 bps	71.0
Down 100 bps	77.0
Down 125 bps	93.0
Down 150 bps	96.0

The following table reflects total loans as of June 30, 2022 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	\$ 522,822	\$389,581	\$403,672	\$1,067,954	\$2,057,894	\$ 4,441,923
Floating rate (not at a floor or ceiling rate) ⁽¹⁾	7,456,630	51,151	55,225	114,027	19,126	7,696,159
Floating rate (at floor rate) ⁽¹⁾	5,792,490	95,028	176,236	441,750	88,069	6,593,573
Floating rate (at ceiling rate)	11,063	—	—	—	—	11,063
Total	\$13,783,005	\$535,760	\$635,133	\$1,623,731	\$2,165,089	\$18,742,718
Percentage of total	73.5%	2.9%	3.4%	8.7%	11.5%	100.0%
Cumulative percentage of total	73.5%	76.4%	79.8%	88.4%	100.0%	

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

Most of our floating rate loans are tied to three major benchmark interest rates, the 1-month LIBOR, 1-month term SOFR and WSJ Prime. The following table is a summary of our floating rate loan portfolio and contractual interest rate indices at June 30, 2022.

Contractual Indices of Floating Rate Loans

Contractual Interest Rate Index	Floating Rate (at floor rate)	Floating Rate (not at a floor or ceiling rate)	Floating Rate (at ceiling rate)	Total Floating Rate
	(Dollars in thousands)			
1-month LIBOR	\$ 5,240,905	\$ 4,339,194	\$ —	\$ 9,580,099
1-month term SOFR	238,021	1,919,392	—	2,157,413
Wall Street Journal Prime	1,009,233	1,366,212	11,062	2,386,507
Other contractual interest rate indices	105,414	71,361	1	176,776
Total	\$ 6,593,573	\$ 7,696,159	\$ 11,063	\$ 14,300,795

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

LIBOR Transition. Our subordinated debentures and related trust preferred securities and significant portions of our loan portfolio are tied to LIBOR benchmark interest rates. Most LIBOR index tenors are expected to be phased-out by June 2023. The Federal Reserve formed the Alternative Reference Rates Committee (“ARRC”) to guide the transition process in the United States. ARRC has issued a number of recommendations including the adoption of SOFR as a replacement for LIBOR. We have created an internal working group that is managing our transition away from LIBOR. This working group is a cross-functional team composed of representatives from credit, lending, deposits, retail, investment securities, loan administration, operations, finance, compliance, legal and other support functions to address issues related to the LIBOR transition and phase-out. All of our loans that are tied to LIBOR benchmark interest rates include fallback language for when LIBOR ceases to exist. As of January 1, 2022, the Bank is no longer originating loans that are tied to LIBOR benchmark interest rates. We will continue to evaluate the financial impact regarding pricing, valuation and operations of the transition. For further details see “Item 1A. - Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2021.

Market Risk Management Actions. We are exposed to market risk primarily through changes in fair value of our fixed income investment securities portfolio. Investment portfolio strategies are set by senior management and are subject to the oversight and direction of ALCO. At June 30, 2022, and at December 31, 2021, with the exception of a small balance of investment securities designated as “trading,” most of our investment securities portfolio was classified as available for sale. 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 June 30, 2022, we had \$151.0 million of net unrealized losses in our investment securities portfolio that was reported, net of applicable income taxes, in accumulated other comprehensive income.

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

Investment Securities – AFS

	June 30, 2022		December 31, 2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
U.S. Government agency mortgage-backed securities	\$ 1,953,893	\$ 1,858,561	\$ 2,203,398	\$ 2,217,281
Obligations of state and political subdivisions	1,110,069	1,085,549	794,704	813,213
Other U.S. Government agency securities	658,801	631,078	556,290	555,261
Corporate obligations	109,068	106,452	305,966	306,071
U.S. Treasuries	24,933	24,167	24,910	24,907
Total	<u>\$ 3,856,764</u>	<u>\$ 3,705,807</u>	<u>\$ 3,885,268</u>	<u>\$ 3,916,733</u>

