Bank of the Ozarks

Conference Call – January 16, 2018

Transcript

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, Chief Administrative Officer and Executive Director of Investor Relations for Bank of the Ozarks. The purpose of this call is to discuss the Bank's results for the quarter and year 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 Generally Accepted Accounting Principles ("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 public filings and investor materials. These are all available on our corporate website, bankozarks.com, under "Investor Relations." The Bank 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 CEO, George Gleason.

George Gleason:

Thank you for joining today's call. We are very pleased to report our excellent results, including record quarterly net income for the 9th consecutive quarter, record annual net income for the fourth consecutive

year and many other significant accomplishments. A number of these accomplishments were strategic in nature, and we believe have us well positioned for 2018 and beyond.

Before I turn the call over to Tim, Greg and Tyler, I want to discuss some of these strategic initiatives, which we think are important to our continued high performance as we become a larger bank. Our strategic planning process for 2018 has been comprehensive and collaborative. Our plan for 2018 de-emphasizes or eliminates activities that have not been highly profitable and emphasizes activities that are becoming increasingly important and profitable to us. Let me discuss some of these highlights.

First, we are focusing intensely on the evolving role and importance of technology in our business. As we have previously discussed, we are developing innovative technology-based solutions through our OZRK Labs. We believe this focus is critical in today's rapidly evolving banking environment where technology, automation and artificial intelligence are becoming increasingly important in driving efficiency and speed and quality of service. We expanded our OZRK Labs team from 17 to 25 people during 2016 and 2017, and we plan to continue to expand that team to an expected 33 people in 2018.

Second, we have spoken in previous calls about our focus on enhancing our infrastructure for information technology, information systems, cybersecurity, business resilience, enterprise risk management, internal audit, compliance, BSA/AML monitoring, training and other important areas, as well as expanding our human and physical infrastructure to serve low-to-moderate income and majority-minority markets and customer segments. We consider all these initiatives to be important in preparing for future growth. We made significant progress in 2017. This progress should continue in 2018, and particularly the first half of 2018, when we expect to complete much of this infrastructure build.

As Tyler discussed in our October 2017 conference call, we expect to have further increases in our level of non-interest expense during the first half of 2018 as we complete much of the remaining infrastructure build, but we anticipate that rate of increase will subside in the second half of 2018.

Third, on November 28, 2017, we initiated a realignment of certain functions of our Leasing Division into our Community Banking Division and eliminated other Leasing Division functions. This was substantially complete by year-end.

As part of this realignment, the business aviation finance team within the Leasing Division, which accounted for approximately one-third of our Leasing Division's assets, became a separate profit center within Community Banking. This team saw good growth in 2017, and we expect that growth will accelerate with this team now in Community Banking. We have been very pleased with the pricing and asset quality of our business aviation credits.

On the other hand, the Leasing Division's small ticket equipment portfolio had been unprofitable and shrinking in recent years. As a result, we ceased taking small ticket applications in the Leasing Division on November 28. The remaining portfolio of approximately $97 million will run off naturally, with the last asset maturing in mid-2023. The elimination of the costs of the small ticket origination infrastructure, and the realignment of the remaining servicing and collection functions within Community Banking, should make this portfolio profitable as it winds down.

Fourth, on December 18, 2017, we ceased taking new loan applications for secondary market consumer mortgage loans through our Mortgage Division. This part of the Mortgage Division operated at essentially breakeven in 2017, and, given the prospects for continued regulatory burden in the consumer mortgage area, it seemed unlikely to us that it would operate with meaningful, if any, profitability in the foreseeable future. Since we have always sold our secondary market consumer mortgage loans shortly after origination, the elimination of this product will have no significant impact on our balance sheet. Likewise, elimination of this product should not significantly affect our net income. Specifically, we expect that the lost mortgage revenue will be substantially offset by the reduction in mortgage division non-interest expense as we work through the remaining pipeline.

