Bank of the Ozarks, Inc.

Conference Call – October 11, 2016

Transcript – Prepared Remarks

Note: Administrative communications of the operator and other greetings and social exchanges of no substantial import have been omitted from this transcript.

Good morning, I am Tim Hicks, Executive Vice President and Chief of Staff for Bank of the Ozarks. The purpose of this call is to discuss the Company's results for the quarter just ended and our outlook for upcoming quarters.

During today's call, and in other disclosures and presentations, we may make certain statements about our plans, estimates, strategies and outlook that are forward-looking statements. These statements are based on management's current expectations concerning future events that, by their nature, are subject to risks and uncertainties. Actual results and future events could differ, possibly materially, from those anticipated in our statements and from historical performance due to a variety of risks and other factors. Information about such factors, as well as GAAP reconciliations and other information on non-GAAP financial measures we discuss, is included in today's earnings press release and in our 10-K, 10-Qs and various other SEC filings and investor materials. These are all available on our corporate website, www.bankozarks.com, under "Investor Relations." The Company disclaims any obligation to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information or otherwise.

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Now let me turn the call over to our Chairman and Chief Executive Officer, George Gleason.

George Gleason

Thank you, Tim, and thank you all for joining our call today. I am very pleased to have Tim Hicks participating in today's call in his new role as Executive Vice President and my Chief of Staff. Tim has served with great distinction for many years as a key member of CFO Greg McKinney's team. His Bank of the Ozarks' resume includes overseeing the valuation and accounting of all purchased assets and assumed liabilities from our fifteen acquisitions and our loss share accounting, performing all of our M&A modeling, and handling both our capital and liquidity forecasting and modeling. With the continued growth in the size and complexity of our organization, I needed to expand my executive staff with several additions, including creation of a Chief of Staff. Tim's new role is very strategic, and he will be working closely with me on a constantly evolving array of strategic matters while also filling a key role in investor relations. Susan Blair, whose voice you have heard on this call for a number of years, continues to be a key member of our team and is devoting her time and attention to her increasing other responsibilities, making Tim's transition into the lead investor relations role very timely.

On July 20th and July 21st, we closed our pending acquisitions, respectively, of Community & Southern Holdings, Inc. and C1 Financial, Inc. We originally announced these transactions in October and November of last year, and closing took us about three to four months longer than originally anticipated. We have been consistently enthusiastic about each of these transactions, the benefits they bring to our Company, and the value to our shareholders from the resulting accretion in book value, tangible book value and earnings per common share. We are excited to finally be presenting our financial results with these two acquisitions included. We had a great quarter, and the value of these acquisitions, the strength of our organic growth and our pristine asset quality were all clearly on display.

During our conference call in July, I was bragging about our record net income in both the first and second quarters of this year and our second quarter records for net interest income, service charge income and mortgage income, as well as our excellent net interest margin, efficiency ratio and asset quality. We commented in July that we had "continued to hit on all cylinders with our very conservative and disciplined business strategy." That analogy is still applicable as our two recent acquisitions added two potent new cylinders to the Bank of the Ozarks growth and earnings machine.

This was evident in our record results for the quarter just ended. Our $18.5 billion in total assets at quarter-end was almost double our $9.3 billion in total assets as of September 30 last year. Our $76.0 million in net income for the quarter just ended was a quarterly record and a 40% increase from the immediately preceding quarter. Our $0.66 diluted earnings per common share for the quarter just ended were a record, a 10% increase from this year's second quarter EPS of $0.60, and well ahead of consensus estimates. Service charge income and mortgage income for the quarter just ended were also quarterly records. Our 4.90% net interest margin for the quarter just ended was an eight basis point improvement from the immediately preceding quarter. Even with the costs of closing our two acquisitions in July and our Community & Southern core systems conversion in August, our efficiency ratio for the quarter just ended was an excellent 38.1%. Our asset quality ratios as measured by net charge offs, nonperforming loans and leases, nonperforming assets and past due loans and leases for the quarter just ended were all excellent, and two of those ratios were our best ever in our 19 years as a public company. Our results for the quarter just ended fit the "hitting on all cylinders" analogy very well.

Let's continue with some details on asset quality and loan and lease growth.

Our longstanding focus on conservative underwriting standards and credit quality is a critical element of our business strategy. The rewards for our discipline and this focus were evident in our credit quality metrics for the quarter just ended. At September 30, 2016, excluding purchased loans, our nonperforming loans and leases as a percent of total loans and leases were just 0.08%; our nonperforming assets as a percent of total assets were 0.28%; and our loans and leases past due 30 days or more, including past due non-accrual loans and leases, to total loans and leases were just 0.17%. These ratios of nonperforming loans and leases and past due loans and leases are our best ever as a public company, setting new records for the third consecutive quarter. These ratios clearly reflect our pristine asset quality.

These ratios are a continuation of our multi-decades-long commitment to excellent asset quality, which has resulted in our having asset quality consistently better than the industry as a whole. In our 19 years as a public company, our net charge-off ratio has averaged 35% of the industry's net charge-off ratio, and we have beaten the industry's net charge-off ratio in every single year. Our outperformance has been even better recently as evidenced by the fact that our net charge-off ratio for the first half of this year was only approximately one-eighth (1/8) of the industry's net charge-off ratio.

During the quarter just ended, we continued to focus on originating high quality loans at very low leverage. Of course, the largest component of our loan and lease portfolio is our Real Estate Specialties Group, or RESG, portfolio which increased to 69.8% of the funded balance and 91.1% of the unfunded balance of our total non-purchased loans and leases at September 30, 2016. At quarter-end our average loan-to-cost for the RESG portfolio was a conservative 48.8% and our average loan to appraised value was even lower at just 42.0%. The extremely low leverage of this portfolio exemplifies our very conservative credit culture.

Certainly our recent asset quality ratios, combined with the low leverage of so many of our loans, justify our confidence in the quality and durability of our loan and lease portfolio. This portfolio has been built to withstand another "Great Recession." While we <u>don't</u> expect another "Great Recession," we believe we are superbly prepared if one occurs.

Our annualized net charge-off ratio for total loans and leases for the quarter just ended was just seven basis points and, for the first nine months of this year, just six basis points. In each quarter this year, we have been at or near the bottom of our 5 to 20 basis point guidance range for 2016 total net charge-offs, and our results have been even better than our favorable ratios of 16 basis points in 2014 and 17 basis points in 2015.

Even with our very conservative underwriting, our extreme discipline, and our four-fold focus on great properties, strong and capable sponsors, very low leverage and defensive loan structures, we are achieving exceptionally good loan and lease growth. Clearly we are providing our borrowers a compelling value equation in which our expertise and ability to reliably execute transactions with both speed and excellence justify our borrowers accepting conservative loan structures. In the quarter just ended, our non-purchased loans and leases grew $545 million and for the first nine months of this year grew $2.23 billion. Our third quarter growth was achieved notwithstanding an unexpectedly large volume of loan payoffs. Over the last two quarters we have seen an accelerated trend in loan payoffs as all sorts of construction and development products have sold or been refinanced into permanent financing more quickly than expected. This acceleration reflects the quality of the projects we are financing and their acceptance in the marketplace, which is certainly a positive, but we would prefer these assets stay on the books longer allowing us to earn more interest income. Our loan origination volume has continued to grow as reflected in our $545 million growth in non-purchased loans and leases during the third quarter and our $1.31 billion growth in our unfunded balance of closed loans during the quarter, of which approximately $781 million was attributable to non-purchased loan originations and approximately $530 million was attributable to purchased loans acquired in our two recent acquisitions. For the year to date, our unfunded balance of closed loans has increased by $2.86 billion, growing to a record $8.66 billion at September 30, 2016.