Our investment securities portfolio is reported at estimated fair value, which included gross unrealized gains of \$5.2 million and gross unrealized losses of \$156.2 million at June 30, 2022 and gross unrealized gains of \$47.0 million and gross unrealized losses of \$15.5 million at December 31, 2021. We believe that all unrealized losses on individual investment securities at June 30, 2022 and December 31, 2021 are the result of fluctuations in interest rates and do not reflect deterioration in the credit quality of these investments. If we intend to sell an AFS security, or if it is more likely than not that we will be required to sell an AFS security 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 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

	<u>Amortized Cost</u>	<u>Unaccreted Discount</u>	<u>Unamortized Premium</u>	<u>Par Value</u>
	(Dollars in thousands)			
June 30, 2022:				
U.S. Government agency mortgage-backed securities	\$ 1,953,893	\$ 72	\$ (53,604)	\$ 1,900,361
Obligations of state and political subdivisions	1,110,069	6,645	(24,078)	1,092,636
Other U.S. Government agency securities	658,801	59	—	658,860
Corporate obligations	109,068	39	(2,510)	106,597
U.S. Treasuries	24,933	67	—	25,000
Total	<u>\$ 3,856,764</u>	<u>\$ 6,882</u>	<u>\$ (80,192)</u>	<u>\$ 3,783,454</u>
December 31, 2021:				
U.S. Government agency mortgage-backed securities	\$ 2,203,398	\$ 94	\$ (63,612)	\$ 2,139,880
Obligations of state and political subdivisions	794,704	1,562	(18,703)	777,563
Other U.S. Government agency securities	556,290	71	—	556,361
Corporate obligations	305,966	42	(3,659)	302,349
U.S. Treasuries	24,910	90	—	25,000
Total	<u>\$ 3,885,268</u>	<u>\$ 1,859</u>	<u>\$ (85,974)</u>	<u>\$ 3,801,153</u>

We recognized premium amortization, net of discount accretion, of \$8.5 million during the three months and \$18.4 million during the six months ended June 30, 2022 compared to \$17.2 million during the three months and \$31.4 million during the six months ended June 30, 2021. Any premium amortization or discount accretion is considered an adjustment to the yield of our investment securities.

We had no net gains or losses from the sale of \$0.02 million of investment securities AFS in the second quarter and first six months of 2022. We had no net gains or losses, or sales of investment securities AFS during the second quarter of 2021 and no net gains or losses from the sale of approximately \$592 million of investment securities AFS in the first six months of 2021, consisting entirely of variable rate demand notes which were purchased at, carried at and called at their par value. Investment securities AFS totaling \$0.35 billion in the second quarter and \$0.67 billion in the first six months of 2022 matured, were called or were otherwise paid down by the issuer. Investment securities AFS totaling \$0.84 billion in the second quarter and \$1.11 billion in the first six months of 2021 matured, were called or were otherwise paid down by the issuer. We purchased \$0.38 billion of investment securities AFS in the second quarter and \$0.66 billion of investment securities AFS during the first six months of 2022. We purchased \$1.54 billion of investment securities AFS in the second quarter and \$3.04 billion in the first six months of 2021.

We invest in securities we believe offer good relative value at the time of purchase, and we will, from time to time, reposition our investment securities portfolio. In making decisions to sell or purchase securities, we consider credit quality, call features, maturity dates, relative yields, corporate tax rates, current market factors, interest rate risk and interest rate environment, current and projected liquidity needs and other relevant factors.

During 2021, we added trading investment securities to our investment securities portfolio which are intended to help us capitalize on additional investment and trading opportunities. Our trading securities are carried at estimated fair value with unrealized and realized gains and losses reported in net income. In future periods, we will be exposed to market and interest rate risk primarily through changes in fair value of our trading securities portfolio. As of June 30, 2022, we owned \$4.1 million of trading securities and for the second quarter and first six months of 2022, we realized net gains on investment securities of \$0.5 million and \$0.4 million, respectively. As of June 30, 2021, we owned no trading securities and no sales of trading securities occurred during the second quarter and first six months of 2021.