Our Mortgage Division also housed teams doing CRA lending and some construction and development lending. Those teams will continue to perform their important roles.

The Bank incurred $1.14 million of employee severance expenses associated with the elimination of the Leasing Division's small-ticket equipment finance group, the elimination of the Mortgage Division's secondary-market mortgage loan group, and other restructuring of staff.

Fifth, while we are eliminating the allocations of resources to parts of our Leasing and Mortgage Divisions, we are simultaneously committing greater resources within our Community Banking, Indirect Lending and Trust and Wealth Management Divisions. This will allow us to capitalize on the success

and momentum we achieved in 2017 with some of our non-CRE lending products, including small business, SBA, poultry, business aviation and indirect marine/RV loans, and within our trust and wealth management business. We believe this reallocation of resources will be favorable in all respects - enhancing future growth, profitability and asset quality.

Sixth, we want to highlight the further diversification in our non-purchased loan growth during 2017. For the year, Real Estate Specialties Group ("RESG") accounted for 46% of our net growth in non-purchased loans, and our other loan origination teams accounted for 54%. This reflects meaningful improvement in the contribution to growth from our Indirect Lending Division, Corporate Loan Specialties Group, Stabilized Properties Group and Community Banking Division, including within Community Banking our teams handling consumer, small business, SBA, poultry and business aviation loans. We expect increased growth, collectively, from these "other" divisions, groups and teams in 2018.

Seventh, RESG has been our largest growth engine for earning assets for many years. We expect RESG will continue to be our largest growth engine and that it will continue to increase its volume of originations. That trend was evident in 2017. Our fourth quarter RESG loan originations equaled our quarterly record of $2.56 billion, and our full-year 2017 RESG loan originations were an annual record $9.11 billion. Our gross advances on RESG loans were at a record level, reaching $1.63 billion in the fourth quarter. On the other hand, as we have discussed repeatedly in recent years, RESG loan repayment velocity continues to be robust, and that restrained the growth in RESG's outstanding balances for 2017 to $1.43 billion. While we would prefer RESG loans to remain on our books a little longer, the strong repayment velocity clearly reflects the quality and marketability of the projects we are financing.

Given RESG's importance to our Bank, we are always looking for ways to make it even more productive and efficient. During the quarter just ended, Brannon Hamblen was promoted to Chief Operating Officer of RESG with responsibility for overseeing all aspects of RESG operations other than originations. Brannon is a 28-year commercial real estate veteran, a 10-year RESG veteran and the longtime head of RESG's exceptional Asset Management function. In recent years, without his title changing, his influence and responsibility has expanded beyond Asset Management to various other areas of RESG. His promotion is a natural evolution of his role and, in part, recognition of the leadership he was already providing in many areas. Several other longtime RESG leaders and various

other team members assumed expanded roles in connection with Brannon's assumption of his new duties.

This reduces my RESG direct reports to four people: Brannon Hamblen; Rich Smith, whose team handles RESG originations in New York, the northeast and the mid-Atlantic; Greg Newman, whose team handles RESG originations in the southeast; and Tucker Hughes, whose three teams handle RESG originations in the middle third and western third of the country.

We believe these changes will enhance RESG's future production, efficiency and customer service, all allowing for continued growth from this important division.

Collectively, these strategic initiatives should position us well for 2018.

Now, let me turn the call back to Tim.

Tim Hicks:

During 2017, our total assets grew $2.4 billion, or 12.6%, from $18.9 billion at year-end 2016 to $21.3 billion at year-end 2017.

Growth in non-purchased loans was the largest contributor to this balance sheet growth. The outstanding balance of our non-purchased loans grew a record $3.1 billion, or 32.6%, during 2017 to $12.7 billion at year-end. As George already mentioned, RESG gets our congratulations once again as the largest contributor to our non-purchased loan growth, although we were very pleased by the growing contributions from our other loan teams. We have become accustomed to robust growth, year after year, in our non-purchased loans. The hard work and outstanding performance of all our lending teams was once again evident in achieving our 32.6% growth in non-purchased loans, while adhering to our strict standards for credit quality and profitability.