In our January conference call, we provided guidance for 2016 growth in non-purchased loans and leases of at least $3.0 billion, and in July we increased that guidance to $3.5 billion. At that time, we did not foresee the acceleration of both property sales and refinancings that occurred in the quarter just ended. It now seems likely that the strong prepayment trends in the second and third quarters will continue in the fourth quarter. We continue to expect record 2016 growth in non-purchased loans and leases, exceeding 2015's record growth of $2.55 billion, but, in light of recent prepayment trends, we might not achieve $3.0 billion of growth in non-purchased loans and leases this year. As for next year, given the growth in our customer base, our robust pipeline of transactions currently in underwriting and closing, and our largest ever unfunded balance of closed loans, we expect another record year of growth in non-purchased loans and leases in 2017, but at this point it is hard for us to predict if 2017's growth in non-purchased loans and leases will be closer to $3.0 billion or $4.0 billion.

RESG, under the expert leadership of Dan Thomas, continued to be the primary driver for our loan growth in the quarter just ended, as it has been in most quarters in recent years. Dan started this team for us 13 years ago. Its priorities have always been: first on asset quality, second on profitability and third on growth. As a result of the emphasis on quality, RESG has had only two loans result in losses in 13 years. RESG's total credit losses since inception are $10.4 million, which is just an eight basis point annualized loss ratio over its entire history. In recent years, RESG has tended to be even more conservative. You can see this in the leverage ratios for the RESG portfolio. As we previously mentioned and assuming every RESG loan is fully advanced, at September 30, 2016 RESG's average loan-to-cost was approximately 48.8% and average loan to appraised value was approximately 42.0%.

That compares to the 2005-2007 time frame when our loan-to-cost percentage on such loans was typically in the low 70's and our loan to appraised value percentage was typically in the high 60's. Or to state it another way, our leverage today is more than 20 percentage points lower than our leverage on loans in this portfolio in the years preceding the "Great Recession." Obviously our RESG portfolio held up extremely well during the "Great Recession" with only two loans resulting in losses, and with the leverage of our current RESG portfolio more than 20 percentage points lower, there is substantial reason to believe that our current portfolio would perform equally well, or even better, if we were to incur another comparable economic downturn.

As previously mentioned, at September 30, 2016, RESG accounted for the majority, specifically 69.8%, of our total non-purchased loans and leases, and an even higher 91.1% of the unfunded balance of closed non-purchased loans. Given the exceptional track record of this division and the low leverage and the significant diversification of its portfolio by both geography and product type, you can see why we are so confident in how well our asset quality will hold up under a broad array of economic and real estate market scenarios.

Another benefit of RESG providing a greater percentage of our total non-purchased loans is RESG's consistency in collecting loan origination fees and the corresponding increase in our level of net deferred loan fees. In accordance with generally accepted accounting principles, we defer both loan origination fees and loan origination costs. At September 30, 2016, we had $37.9 million in net deferred credits, meaning we had $37.9 million more in unamortized deferred loan origination fees than unamortized deferred loan origination costs. This net deferred credit has increased $10.2 million so far this year. This net deferred credit, along with the $164.5 million valuation discount on our purchased loans at September 30, 2016, has favorable implications for future earnings.

Over the past year there has been a lot of discussion in industry publications about CRE and CRE concentrations. For several decades our focus has been on real estate lending. When bank regulators first issued their CRE concentration guidelines in 2006, our CRE ratios were well above the guidelines, just as our CRE ratios are today. We were comfortable then with our level of CRE lending, and, because of all of the factors we have just discussed, we are even more comfortable with the quality of our portfolio, our exceptional rate of portfolio growth and our CRE levels today. The regulatory guidelines mandate that, if you have a CRE concentration, extra safeguards should be in place. We totally agree with that, and we have robust policies, procedures and processes in place to assure the quality of our CRE portfolio and to effectively measure, monitor and manage our CRE concentrations. Of course, our specialized expertise in CRE and the conservatism we employ in our CRE lending are among our most critical safeguards. Our track record, including our track record through the "Great Recession," speaks for itself.

Because we are one of the largest and most active CRE lenders in the country, we have received attention in recent articles regarding CRE. These articles tend to lump everyone involved in CRE transactions in the same category without distinguishing between equity, mezzanine lender and senior secured lender priorities. In almost every transaction we do, we are the sole senior secured lender, which means that in the event of default every penny of equity and every penny provided by a mezzanine lender would be lost before we lose even one cent of interest or principal. Simply stated, we have the lowest risk position in the capital stack. Likewise, our extremely low loan-to-cost and loan-to-value ratios are probably lower than just about every other CRE lender in the country. Simply stated, we believe our CRE portfolio is the lowest risk CRE portfolio in the industry.

Since RESG's loans are, on average, our best quality and lowest leverage loans, with our best sponsors and best properties, and are our best underwritten, documented and serviced loans, we are comfortable with RESG growing to be a bigger and bigger part of our portfolio. We believe RESG is where we have the greatest competitive advantage. Nevertheless, we have been working over the last several years to improve our competitive advantage in other areas. This includes, among other things, developing the government guaranteed lending capabilities we acquired in our Omnibank acquisition, developing the poultry lending capabilities we acquired in our Summit acquisition, developing the consumer and small business lending capabilities and the indirect marine and RV consumer lending capabilities we acquired in our Community & Southern acquisition, and expanding our proven legacy leasing and investment securities portfolio platforms. While we expect our CRE lending volumes to continue to increase significantly, we expect these other areas to grow even faster. By 2018 our goal is for CRE to account for approximately 57% of our growth in earning assets and for our non-CRE asset categories, including those we just mentioned, to account for approximately 43% of our growth in earning assets. We expect to see this evolution in the mix of our earning asset growth accelerate and reach our goal of a growth mix of roughly 57%/43% in 2018. Again, let me emphasize that we expect RESG's growth to accelerate in 2017 and beyond.

Let me turn the call over to our Chief Financial Officer, Greg McKinney.

Greg McKinney:

We often talk about our Company's focus on three disciplines, those being net interest margin, efficiency and asset quality. George covered asset quality, so let me discuss net interest margin and efficiency.