At June 30, 2022, approximately 96% of our investment securities had an investment grade credit rating (i.e., the equivalent of a rating of BBB- or better) and approximately 4% of our investment securities were not rated. For those securities that were not rated, we have performed our own evaluation of the security and/or the underlying issuer and believe that such security or its issuer has credit characteristics equivalent to those which would warrant an investment grade credit rating.

Capital Management

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

Capital Management Actions. We primarily rely on our 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 common stockholders' equity totaled \$4.27 billion at June 30, 2022 compared to \$4.50 billion at December 31, 2021. 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. During July 2021, our Board authorized a stock repurchase program of up to \$300 million of our outstanding shares of common stock, and during October 2021, our Board authorized an increase in our common stock repurchase program of up to \$650 million. During the second quarter of 2022, we repurchased approximately 3.7 million shares of common stock at a weighted average price of \$39.93, for a total of \$147.4 million. During the first six months of 2022, we repurchased approximately 6.6 million shares of common stock at a weighted average price of \$42.42, for a total of \$279.0 million. The timing and amount of future repurchases will be determined by management based on a variety of factors such as the Bank's capital position, liquidity, financial performance and alternative uses of capital, stock price, regulatory requirements and general market and economic conditions. This stock repurchase program is set to expire on November 4, 2022, and it may be suspended by us at any time.

Preferred Stock. During November 2021, we completed a public offering of 14,000,000 shares 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"). Our Preferred Stock offering generated total net proceeds of \$339.0 million after deducting 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, beginning on February 15, 2022. Dividends on our Preferred Stock are not cumulative or mandatory. On February 15, 2022, we paid the initial cash dividend totaling \$4.5 million on our Preferred Stock for the period covering November 4, 2021 through February 14, 2022 and on May 15, 2022, we paid a cash dividend totaling \$4.0 million on our preferred stock for the period covering February 15, 2022 through May 14, 2022.

Subordinated Notes. At June 30, 2022, 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 June 30, 2022, the Bank's 2.75% Notes had a carrying value of \$346.5 million and underwriting discounts and offering expenses totaled \$3.5 million and are being amortized over five years.

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 June 30, 2022, 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	Unamortized Discount at June 30, 2022	Carrying Value of Subordinated Debentures at June 30, 2022 (Dollars in thousands)	Trust Preferred Securities of the Trusts	Contractual Interest Rate at June 30, 2022 ⁽¹⁾	Final Maturity Date
Ozark II	\$ 14,433	\$ —	\$ 14,433	\$ 14,000	5.15%	September 29, 2033
Ozark III	14,434	—	14,434	14,000	3.99	September 25, 2033
Ozark IV	15,464	—	15,464	15,000	3.72	September 28, 2034
Ozark V	20,619	—	20,619	20,000	3.43	December 15, 2036
Intervest II	15,464	(55)	15,409	15,000	4.98	September 17, 2033
Intervest III	15,464	(63)	15,401	15,000	4.82	March 17, 2034
Intervest IV	15,464	(115)	15,349	15,000	4.50	September 20, 2034
Intervest V	10,310	(109)	10,201	10,000	3.48	December 15, 2036
	<u>\$ 121,652</u>	<u>\$ (342)</u>	<u>\$ 121,310</u>	<u>\$ 118,000</u>		

- (1) The contractual rate for each of these trust preferred securities and related subordinated debentures is tied to a spread over LIBOR. As previously discussed, most LIBOR tenors are expected to be phased out after June 2023. Currently, we are unable to determine the effect, if any, that the phase out of LIBOR might have on our financial instruments tied to LIBOR, including our trust preferred securities and related subordinated debentures.

Our subordinated debentures and trust preferred securities are tied to a spread over the 90 day LIBOR. As previously discussed, most LIBOR tenors are expected to be phased out after June 2023. 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 to support our expected future growth.