During 2017, our purchased loan portfolio, which consists of the remaining loans from our 15 acquisitions, decreased $1.65 billion, or 33.3%, to $3.31 billion at year-end 2017. This was a significant headwind to our overall growth rate in 2017. Purchased loan runoff will continue to be a headwind to overall growth until we do our next acquisition. In the interim, the magnitude of that headwind should

steadily diminish as the purchased loan portfolio continues to decrease as a percentage of our total balance sheet.

We had another record year of loan originations in 2017. In addition to the strong growth in our outstanding balance of non-purchased loans, the unfunded balance of closed loans grew 31.0%, or $3.1 billion, during the year, to a record $13.2 billion at year-end 2017.

Prospects for further growth in our outstanding balance of non-purchased loans continue to be very good based on 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. Accordingly, we expect another record year of non-purchased loan growth in 2018. While it is early to make comments about 2019, based on our plans and the positive momentum we have in RESG and other loan categories, we expect our non-purchased loan growth in 2019 to exceed 2018's growth.

George already gave you the split between growth from RESG and other loan teams for 2017. While the contribution from our other loan teams has been increasing, RESG is still the largest contributor to our non-purchased loan growth, and we expect it will continue to be. At December 31, 2017, the RESG portfolio accounted for 64% of the funded balance and 94% of the unfunded balance of our total non-purchased loans.

At year-end, our average loan-to-cost for the RESG portfolio was a conservative 49.0% and our average loan-to-appraised-value was even lower at just 41.9%. The very low-leverage of this portfolio exemplifies our conservative credit culture and, along with the portfolio's substantial diversification by geography and product type, are among the many reasons we have such confidence in the quality of our loan portfolio. George will provide some additional color on asset quality later in the call.

Let's turn to taxes, earnings and capital.

In the quarter just ended, we filed with the Internal Revenue Service (the "IRS") two separate advance consent applications for change in accounting method in order to change our tax methods of accounting for our loan portfolio and our loan origination fees. Pursuant to the revised tax accounting treatment, we elected to defer loan origination fees for income tax purposes consistent with our treatment of such fees for GAAP, and we adopted mark-to-market accounting treatment for income tax purposes for our loan

portfolio. Our accounting treatment for these items for GAAP purposes was unaffected by these elections for income tax purposes. Both applications require affirmative consent of the IRS, which we expect to obtain, as these are routine elections and we are converting, in each case, to what we understand to be the IRS' preferred method of accounting. Because of the changes in the income tax accounting treatment for these items, our previous net deferred tax asset position changed to a net deferred tax liability position during the quarter just ended.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted, which, among other things, reduced the federal corporate income tax rate from a high of 35% to 21% effective January 1, 2018 and changed or limited certain tax deductions. Under GAAP, we revalued our deferred tax assets and liabilities during the period in which the Tax Act was enacted. Because of our net deferred tax liability position, we recognized a one-time income tax benefit during the fourth quarter of 2017 of approximately $49.8 million, or approximately $0.39 per diluted share. This further strengthened our capital position and capital ratios. Additionally, because of the Tax Act, we estimate that our effective combined federal and state income tax rate for 2018 will range between approximately 25% and 27%.

Our net income for 2017 was a record $421.9 million, a 56.3% increase from 2016. Our diluted earnings per common share for 2017 were a record $3.35, a 29.8% increase compared to 2016.

Tangible book value per common share is one of the metrics we consider in measuring our capital and our long-term creation of shareholder value. During 2017, our tangible book value per common share increased 25.6%, to $21.45 at December 31, 2017. Over the last 10 years, we have increased tangible book value per common share by a cumulative 680%, resulting in a compound annual rate of increase of 22.8%.