Net interest income is traditionally our largest source of revenue and is a function of the volume of average earning assets and net interest margin, both of which increased in the quarter just ended. This was our tenth consecutive quarter of record net interest income. Of course, our third quarter results included our two recent acquisitions for approximately ten weeks of the quarter, contributing to our exceptional $56.1 million, or 47.1%, quarterly growth in net interest income to $175.2 million in the quarter just ended compared to $119.0 million in this year's second quarter. Even without the acquisitions, we would have had a positive trend in net interest income as a result of growth in non-purchased loans and leases and improvement in our yield on such loans and leases in the quarter just ended as compared to this year's second quarter.

Our superb net interest margin, which is among the best in the industry, combined with our favorable prospects for continued growth in earning assets, suggests that we should continue our long-standing trend of record net interest income in coming quarters.

We were pleased with the eight basis point improvement in our net interest margin to 4.90% in the quarter just ended as compared to the immediately preceding quarter. Our net interest margin in the quarter benefited from the increases in Libor rates during the quarter, and the acceleration we have seen in loan prepayments, which is beneficial to our net interest margin in that the unamortized portion of any deferred net loan origination fees or purchased loan discount is recognized as interest income when a loan prepays. Additionally, as we have discussed in our recent quarters, we have been getting better pricing recently on new loan originations. The benefits of this increased loan pricing should be even more evident as a greater volume of those recently originated loans fund in 2017 and 2018. We are encouraged by this and the relative stability in our yields on non-purchased loans and leases over the last 11 quarters, with such yields ranging narrowly from 4.96% to 5.18% during that 11 quarter period and coming in at 5.12% in the quarter just ended. On the other hand, over time the declining volume of our portfolio of higher yielding purchased loans, combined with the generally declining yield profile of such loans over their life, suggest that we may continue to contend with some downward pressure on our net interest margin.

Our favorable interest rate risk profile has us well positioned for just about any interest rate scenario. At September 30, our variable rate loans were 81.8% of our total non-purchased loans and leases, and we had floors in 91.9% of our variable rate loans. No matter which direction interest rates move, or, if they don't move at all, we are well positioned. If interest rates increase, our high percentage of variable rate loans should result in a nice increase in our net interest income compared to our baseline scenario. If interest rates decrease, and even in an unlikely scenario where we would have negative U.S. sovereign debt yields, our having floors in 91.9% of our variable rate loans should protect our yield on our current portfolio.

Let me switch to efficiency. Traditionally we have been among the most efficient bank holding companies in the U.S. After reporting a 35.5% efficiency ratio for the first six months of 2016, our efficiency ratio increased to 38.1% in the quarter just ended. This increase was due to a number of factors, including acquisition and conversion costs. In recent quarters, we have discussed that our efficiency ratio would probably increase for a quarter or two because of our recent acquisitions, but we have stated our belief that we can continue to improve our efficiency ratio over the longer term. There are several key factors needed to accomplish our long-term efficiency goals. First, we expect to ultimately utilize a large amount of the apparent excess capacity of our extensive branch network. At June 30, 2016, including the branches acquired in the two recent acquisitions, but excluding the New York market, our pro forma combined organization had deposit gathering branches in 156 cities with 4.13% of the branches in those cities, but only 1.39% of the deposits. Compared to our previous June 30, 2015 data, which we have presented over the past year in our investor presentations, the 2016 data reflects that we have increased both our deposits and our relative market share in many of these cities over the past year. We expect we can continue this trend for years to come, tapping billions of dollars of additional deposits through our existing branch network. This ability to achieve substantial deposit growth with limited additions of fixed overhead has favorable implications for our efficiency ratio. Second, we expect to achieve significant efficiencies over time from our recent acquisitions, including efficiencies from the adoption of Community & Southern's consumer and small business lending platform and the deployment of numerous technology applications from the Innovation Labs Group we acquired with C1. By fully leveraging these factors, among others, we hope to achieve an improving efficiency ratio over the next several years and ultimately a sub-30% efficiency ratio. Of course, as a larger and growing organization, we are constantly increasing our expenditures to expand and enhance our infrastructure for information technology, information systems, cybersecurity, business resilience, enterprise risk management, internal audit, compliance, BSA/AML monitoring, training and other important infrastructure. While we only crossed $10 billion in total assets earlier this year, and expect to cross $20 billion in total assets in 2017, we are looking several years ahead and are currently working to build the infrastructure we will ultimately need as a $50 billion bank. We are also expanding our human and physical infrastructure to better serve low-to-moderate income and majority minority markets and customer segments. The constantly increasing costs for such enhanced infrastructure will be a headwind in our efforts to improve our efficiency ratio. However, we believe that our excellent organic growth will generate sufficient additional revenue for us to achieve our longer-term efficiency ratio goal.

Our guidance regarding an improving efficiency ratio in future years does not consider the potential impact of any future acquisitions.

Let me discuss a related topic, that being cost savings from our two recent acquisitions. We realized a meaningful volume of cost savings in the quarter just ended, and we expect to achieve more cost savings in this year's fourth quarter. Accordingly, we currently expect that our first quarter 2017 non-interest expense will reflect a reasonably "normal" level of non-interest expense. In preparing our models for the next two quarters, we have assumed only modest reductions in our level of non-interest expense from our third quarter results. As we just discussed, building additional infrastructure to support our future growth is an important focus for us, and a number of the people required for that infrastructure build were added in the quarter just ended or will be added in the next couple of quarters. This

infrastructure build, combined with the fact that our annual health insurance premium increase and the majority of our annual salary adjustments occur at the beginning of January, will offset a large portion of the additional cost savings we expect to achieve from the acquisitions.
As George mentioned earlier in his introduction of Tim Hicks, Tim handles our capital modeling and forecasting of future capital needs, so at this point I want to turn the call over to Tim to discuss our capital position.

Tim Hicks:

Thank you, Greg. In recent years we have had great organic loan growth due primarily to growth in very high quality, low leverage loans by our Real Estate Specialties Group. In the quarter just ended, our non-purchased loans and leases grew $545 million, which equates to a 26.5% annualized growth rate in non-purchased loans and leases. George has already explained that this slower growth rate is a result of faster loan prepayments. He also noted that, even with the faster loan prepayments, we still expect 2016 growth in non-purchased loans and leases to exceed 2015's growth, and for next year we expect 2017 growth in non-purchased loans and leases to exceed 2016's growth. However, these year-over-year growth expectations for 2016 and for 2017 are less robust than we projected just a few months ago, and that difference is fully attributable to our expectations regarding a continuation of the recent acceleration in loan prepayments. Our growth in new originations is accelerating as we have long expected, but construction and development loans are not staying on our books for as long as we had previously expected. This has implications for our capital forecasting and planning.

We have always felt we could raise capital as needed to support high quality, good yielding organic growth, and our recent experience has confirmed that. In December of last year, we completed a registered direct placement of $110 million of common stock and, in June of this year, we completed a $225 million sub debt issuance providing Tier 2 capital to support our continued growth. Our two recent acquisitions involved our issuance of common stock and substantially increased our common equity. I am pleased to note that those transactions combined were accretive to tangible book value per common share by an upwardly revised $0.75.

Of course, we continue to be well capitalized by all applicable regulatory standards, and our internal policies for capital adequacy are well above the current regulatory requirements. Our internal policies mandate that we maintain well capitalized status in accordance with the fully phased-in 2019 Basel III standards, including the capital conservation buffer.