Other Sources of Capital. We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs. As a publicly traded bank, a likely source of additional funds is the capital markets, which can provide us with funds through the public issuance of equity, both common and preferred stock, and the issuance of senior debt and/or subordinated debentures. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. Other than common stock, any issuance of equity or debt by 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 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**

	June 30,		December 31,
	2022	2021	2021
	(Dollars in thousands)		
Total stockholders' equity before noncontrolling interest	\$ 4,606,782	\$ 4,501,676	\$ 4,836,243
Less preferred stock	(338,980)	—	(338,980)
Total common stockholders' equity	\$ 4,267,802	\$ 4,501,676	\$ 4,497,263
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(5,240)	(11,336)	(8,274)
Total intangibles	(666,029)	(672,125)	(669,063)
Total tangible common stockholders' equity	\$ 3,601,773	\$ 3,829,551	\$ 3,828,200
Total assets	\$ 25,919,965	\$ 26,605,938	\$ 26,530,430
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(5,240)	(11,336)	(8,274)
Total intangibles	(666,029)	(672,125)	(669,063)
Total tangible assets	\$ 25,253,936	\$ 25,933,813	\$ 25,861,367
Ratio of total common stockholders' equity to total assets	16.47%	16.92%	16.95%
Ratio of total tangible common stockholders' equity to total tangible assets	14.26%	14.77%	14.80%

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

	June 30,		December 31,
	2022	2021	2021
	(In thousands, except per share amounts)		
Total stockholders' equity before noncontrolling interest	\$ 4,606,782	\$ 4,501,676	\$ 4,836,243
Less preferred stock	(338,980)	—	(338,980)
Total common stockholders' equity	\$ 4,267,802	\$ 4,501,676	\$ 4,497,263
Less intangible assets:			
Goodwill	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(5,240)	(11,336)	(8,274)
Total intangibles	(666,029)	(672,125)	(669,063)
Total tangible common stockholders' equity	\$ 3,601,773	\$ 3,829,551	\$ 3,828,200
Shares of common stock outstanding	118,996	129,720	125,444
Book value per common share	\$ 35.87	\$ 34.70	\$ 35.85
Tangible book value per common share	\$ 30.27	\$ 29.52	\$ 30.52

**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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Net income available to common stockholders	\$ 132,358	\$ 150,535	\$ 260,386	\$ 298,950
Average stockholders' equity before noncontrolling interest	\$ 4,619,033	\$ 4,423,093	\$ 4,703,196	\$ 4,365,454
Less average preferred stock	(338,980)	—	(338,980)	—
Total average common stockholders' equity	\$ 4,280,053	\$ 4,423,093	\$ 4,364,216	\$ 4,365,454
Less average intangible assets:				
Goodwill	(660,789)	(660,789)	(660,789)	(660,789)
Core deposit and other intangible assets, net of accumulated amortization	(6,084)	(12,175)	(6,824)	(12,997)
Total average intangibles	(666,873)	(672,964)	(667,613)	(673,786)
Average tangible common stockholders' equity	\$ 3,613,180	\$ 3,750,129	\$ 3,696,603	\$ 3,691,668
Return on average common stockholders' equity ⁽¹⁾	12.40%	13.65%	12.03%	13.81%
Return on average tangible common stockholders' equity ⁽¹⁾	14.69%	16.10%	14.20%	16.33%

(1) Ratios annualized based on actual days.

Common Stock Dividend Policy. During 2022, we paid cash dividends of \$0.30 per common share in the first quarter and \$0.31 per common share in the second quarter compared to \$0.2775 per common share in the first quarter and \$0.28 in the second quarter of 2021. On July 1, 2022, our Board approved a cash dividend of \$0.32 per common share that was paid on July 22, 2022. 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, during 2021, we completed a public offering of 14,000,000 shares of 4.625% non-cumulative preferred stock generating \$339.0 million of net proceeds, after deducting the initial purchaser discount and estimated offering expenses. 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 initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments and adjustments by the regulators about component risk weightings and other factors.

In recent years, the FDIC and other federal banking regulators revised the risk-based capital requirements applicable to insured depository institutions, including us, to make them consistent with agreements reached by the Basel Committee on Banking Supervision (“Basel III”) and certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Basel III Rules”). The Basel III Rules 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 June 30, 2022 and December 31, 2021, our tier 1 capital includes both our common equity tier 1 capital and our Preferred Stock that we issued in November 2021.