As we have discussed in previous conference calls, we expect to file our first Dodd-Frank Act Stress Test, or DFAST, submission in July 2018 based on year-end 2017 financials. We will continue to monitor our capital position, while considering our expected growth, expected performance under our initial and subsequent DFAST submissions, and other relevant factors. If we determine we need additional capital, whether because of DFAST submissions or otherwise, we think the most likely avenue for our next capital formation would be issuance of subordinated debt. However, the one-time income tax benefit of approximately $49.8 million we just recognized, along with the expected reduction in our future effective income tax rate, should contribute to increased net income and retained earnings,

reducing the magnitude of capital raises needed to support our growth.

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

Greg McKinney:

I want to spend my time today providing some details on our net interest income, net interest margin and related matters.

In the quarter just ended, our net interest income was a record $214.8 million, but our net interest margin decreased to 4.72%, down 12 basis points from this year's third quarter. In recent calls, we have mentioned that we are more focused on our "core spread" than our net interest margin. "Core spread" is the term we use to describe the difference between our yield on non-purchased loans, which are our largest category of earning assets, and our cost of interest-bearing deposits. In the quarter just ended, our yield on non-purchased loans increased 13 basis points to 5.76%, while our cost of interest bearing deposits increased just four basis points to 0.83%, resulting in a nine basis point increase in our core spread. This improvement in our core spread in the quarter just ended reflected the benefit for part of the fourth quarter from the recent increase in the fed funds target rate in December.

Our core spread has increased 38 basis points over the last six quarters. Increases in the Federal Reserve's fed funds target rate, Libor rates and other interest rate indexes have contributed, among other factors, to this improvement.

There are many factors which affect our core spread, but we expect that the most meaningful factor in coming quarters will be Federal Reserve's actions related to the fed funds target rate. If the Federal Reserve continues to increase the fed funds target rate, this should tend to help us continue to increase our core spread, because 79% of our non-purchased loans at year-end 2017 had variable rates. The benefit from the increases in yield on these variable rate loans from an increase in the fed funds target rate should more than offset the increased cost of interest bearing deposits resulting from our deposit gathering initiatives such as our "spin-up" offices. Conversely, if the Federal Reserve were to discontinue increases in the fed funds target rate, this would put some downward pressure on our core spread.

At December 31, 2017, we had $44.0 million more in unamortized deferred loan origination fees than unamortized deferred loan origination costs. These net deferred credits should contribute to net interest income as they are recognized in future periods.

Our second largest component of earning assets is purchased loans, which are the remaining loans we have acquired in our 15 acquisitions since 2010. Our purchased loans have a higher yield than our non-purchased loans, although that differential has tended to diminish in recent quarters. As Tim mentioned, our portfolio of purchased loans is, of course, paying down every quarter, so this constant reduction in this higher yielding portfolio puts downward pressure on our net interest margin. As of December 31, 2017, we had $93.3 million in valuation discounts remaining on our purchased loans.

Our third largest component of earning assets is our investment securities portfolio. As we discussed in the July and October conference calls in 2017, we have made a number of strategic adjustments in recent quarters to that portfolio. Over the last three quarters, we increased our investment securities portfolio by $1.15 billion. Starting in mid-June of last year, we began purchasing highly liquid, short-duration government agency mortgage-backed pass through securities. Because of the high quality and short duration of these securities, they typically yield between approximately 2.00 and 2.50%. Despite their relatively low yields, we have added these securities to provide another tool for managing our balance sheet liquidity, while also trying to avoid any significant interest rate and market risks. Also in recent quarters, we have shortened maturities, reduced duration and reduced the portion of our investment portfolio invested in municipal securities, again seeking to reduce interest rate and market risks. As a result of all these adjustments, the yield on our investment securities was 2.71% in the quarter just ended, which was a 34 basis point decrease from 3.05% in this year’s third quarter, and continues the downward yield trend we saw in the third quarter of 2017.