We currently have substantial capital in excess of our self-imposed capital standards to support continued growth, and the recent moderation in our growth rate of non-purchased loans and leases as a result of faster loan prepayments suggests that our excess capital will take us farther into the future than we might have expected just a few months ago. A big part of my job is to continually monitor our capital position in light of our significant growth opportunities and make sure that we have plans and solutions in place to maintain our well capitalized status under all scenarios, both by regulatory and our higher internal standards. Based on the moderation in our expected growth rates for non-purchased loans and leases for the remainder of this year and in 2017, we now expect to be less active in accessing capital markets than we might have previously expected. Our current most likely scenario is that we will augment our expected substantial accumulation of retained earnings with one or more sub debt issuances totaling approximately $75 to $125 million in 2017 or early 2018. Of course, we will constantly monitor our capital position, expectations for growth, capital market conditions and capital formation alternatives, all with the goal of effectively managing our capital position for the maximum benefit of shareholders.

Now, let me turn the call over to our Chief Operating Officer and Chief Banking Officer Tyler Vance.

Tyler Vance:

We have long expected that, within reasonable limits, we could accelerate deposit growth as needed to fund our loan and lease growth, and our experience in recent years has validated this expectation. In the first nine months of 2016, our deposits in our legacy offices have grown approximately $2.82 billion providing sufficient funds to pay off our short-term borrowings outstanding at year-end, support our excellent loan and lease growth, and accumulate surplus cash of approximately $613 million at September 30, 2016. Our two recent acquisitions also contributed about $4.33 billion to our deposits in the quarter just ended.

Currently we have 39 offices in 27 cities in "spin-up" mode offering various deposit specials along with an enhanced level of marketing activity. As previously discussed, our branch network continues to have substantial untapped deposit capacity, and we believe that capacity is sufficient to fund our expected loan and lease growth over the next several years. Possible future acquisitions or *de novo* branch additions, or a combination thereof, should provide additional deposit growth capacity as may be needed in the future.

We consider net growth in core checking accounts as our most important deposit metric. Last year we achieved record annual growth in our number of net new core checking accounts with approximately 12,232 net accounts added, and that does not include the addition of accounts from acquisitions. Our core account growth accelerated in the first nine months of this year with approximately 11,299 net new core checking accounts added, and that doesn't count approximately 117,000 core checking accounts added through our two recent acquisitions. Our excellent checking account growth has been an important contributor to our having achieved record service charge income in 2015 and each of the first three quarters of this year.

In our January conference call, we said we expected our cost of interest-bearing deposits would increase between three and seven basis points in each quarter of 2016 due to accelerated deposit gathering activities to fund growth. In the quarter just ended, our cost of interest-bearing deposits actually decreased one basis point from the second quarter of this year, after having increased nine basis points in this year's first quarter and seven basis points in this year's second quarter compared to the immediately preceding quarters. The results for the most recent quarter reflect a moderation in our deposit pricing and deposit gathering activities due to a reduced need for new deposits resulting from the accelerated payoffs in non-purchased loans and leases. Such results also reflect the substantial deposits from our two recent acquisitions and the interest rates on such deposits. We were very pleased with the one basis point reduction in the cost of our interest-bearing deposits in the quarter just ended, and our retail banking team is working hard to continue to generate deposit growth in the most cost-effective manner. Given our expectation that 2017 growth in non-purchased loans and leases will exceed our 2016 growth, we will need to continue to grow deposits significantly. Accordingly, we expect our cost of interest-bearing deposits will increase again in the coming year. However, our modestly reduced expectations for growth in non-purchased loans and leases, combined with our additional branch infrastructure from our two recent acquisitions, suggest to us that future increases in our cost of interest-bearing deposits will be more moderate than those incurred during the first two quarters of this year.

Organic growth of loans, leases and deposits continues to be our top growth priority, and we have demonstrated our ability to achieve substantial growth apart from acquisitions. With that said, M & A activity continues to be another focus for us, as we believe M & A provides significant opportunities to augment our robust organic growth. We will continue to be active in identifying and analyzing M & A opportunities, and we believe an active and disciplined M & A strategy will allow us to continue to create significant shareholder value. The integration of our two recent acquisitions has been our primary focus in recent quarters, and that will continue to be our primary focus through year-end. Once these two acquisitions are fully integrated, we expect to become more active in looking at future M & A opportunities.

Now, let me turn the call back to George Gleason.

George Gleason:

I want to thank our very talented and hard-working team of bankers across our Company for achieving our excellent third quarter results. The quality of our Company, our assets and our financial performance has never been better, and this is because we have a championship team with the skills, discipline, work ethic and commitment we need to deliver outstanding results for our customers and our shareholders. The strength of our banking team has been significantly enhanced in the quarter just ended with the addition of many outstanding new team members, including large teams from the Community & Southern and C1 acquisitions.

Let me close by saying again that we are extremely pleased with our accomplishments and results in the quarter just ended. Our $0.66 of diluted earnings per common share were excellent, and, more importantly, we expect this is a result upon which we will steadily improve in the current and future quarters.

That concludes our prepared remarks. At this time we will entertain questions. Let me ask our operator to once again remind our listeners how to cue in for questions.

Transcript of Q & A

Stephen Scouten - *Sandler O'Neill & Partners*

Good morning, George and everyone else, congratulations on the good quarter first of all.

George Gleason

Thank you very much, Stephen.

Stephen Scouten

Obviously, people -- during the call, your stock has taken a hit and people are concerned about the lower growth guidance. And looking at the growth unfunded balances, ex the purchase growth there, can you give us any sort of metric that would give credence to what you guys are saying in terms of the fact that overall originations continue to be up and that this is more just the effect of pay-downs? Is there any metric there that would give people visibility into that?

George Gleason

Well I can point to the fact that our non-purchased loans and leases grew $545 million, and the unfunded balance of our closed non-purchased loans and leases grew, I think, $781 million, Greg is that right? So those two metrics alone are over $1.3 billion and I would guess that our total pay-downs and pay-offs in the quarter, and I don't have this number, hard number, but it approached I would guess $1 billion in total pay-offs and pay-downs.

We're originating $2 to $3 billion of loans a quarter, somewhere in that range, and we expect that number of originations will increase. Some people may be a bit disappointed in that growth for the quarter. But bear in mind that if you look at our year-over-year the last 12 months of growth, we've had a 60% plus growth rate in non-purchased loans and leases. And if you look at just this quarter, which was a quarter where we had a lot of pay-downs, we had a mid-20's annualized growth rate in non-purchased loans and leases in this quarter. So, how many banks out there wouldn't die to have a mid-20's growth rate, and that's a slow quarter for us?

Stephen Scouten

Yes, no, agree completely. Just in terms of that ballpark, maybe it's $1 billion of pay-downs. Can you give us an idea of what that is? I know ballpark, I know you don't have the numbers in front of you, but what the increase to that was quarter-over-quarter? I think maybe you had mentioned a $300 million number last quarter on the call. Is that kind of the disparity in pay-downs?