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 significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of our investments securities portfolio.

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

The Basel III Rules limit capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” in addition to the amount necessary to meet minimum risk-based capital requirements for common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets. At June 30, 2022 and December 31, 2021, 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 June 30, 2022 and December 31, 2021, capital levels exceed 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
June 30, 2022:						
Common equity tier 1 to risk-weighted assets	\$3,723,492	12.59%	\$2,070,323	7.00%	\$1,922,443	6.50%
Tier 1 capital to risk-weighted assets	4,062,472	13.74	2,513,964	8.50	2,366,083	8.00
Total capital to risk-weighted assets	4,811,574	16.27	3,105,485	10.50	2,957,604	10.00
Tier 1 leverage to average assets	4,062,472	15.81	1,027,947	4.00	1,284,934	5.00
December 31, 2021:						
Common equity tier 1 to risk-weighted assets	\$3,826,895	14.07%	\$1,904,582	7.00%	\$1,768,541	6.50%
Tier 1 capital to risk-weighted assets	4,165,875	15.31	2,312,707	8.50	2,176,665	8.00
Total capital to risk-weighted assets	4,885,192	17.95	2,856,873	10.50	2,720,832	10.00
Tier 1 leverage to average assets	4,165,875	16.17	1,030,239	4.00	1,287,799	5.00

Capital Stress Testing. During 2021, we completed our capital stress tests utilizing multiple economic scenarios, including an adverse idiosyncratic scenario unique to our Bank. The results of that stress test reflected that we would maintain well-capitalized status for all capital ratios over the stress test time horizon. We anticipate that during the third quarter of 2022, we will update our results of our annual capital stress test.

Our historically strong earnings and earnings retention rate have contributed to our building strong capital ratios. We are focused on strategies to utilize our capital for the long-term interests of shareholders, including organic loan growth, adding new business lines, continuing to increase our quarterly cash dividend, financially attractive acquisitions and various other options.

Growth and Branching. During the second quarter of 2022, we converted a loan production office in Aventura, Florida to a retail branch and relocated a branch in Houston, Texas. During the third quarter of 2022, we expect to open a retail branch in Atlanta, Georgia, convert an existing loan production office in Jacksonville Beach, Florida to a retail branch and relocate an existing retail branch from Clearwater, Florida to Oldsmar, Florida.

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

Capital Expenditures. During the first six months of 2022, we spent approximately \$13.0 million on capital expenditures for premises and equipment. Our capital expenditures for the remainder of 2022 are expected to be in the range of \$10 million to \$20 million, including progress payments on construction projects expected to be completed in 2022 or 2023, 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 and self-assessments across the Bank to identify key operational risks

and associated key internal controls. We have in place a number of controls that assist in the management of operational risk including, but not limited to, transactional documentation requirements; systems and procedures to monitor transactions; systems and procedures to detect and mitigate attempts to commit fraud, penetrate our systems, access customer data, and/or deny access to our systems by legitimate customers; regulatory compliance reviews; and periodic reviews by various components of our CRMG and our Internal Audit function. Reconciliation procedures have also been established to ensure that data processing systems accurately capture data and transactions. Further, we have programs and procedures to maintain contingency and business continuity plans for operational support in the event of disruptions to our business, including disruptions attributable to the effects of the COVID-19 pandemic. We also mitigate certain operational risks through the purchase of insurance. Our Operational Risk Management group, which reports to our CRO, has responsibilities for assisting the business units in identifying, managing and monitoring operational risks including risks resulting from the use of technology, cyber security risk, third party vendor management risk, risks associated with the introduction of new products and services, and various other operational risks.