The tax-equivalent yield on the tax-exempt portion of our investment securities portfolio will decline because of the Tax Act, which will slightly reduce our net interest margin. For example, during the fourth quarter of 2017, our tax-exempt securities had a tax-equivalent yield of 4.59%. If we had been using the new federal income tax rates applicable for 2018, we estimate our tax-equivalent yield during the fourth quarter on those tax-exempt securities would have been approximately 3.78%, or approximately 81 basis points less. We estimate this would have lowered our fourth quarter net interest margin by approximately three basis points.

We expect to continue to make adjustments in our investment securities portfolio in 2018 as market conditions allow or dictate. We think it is very likely that we will add more short-term, high quality securities in 2018 to continue to enhance our liquidity position.

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

Tyler Vance:

Our efficiency ratio has been among the top decile of the industry every year for 16 consecutive years. In the quarter just ended, our efficiency ratio was an excellent 34.8% and for the full year of 2017 was 34.9%.

While our efficiency ratio has been excellent, we have a longer-term goal of improving that ratio even further. However, we don't expect much, if any, improvement over the next couple of quarters. As Greg just mentioned, the Tax Act will slightly reduce our net interest margin because of the impact of lower effective federal income tax rates on our tax-equivalent yield on tax-exempt investment securities. This will likewise result in a slight increase in our efficiency ratio, which we estimate would have been approximately 18 basis points higher in the quarter just ended had the new federal income tax rates been applicable in the quarter. Our efficiency ratio may also increase slightly for one or more quarters in the near-term as we continue the infrastructure build discussed earlier and as we wind down our small ticket finance business and our secondary market mortgage business as already discussed.

Of course, as is the case for us every year, our increased cost of health insurance and a majority of our annual salary adjustments occur at the first of the year, providing extra headwind to improvement in our efficiency ratio in the first quarter.

Additionally, in 2018 we will be accruing for an additional employee benefit. As a result of the Tax Act, we have established an annual cash-based incentive bonus plan for hourly employees and certain other employees not currently covered by existing bonus plans. Executive officers and other members of senior management are excluded from this new bonus plan. Under the terms of the plan, employees will be eligible to receive a cash award of up to $1,200 annually based on Bank and individual employee performance. Approximately 2,300 current employees will be eligible to receive awards under the plan. The first payments under the plan will be made in early 2019 based on 2018 Bank and individual

employee performance. Current estimates indicate the annual pre-tax cost of the plan for 2018, including payroll taxes and other benefits, should be between $2.4 and $2.7 million, which we expect to accrue over the course of the year.

After mid-2018, we expect to see a generally improving long-term trend in our efficiency ratio. There are several key factors, among others, needed to accomplish our long-term efficiency goals. First, we expect to ultimately utilize a large amount of the excess capacity of our extensive branch network, tapping many billions of dollars of additional deposits through existing offices. That potential is very evident in the FDIC bank deposit market share data as of June 30, 2017. For the 156 cities and towns, excluding New York City, in which we had deposit gathering offices, we had 4.13% of the branches but only 1.40% of the deposits. We believe we can grow to, or near, market share parity. Our ability to achieve substantial deposit growth in many of these cities and towns while adding minimal amounts of overhead should have favorable implications for our efficiency ratio. Second, we expect to achieve further efficiencies over time from our ongoing deployment of technology applications from OZRK Labs. Third, longer term, exiting our small ticket finance business and our secondary market mortgage business, which have been either unprofitable or only marginally profitable, should slightly benefit our efficiency ratio. We believe these factors, among others, will allow us to achieve an improving efficiency ratio long term. Of course, our guidance regarding our improving efficiency ratio does not consider the potential impact of any future acquisitions.