George Gleason

No, what I'd mentioned on the call last quarter was that our pay-downs in Q2 were about $300 million more than our pay-downs in Q1. I would think we ran probably, if you look at our total non-purchased loan and lease portfolio, RESG and community banking, we were running probably close to $1 billion dollars in pay-downs in both Q2 and Q3, and we're projecting that number is going to be very similar to that in Q4.

What we are having - what is occurring that we really didn't fully appreciate is condo, lot sales and home construction sales – all those assets are selling much faster than projected and refinancing activity is very robust. I'll give you a couple of examples.

We had a hotel project in the last quarter that we had an $80 million loan out on and it wasn't fully funded. I think we had about $68 million funded on it, and that refinanced immediately upon the property achieving a certificate of occupancy at a permanent loan at over $200 million. So the permanent loan was 2.5 times the amount of our loan. We have a loan we expect to pay off this quarter that's an office building construction loan. Our loan is $63 million and the office building is under contract to sell for $271 million. We had a condo project that totally paid out in Manhattan early in the last quarter and those condos paid out about 16 months faster than we projected. And the reason for that is the condos were selling significantly higher than we originally modeled and significantly faster than we originally modeled.

So the great thing here, if you want to look at this in a glass half full scenario, is we are financing really fantastic assets that are selling or refinancing at very high values, and that reflects the quality of our project and the very low risk of what we're doing. The glass half empty version of that, is while we would like to keep them on books longer and earn more interest income on them, it is what it is and we feel pretty good about where we are in this.

Stephen Scouten

Yeah, that's really helpful color, thanks George. One last one for me if I could, regarding the expense run rate. I think you mentioned some additional employees here in the quarter, and maybe we wouldn't actually see a lot of the further cost saves drop to the bottom line moving forward, but expenses were maybe a little lower than I would have expected in this quarter, so that's definitely a positive. But can you maybe give any other color about how much of the expense saves have been realized to date, or if we just kind of think about expenses being at this level or a little bit lower?

George Gleason

I think the appropriate way to look at it is that our expenses in Q4 and Q1 will be a little bit lower than our expenses in Q3. And Greg said that, modestly lower, I think was the way he described it. Because the transactions took several months longer to close than we had originally anticipated, the banks that we acquired worked with us in a fairly active manner, and circumstances worked out so that a lot of the cost that would have normally come out in the first month or two following acquisition, really began to come out of the banks even pre-closing. And you could see this in the Q2 call reports that those banks filed, their earnings were getting quite a bit better in Q2 versus what they had historically been because a lot of the costs were beginning to come out of those organizations. So we did realize more of the cost saves in the quarter of close than we would normally.

With that said, there are a number of other cost saves we'll get in Q4 and those will be recognized in what Greg described as a more normal run rate to our cost in Q1 of next year. We were concerned that our listeners might get a little overly enthused about that and assume a much higher level of reduction and cost saves than we're going to achieve because we've already made the decision, as Greg outlined in great detail, to really upgrade our infrastructure to be ready to be a $50 billion bank. We think we'll be there in a few years, but I don't know whether that's three years or five years. We are going to go ahead and build the infrastructure, and are busy about that, that we need to build to be that much larger bank, and so we're going to spend some of that money. As Greg mentioned, most of our salary increases occur in the first week of January and our annual health insurance premium, which always seems to go up a bunch, occurs in the first week of January. So when you factor in the infrastructure build and the salary cost and health insurance costs that we expect we will incur in January, our expectation is that we will have a modest reduction in cost in Q4 and a modest reduction in cost in Q1, and that won't fully reflect all of the cost saves we get because those are going to be offset to a large extent by cost increases.

Stephen Scouten

Perfect, thanks again, I really appreciate all of the color. Congratulations.

George Gleason

Thank you.

Joe Gladue – *Merion Capital Group*

Good morning and congratulations.

George Gleason

Thank you, Joe.

Joe Gladue

Just a question on the non-CRE loan types that you talked about expanding. Some of those, I guess expanding from acquisitions and from places you've acquired, but I was just wondering if some of those require adding teams in other markets to expand that out, and finding teams available to do that?

George Gleason

No, it does not require that Joe. All of the people that we need to accomplish those goals are on our staff and we've been actively involved in growing and developing our SBA business for a couple of years. We've been actively working for a couple of years in the poultry area. We hired a team in the poultry lending area about 18 months ago. They were under an 18 month non-compete and that expires this month, so they are really going to be able to do a lot more than they have done in the past because for the last year and a half they've been heavily constrained by their non-compete agreement.

The consumer small business lending teams are our legacy Bank of the Ozarks, legacy CSB, legacy C1 teams that we are enhancing their capabilities with a hybrid combination of the CSB and Bank of the Ozarks consumer and small business lending platforms and the indirect auto or I'm sorry indirect marine and RV, not auto, scratch auto, indirect marine and RV lending teams are a team that we acquired with the CSB acquisition. So we don't have to add any teams. We don’t have to do anything that we don't have a lot of experience doing. We've been in all these businesses, or CSB has been in all these businesses for quite a while, and we have a track record of results to work off of and to give us confidence in what we're doing.

Clearly, as those units become bigger, and they originate more and more loans, we'll have to add more people to handle the growth in those units, but the basic infrastructure and Management team and leadership teams in those areas, that's all-in place.

Joe Gladue
Thank you, my other question has already been answered.

George Gleason
Thank you, Joe.

Michael Rose – *Raymond James & Associates, Inc.*
Hey, good morning, George, how are you?

George Gleason
Hi, I’m doing great Michael, how are you doing?

Michael Rose
Good, thanks for asking. I just wanted to clarify what you said on expenses being down modestly 4th Quarter and then 1st Quarter. Is that off of the reported $78.8 or is that off of the $74.5 excluding the merger charges? And then, what are your expectations for remaining merger charges?

George Gleason
That's off the 78 number and the reason for that is we will continue to have severance pay and conversion expenses and so forth in Q4. That number should be less than it was in Q3, so that will contribute to a down trend from that $78 million sort of overhead number in Q3. But we think we'll have

pretty much clean run rate of numbers by Q1 there. But the guidance we're giving is off the GAAP number of $78 million.

Michael Rose

Okay and then do you have an estimate for the remaining merger charges from these two deals, because I think you'd estimated them to total $10-15 million if I remember correctly?

George Gleason

Couple million?

Greg McKinney

Yes.

George Gleason

Probably a couple million in Q4.

Michael Rose

Okay and that will about do it. Can you maybe - just in terms, you guys obviously hired and opened up some new offices. Can you kind of talk about where some of those newer offices stand in terms of your production goals, if you have any, and then where you might be looking to open additional offices from here? Thanks.