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

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

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, deteriorations in national or regional macro-economic conditions, or lack of responsiveness to changes in the financial services industry and operating environment. This risk is a function of the compatibility of our strategic goals, business strategies, resources, and quality of implementation, among others. 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 13 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 50 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 June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On October 26, 2018, a purported class action complaint alleging violations of federal securities laws was filed against Bank OZK in the United States District Court for the Eastern District of Arkansas, captioned Jordan Colbert et al. v. Bank OZK et al., case number now 4:18-cv-793-DPM. Under applicable federal law, the federal district court in the Colbert Case named Strathclyde Pension Fund as the lead class plaintiff. The complaint, as first amended on June 21, 2019, alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, by the Bank, its CEO, George Gleason, and its CFO, Greg McKinney, for making allegedly false and misleading statements and allegedly failing to disclose material facts relating to the risk of loss regarding two commercial real estate loans. The first amended complaint identified the proposed class period as encompassing persons who purchased the Bank’s common stock between February 19, 2016 and October 18, 2018 and sought damages against the Bank and the individual defendants. In May 2022, the parties entered into an agreement to settle the claims for \$45 million, and the court granted preliminary approval of the settlement in June 2022. The settlement is subject to final court approval and does not include or constitute an admission, concession, or finding of any fault, liability, or wrongdoing by the Bank or any other defendant. The Bank’s insurance carriers have funded the \$45 million settlement into an escrow account as of June 30, 2022. If the court approves the settlement, the settlement amount will be paid from the escrow account.

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, 2021, as filed with the FDIC on February 28, 2022.

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

During the second quarter of 2022, the Bank issued an aggregate of 20,087 shares of common stock with the exercise of stock options issued to certain participants under the Bank's Stock Option Plan. The shares were issued in reliance on the exemption provided by Section (3)(a)(2) of the Securities Act of 1933 because the sales involved securities issued by a bank.

During the second quarter of 2022, the Bank issued an aggregate of 21,416 shares of restricted common stock to its non-employee directors and certain officers pursuant to the Bank's 2019 Omnibus Equity Incentive Plan. The Bank did not receive any cash consideration in connection with these restricted stock grants. These grants were exempt from registration pursuant to Section (3)(a)(2) of the Securities Act of 1933 because the grants involved securities issued by a bank.

During the second quarter of 2022, the Bank repurchased shares of its common stock as indicated in the following table.

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program ⁽¹⁾	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program ⁽¹⁾
		(Dollars in thousands, except per share amounts)		
April 1-30, 2022	2,547,863	\$ 40.94	2,547,863	\$ 220,615
May 1-31, 2022	453,956	38.67	453,956	207,308
June 1-30, 2022	688,000	37.20	688,000	\$ 177,559
Total	<u>3,689,819</u>	<u>\$ 39.93</u>	<u>3,689,819</u>	

- (1) On July 22, 2021, we announced that our board of directors approved a stock repurchase program authorizing the repurchase of up to \$300 million of our outstanding shares of common stock (the "Stock Repurchase Program"). On October 28, 2021, we announced that our board of directors approved an increase in the amount of its outstanding shares of common stock authorized to be repurchased under the Stock Repurchase Program by \$350 million, bringing the cumulative total value of authorized share repurchases under the program since its inception to \$650 million. The Stock Repurchase Program, as amended, will expire on November 4, 2022. Under the Stock Repurchase Program, repurchases may be made from time to time in open market transactions, including pursuant to trading plans adopted in accordance with Rule 10b5-1 of the Exchange Act, or in privately negotiated transactions. The timing and amount of repurchases will be determined by management based on a variety of factors such as the Bank's capital position, liquidity, financial performance and alternative uses of capital, stock price, regulatory requirements and general market and economic conditions.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

SIGNATURE

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

Bank OZK

DATE: August 8, 2022

/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.

**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: August 8, 2022

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

**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: August 8, 2022

/s/ Tim Hicks

Tim Hicks

Chief Financial Officer

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

In connection with the accompanying Quarterly Report of Bank OZK (the Bank) on Form 10-Q for the period ended June 30, 2022, 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.

August 8, 2022

/s/ George Gleason

George Gleason

Chairman and Chief Executive Officer

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

In connection with the accompanying Quarterly Report of Bank OZK (the Bank) on Form 10-Q for the period ended June 30, 2022, 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.

August 8, 2022

/s/ Tim Hicks

Tim Hicks

Chief Financial Officer