George Gleason

You know, we've opened a couple of kind of fill in retail banking offices in Northwest Arkansas. Those offices included an office in Siloam Springs, another office in Fayetteville and an office in Springdale. This was infrastructure that originally was planned as part of our comprehensive Northwest Arkansas branch network that we actually already owned those sites and had planned the buildout of those years ago. The buildout of those offices got put on hold in the Great Recession because Northwest Arkansas was severely hit by that downturn. It wasn't timely to build additional infrastructure there and then as we made all of the branch acquisitions through the loss-share banks and then legacy banks, we just didn't need the additional branch infrastructure. So we sort of dribbled the ball on those Northwest Arkansas branches for many more years than we expected, and as we were looking at our future deposit needs and really filling out that Northwest Arkansas network, we went ahead and did that.

Similarly, we had an office in McKinney, Texas that is under development now. We've owned that site since 2007 or 2008 and because we didn't need more branches, we didn't build it. The decision to delay building has probably been a good decision, because development has massively occurred around that, so it's a much more valuable site now from a branch perspective than it was eight years ago. So those are the additional kind of fill out pieces of originally long-planned infrastructure we are doing.

The second thing that we are focused on now, and Greg alluded to this in his comments, about devoting more physical and human resources to serving low-to-moderate income census tracts, and majority/minority census tracts and their respective customer segments is an important thing for us. You know our recent applications got held up for three to four months based on a Community Reinvestment Act protest of our CSB acquisition, and the real hold-up and delay there was from the Federal Reserve as they were looking at it. After we got the approvals on that, we had discussions with the Federal Reserve and learned more about what their concerns and questions were, and as a result of that, we want to make sure that we are in a position that future applications don't get held up. So we have redefined some of our census tracts, particularly Tarrant County and Dallas County in Texas, and related to the Metro Atlanta MSA in Georgia, and we are proactively looking at additional branch infrastructure to buy or build in several central Atlanta counties and those two counties in the Metro Dallas area. The goal of those is simply to put in place additional branch infrastructure that will be profitable and useful to us in achieving our corporate goals for shareholders, but also allow us to more effectively and conveniently serve low-to-moderate income neighborhoods, and customer segments and majority/minority neighborhoods and customer segments going forward. You will probably see in the next 12 months, and possibly sooner because we've been working on this pretty much since a few weeks after our acquisitions closed, we began to try to really focus and understand what the Fed’s concerns were there so we could address them. So you'll probably see this in the next few quarters or at least the next year, about a half dozen additional branches being opened in Dallas and Tarrant County in Texas and in the Atlanta MSA, kind of the core areas in Georgia, and we feel real good about this. These are going to be profitable branches for us but they are also going to significantly benefit our ability to meet CRA expectations in those markets.

Then additionally, we are looking at finally rolling out some of our *de novo* 2.0 branches and Tyler Vance and others are working on the *de novo* 2.0 issue, and as soon as we get past the C1 conversion and a couple of other projects that are taking front and center attention in Tyler's world now, he will be accelerating our focus on two, three or four *de novo* 2.0 branches that we would expect to open sometime in late 2017 or 2018. So that's kind of the branch infrastructure, not a ton of infrastructure we're planning on adding, but between the CRA branches, say that's six, and go to the high side on *de novo* 2.0, that's four, that would add about 10 more branches beyond those we have currently under development. Now, we are closing five branches in Georgia in December, and those five branches we're closing just because the 75 branch network we have in Georgia includes some redundant branches, is that right Tyler?

Tyler Vance
Yes.

George Gleason
There were a few branches that when we really did the analytics on where the customers were coming from, that were being serviced by each of those branches, we realized we had five unnecessary branches and I think the notices have been given on all of those, Tyler?

Tyler Vance
Yes.

George Gleason
And they are closing December 16, mid-December?

Tyler Vance
Mid-December.

George Gleason

Mid-December, I'm not going to nail down to a date here, mid-December. So there's constant adjustment to all of that, but we feel pretty good about where that's going.

Michael Rose

All right, maybe just one more from me George. Any comments on where C1 labs stands, what the plans are for that, and any comments on the CEO of that bank leaving?

George Gleason

Yes, C1 Labs is now Innovation Labs and Marcio deOliveira is running that. Marcio ran it for C1 Bank, he's now running it for us and we have already increased the staff at C1 from Marcio plus eight, which is the staffing size that they were when we first met them and signed the contract with C1, and I think they're Marcio plus 16 or 17 now.

Tyler Vance

Correct.

George Gleason

And this unit plays a very important role in our future plans for innovation, technology and efficiency. When we originally dialed in and focused on that unit, our expectation was that it was going to be a very key part of that transaction, a very key part of our future, and we were going to double the size of it. So we have done that, and they are doing great work and we've got a waiting list of projects for them to address, and they are an important part of what we're doing so we're thrilled about that. Alan Randolph is our Florida State President and Alan ran the community banking side for C1, and he is running all of our banking offices, both legacy and the C1 acquired offices in Florida, going to do us a great job. So we were surprised by Trevor Burgess' decision to not come on our team. It was a very unexpected last minute, day after the acquisition sort of decision, or a week after the acquisition, whatever the timing is I can't remember the exact days now, but it was unexpected. But the key to our success in Florida is having Marcio and having Alan and the rest of the team there and we feel very good about that. That's all going extremely well.

Michael Rose

Okay, thanks for taking my questions.

George Gleason

All right, thank you, Michael.

George Gleason

Good morning.

Timur Braziler - *Wells Fargo Securities*

Hi, good morning, how are you?

George Gleason

Doing great.

Timur Braziler

Just a couple more from my end. Looking at the net interest margin, I'm just wondering what the impact for the quarter was from the higher prepayment penalty income, or the loan fees, kind of what did that do on a link quarter basis? And then given the expectation for elevated pay-offs for the remainder of the year, if we should estimate pay-offs and prepayment penalty to remain elevated within net interest income?

George Gleason

Yeah, well as Greg commented in his part of the prepared remarks, clearly one of the benefits of faster prepayments is those net deferred credits drop into income at the time of prepayment, and we did have a couple million dollars of that I would guess. I don't have an exact number on it, but I would just ballpark it and say it was a couple million dollars in the quarter just ended on the non-purchased loans, and then there was a chunk on the purchased loans as well. And our expectation for prepayments in Q4 is similar to our expectation in Q3, so I would expect a very similar impact on the NIM in Q4. It's very difficult to predict that and know that until those things actually occur, but we would think that would be very similar.

I think Greg also mentioned that our improved NIM in the quarter just ended also included some benefit from the increases in LIBOR rates, and you guys are in a better position than we are to project whether those increases in LIBOR rates are going to widen out even further, or whether they are going to fall back to what would have been more historically normal levels or whatever. But clearly, that did benefit us in the quarter just ended, and I'm not aware of any reason to think that would be different in the current Q4 than it was in Q3 at this point in time. Although, again you guys are in a better position to predict that probably than we are.

Timur Braziler

Okay fair enough. And then looking at the unfunded book, what's the loan yield on the unfunded book?

George Gleason

It‘s very similar to the loan yield on our legacy book.

Timur Braziler

Okay, and then I guess one last for me. Just broadly, you guys have a bit of a unique perspective, and taking a national look at broader commercial real estate trends going on in this country - any area of the geography that you're seeing particular levels of stress in, and it doesn't have to be anything that you're actually lending in directly, but anything that's giving you cause for fear?

George Gleason

No, and what I will tell you is that our product by and large, whether it's speculative homes or lots, commercial lots or residential lots, or condos or speculative buildings, our product is selling faster than we modeled in the majority of cases and not slower. And in our universe of customers and our universe of projects, the trends are very positive.

Timur Braziler

Thank you very much, appreciate it.

George Gleason

Thank you.

George Gleason

Jennifer, good morning.

Jennifer Demba – *SunTrust Robinson Humphrey*

Good morning. My question was just covered, thanks a lot, appreciate it.

George Gleason

Thank you.

Catherine Mealor – *Keefe, Bruyette & Woods*

Thanks, good afternoon.

George Gleason

Good afternoon, Catherine.

Catherine Mealor

One more question on the margin on the acquired loan yields which are now 6.5%. How much was this quarter from, I guess you could call it accelerated accretable yield that may have come from the larger pay-downs in the acquired book? And then maybe more broadly, what is your outlook for this yield moving forward?

George Gleason

There was some of that Catherine in Q3, both on the acquired book, and the the recently acquired book and the older acquired book. We had pay-downs and pay-offs across a large and diverse segment of those acquired portfolios in Q3. Our expectation is that, that continues to be at a bit of an elevated level in Q4 as we've already said. Now I think Tim in his comments, or Greg in his comments, Greg I think it was, made the comment that over many quarters we expect the rate of prepayments and the rate of accretion from those prepayments in the purchased loan book to come down.

And you've seen that, if you and you have I know, and others on the call have studied our purchased loan yields over basically six or seven years now, and those yields tend to come down over time because you have some high-yielding high risk loans at the outset of acquisitions. You work through those issues and resolve those, and what gets left in those portfolios become much more seasoned higher quality loans because they've been seasoned and any issues resolved. They become very good loans and the accretable difference on those loans burns off and they mature and get renewed, and as they mature and get renewed there's no longer that additional accretable difference. So the yields on those portfolios will come down to more normal yields over time and those portfolios will pay down over time, so it's a wasting asset in the sense that it's going away and the incrementally higher yields will diminish over time. But that's a fairly, you know, that's many quarters, many years, multi-years runway in that, not that it isn't going to happen in a quarter or two.

Catherine Mealor

Okay great, and then, just one more big picture on M & A. You closed CSB and C1, and the conversions are, I guess you'll have the C1 this mid-October, and so then you'll be kind of set from those two. And I know you're going to continue to look at M & A, but how active would you say you are right now in looking at additional opportunities, and does the slowdown in the growth make you more or less apt to do an acquisition near term? It feels like you, perhaps maybe have more capital, and so would that maybe make you more inclined to go ahead and do the next acquisition ahead of when you otherwise would have if RESG were growing at a faster pace?

George Gleason

There's no correlation in our mind between the speed that we would approach additional acquisitions and our organic growth. If we were growing organically at a half billion dollars a quarter as we did in the past quarter, or non-purchased loans and leases were growing a billion and a half a quarter, as I think is possible over the next couple of years it will reach that kind of quarterly growth rate, and whether we're growing at one end or the other of that is not going to have any effect on our acquisition strategy.

Our acquisition strategy is going to be driven by what we see, the quality of what we see, the value of what we see, and can we do transactions that accretive to book value per share, tangible book value and earnings per share, and that will generate an ROE on a cleaned up fixed up integrated basis that we would be pleased with. So those issues are really in our minds totally unrelated and there's no impact one way or the other there. As Tyler mentioned our focus right now is clearly on completing the successful integration of these two acquisitions. We're making tremendous progress on that. We do have the C1 conversion to go but that's a relatively easy conversion, because it's a Fiserv to Fiserv conversion, so they are on the same Premier platform that we are. You still have to convert it, but the training issues and those sorts of issues are much reduced when you're converting within the same platform.

So we've got that to do, and then we've got a lot of work we want to do over the next couple of months and really polishing some of the rough edges off these integrations and conversions. We are doing a really good job, but we're not delivering the quality of customer service yet that I want to deliver to our newly acquired customers, and that takes completion of those integrations, and not just the system conversions, but the integration of all of the slightly variant operating processes and procedures and so forth. And we're making great progress with that but that's going to be the focus from now to year-end. Then Tyler mentioned in his prepared remarks that after the first of the year we expect to become much more actively engaged in looking at additional M & A opportunities.

Catherine Mealor
Sounds great, thank you very much.

George Gleason
Thank you.

Matt Olney – *Stephens, Inc.*
Hi, thanks, good morning, George.

George Gleason

Hi, good morning, Matt.

Matt Olney

On the RESG business, I believe in the past you've said that pipeline of closed unfunded loans that ultimately 95% would be funded. But given the pay down activity, does that change your thoughts at all as far as how much of the current pipeline will ultimately be funded by the Bank?

George Gleason

Yes Matt I would say that expectation is probably diminished and our expectation now is closed unfunded loans. We would expect that to be more like 80-90% instead of 90-95% that we might have expected in past. And the reason for it, I mentioned that hotel loan we got paid off, that was an $80 million notional amount loan and we were funded $68 million when it paid off. We never funded the last draw on that and we never funded the retainage on that because the refinance occurred at CO and the guys just never drew the last money on the loan. So we're seeing a little more leakage there and the funding of that than we have historically seen when assets stayed on the books a little bit longer.

Matt Olney

George, given the strong refinance activity you're talking about, how do you reconcile that activity with the concern of CRE overbuilding in a number of markets that we keep hearing about?

George Gleason

You've got all of these articles and a lot of these articles are self-propagated articles. You know, one person writes an article about CRE, that causes another person to write an article about CRE, and you have this whole litany of articles about CRE written by people who by and large don't understand the market, and in many cases some do, but many don't. The result of that is you end up with a lot of commentary about the markets that are just not consistent with the reality that's occurring in market.

Matt Olney

And then lastly, Greg McKinney any comments on the tax rate going forward from here?

Greg McKinney

Matt, I think the Q3 tax rate is going to be indicative of what we would expect to see in the near term. I expect Q4 to be pretty much in line with Q3.

Matt Olney

Thank you.

Brian Martin – *FIG Partners, LLC*

Good afternoon.

George Gleason

Good afternoon, Brian.

Brian Martin

George just a couple of things. The increase in OREO in the quarter, I assume that's all M & A related or any color on that increase?

George Gleason

Yes, our legacy OREO was down several million dollars. I don't remember whether it was $2 million or $3 million but it was down, and the purchased OREO was more than 100% of the increase in our OREO. And I would tell you, if you added our legacy OREO, I believe with the two acquired banks OREO at the end of the last quarter, that was a mid-$50 million, like $55 million. So we not only did a good job of continuing to reduce our OREO during the quarter, our legacy OREO, which is almost all from acquisitions, but we also had a good reduction both pre-closing and post-closing in the OREO portfolios of C1 and CSB.

Our approach to liquidating OREO is a little bit different and a little more aggressive than probably C1 and CSB’s approach, and I think we also probably get better values for that. So we would expect to work those portfolios down in a pretty orderly manner. Now I will add this. With five branch closings in Georgia this quarter, I think we own all of those branch facilities, so you'll see those five assets move from premises account to the OREO account in the current quarter. But, we don't expect any marks on those as a result of those, we think we've already got those valued fairly to conservatively. In fact, it wouldn't surprise me if on some of those transactions, some of those properties we booked a nice gain on the sale.

Brian Martin

Okay, perfect, and then just two last things. The comment on M&A, and maybe looking at it in earnest when you get beyond some of the initiatives you outlined, the dialogue today, can you just comment a little bit on how the dialogue is today on M&A? Is it as active? Has it slowed down at all? What are you seeing on that front? And then I just have one last one after that.

George Gleason

Well, Dennis James, our Director of Mergers and Acquisitions, has continued to stay very active in talking with bankers, banks that might be interested in a transaction and talking with investment bankers who are showing him potential transactions. There tends to be a lot of activity, and that level of activity I think has not - my impression of that has been that it has not diminished at all from what it was. Dennis is just operating under my instructions for really the last year almost. And that is, if it's not something that is incredibly compelling and on a really, really fast time frame, don't come to my office with it, because we're focused on making sure that we do CSB and C1 right all the way through complete integration.

He’s continued to be very actively engaged, and I suspect when we totally unleash him and say, okay, it's fine for you to bring deals on a more normal sort of basis to our committee, our internal committee that evaluates those, I suspect he will call a meeting within a week or two and brief us on some things and ask for us to set some priorities for him on those things.

Brian Martin

Okay, perfect. And then just the last thing was just on the RESG group and the pull-through that you guys have historically done there. With some of these loans that you mentioned, and I guess maybe just some of the pay-offs, accelerated pay-offs, would your expectation be that you've got room to increase that pull-through from the better top customers in the RESG group to, like you said earlier, push some of the growth in originations even higher, which maybe helps the loan growth number a bit more? Or just how are you thinking about that pull-through from the customers in the RESG group going forward?

George Gleason

Well, the pull-through rate has not been diminished because we had $1 billion of growth in Q4 of last year or Q1 of this year. We didn't diminish our pull-through rate because we had $1 billion of growth, and we're not going to accelerate the pull-through rate because we had $545 million of growth in the current quarter.

The pull-through rate - the guiding factor on that, and we're probably, I would guess we're closing 3% or 4% of the opportunities we see there this year. I don't really have that number, but early in the year and our conversations along the way, have led me to believe that we're getting about a 3% or 4% pull-through rate probably this year.

Our pull-through rate is simply a result of the fact that I've only got 90-something people at RESG, and they're doing all they can do that meets our standards for credit quality and pricing yield and so forth. So I can't - if our volume of deals that are being shown to us doubled from where they are today and if we have a 4% pull-through rate, our pull-through rate is going to go to 2% because I can't do anymore underwriting, documentation, servicing, or closing than what they're doing today. They are doing all they can do and do it to our exceedingly high exacting standards.

If our volume of deals that we're being shown cut in half, our pull-through rate would go from 4% to 8%, because it's not that they're not tremendous quantities of great deals for us to do out there. It's just simply we're doing all of the great deals that we can do with the staff we've got. It's a function of resources to get the job done, not a function of where we're drawing the lines credit-wise. We could double our volume with our current credit standards probably.

Brian Martin

I've got it. Okay, I've got you. I thought you had some opportunity, or might have some opportunity with your same standards to increase that pull-through rate, but it doesn't sound like that is the case, at least currently, so okay. I appreciate it.

George Gleason

We're growing the RESG team as we can, but our standards are extremely high for that team. And it takes a while to get each person in and train them and develop them, and get them ready to do what we want to do at the level we're doing it. So we're growing the team as fast as we can intelligently, safely grow it.

Brian Martin

Okay, and just the last thing was you talked about the accelerated pay-offs. At least the expectation is that continues in the fourth quarter. Is that just the best way to think about the growth in 2017 as well, as the way you guys are thinking about it today - is the growth is going to be higher in 2017 than 2016? You're factoring in a similar level of pay-offs or have you changed? Is there any thought on the outlook for pay-offs as you go to 2017?

George Gleason

The guys are basically looking at every loan down there every month, so I think they have pretty much, in our projections, pay-offs for next year recalibrated the fact that there's been a fundamental shift in the secondary market's appetite. And by secondary market, I'm not really talking about CMBS, but other lenders that are filling that permanent financing row. There's been a permanent shift in the appetite of those lenders for a product, and we've tried to model on a loan-by-loan basis those faster expectations for prepayments.

We're also adjusting this. We want to achieve a certain ROE on each loan, so we're also adjusting the pricing and structure of our loan slightly so that we can achieve our ROE. We're putting more exit fees, more minimum interest, more prepayment penalties, more unused fees in our loan structures, and shifting the mix of where we get our yield to ensure that we will get the type of ROE we want on a loan, even if that loan pays off faster than expected.

Now, it takes a while to get all that worked into the portfolio, but we've been working on that in varying degrees, as we've seen prepayments slightly accelerating early in the year to more rapidly accelerating here more recently. So we're doing the things that you need to adjust to get the same sort of return on equity on each of those loans, even if they pay off more quickly.

Now, what I will tell you is we think that in Q1 and Q2 of - or Q4 and Q1, the next two quarters, we are going to have a lot of prepayments. But our fundings starting beyond that, while I don't think prepayments are really going to slow down in the balance of 2017, our fundings in the subsequent quarters of next year do pick up as a result of the fact that we've got more closed unfunded loans, and you can see that closed unfunded balance growing. So I think that's going to help to mitigate and actually give us improving loan growth sequentially in the various quarters of 2017. As that higher prepayment number is getting baked into our projections, and the higher funding from closed unfunded loans kicks in, I think the growth reaccelerates out there.

Brian Martin

Perfect, that's really helpful. I appreciate all of the answers, George, and nice quarter.

George Gleason

Thank you very much.

Timur Braziler - *Wells Fargo Securities*

Hi, sorry, just one more for me. The updated expectations on the portion of the unfunded balance that you now expect to close - or that going down, is any of that at all impacted by delays of projects due to real estate environment? More specifically, I'm talking about the Miami market and maybe some of the trends that you're seeing there?

George Gleason

Absolutely none of it is affected by delays in projects. That is not an issue, and we're not seeing that phenomenon in any of our projects. So, I answered the question earlier for, I think it was Matt, who asked that given the fact that a lot of times we're getting paid off shortly after CO now, and there are elements of these loans that are not funding that's higher than before, a year ago, I probably would have said 90% to 95% of the unfunded balance would ultimately fund. Probably more accurately now, that's 80% to 90% of the unfunded balance will ultimately fund. So there is a little more slippage in that, but obviously, we've also got a much bigger unfunded balance to work with.

Timur Braziler

Okay, great, thank you.

George Gleason

Thank you.

George Gleason

There being no further questions, this concludes our call. Thank you all for joining us today and listening in. We look forward to talking with you in about 90 days and hopefully reporting another record quarter. Thanks so much.