Let me change subjects and discuss liquidity. We have long expected that we could accelerate deposit growth as needed to fund our loan growth. Our experience in recent years has validated that expectation. At least monthly, and more often as needed, we update a comprehensive 36-month projection of our expected loan fundings, loan pay-downs and other sources and uses of funds. These detailed monthly projections of needed deposit growth provide the goals for our deposit growth strategies. This has proven to be a very effective process.

Currently we have 47 offices in 34 cities in “spin-up” mode offering various deposit specials along with an enhanced level of marketing activity. Our branch network of 243 deposit offices continues to have substantial untapped capacity as I just mentioned, and we believe that capacity is sufficient to fund our expected loan growth over the next several years. At the same time, we plan to add *de novo* branches in new markets over the next several years, which should provide additional deposit capacity to support future growth.

At December 31, 2017, our total deposits were $17.2 billion, which was a $369 million increase from the previous quarter-end and a $1.62 billion increase for the full year 2017. Our organic deposits, which exclude brokered deposits, grew $426 million in the quarter just ended and $2.42 billion for the full year of 2017.

During the quarter just ended we continued our trend of decreasing brokered deposits. Specifically, we decreased brokered deposits by $57 million to $1.16 billion, or 6.8% of total deposits at year-end 2017. For the full year of 2017, we decreased brokered deposits by $828 million, or 42%. Of course, we're not subject to any regulatory limitations on our volume of brokered deposits and our internal policy calls for a 15% limit, and we are less than half of that, but we are nonetheless pleased to see our percentage of brokered deposits continue the downward trend over the past seven quarters.

We consider net growth in core checking accounts as one of our most important deposit metrics. We achieved excellent organic growth in our number of net new core checking accounts with 4,997 net accounts added during the quarter just ended, bringing our total net new core checking accounts for 2017 to a record 22,013.

In the quarter just ended, our cost of interest bearing deposits increased four basis points compared to the third quarter of 2017, as we increased rates on competitively bid deposits and rates at certain offices in "spin-up" mode as needed to grow deposits to fund growth. Given our expectation for strong growth in non-purchased loans in 2018, we expect to continue to grow deposits significantly. Based on this, combined with possible further increases in the fed funds target rate, we expect additional increases in our cost of interest bearing deposits. Our goal is to do as we have done in recent quarters, holding the rate of increase in our cost of interest bearing deposits below the rate of increase in our yield on non-purchased loans. As Greg noted, if the Federal Reserve continues the recent pattern of fed funds rate increases, that goal should be achievable, as it has been over the last six quarters.

Now, let me turn the call back to George.

George Gleason:

Let me make a few comments regarding asset quality.

Our asset quality metrics throughout 2017 were excellent. These ratios reflect our longstanding commitment to conservative underwriting standards and excellent asset quality, which has resulted in our having asset quality consistently better than the industry as a whole. In our 20 years as a public company, our net charge-off ratio has averaged about 34% of the industry's net charge-off ratio, and we have beaten the industry's net charge-off ratio in every year. Recently, our outperformance has been even better, as evidenced by the fact that our net charge-off ratio was just 13% of the industry's net charge-off ratio in both 2016 and the first nine months of 2017.

Our net charge-off ratios for 2017 were identical to such ratios for 2016, being just six basis points for non-purchased loans, nine basis points for purchased loans, and seven basis points for total loans. As we have noted, we have long enjoyed excellent asset quality as compared to the industry, but our net charge-off ratios for the past two years have been exceptional.

At year-end, excluding purchased loans, our nonperforming loans as a percent of total loans were just 10 basis points, our nonperforming assets as a percent of total assets were just 18 basis points, and our loans past due 30 days or more, including past due non-accrual loans to total loans were 15 basis points.

I want to close the call today with a few personal remarks.

Some people have referred to us as aggressive lenders, which they apparently conclude based on our growth rate and the fact that we are among the most active lenders nationally in commercial real estate finance. We have been doing this business a long time. Our excellent loan loss ratios, both in recent years and for decades before, along with our consistently excellent asset quality ratios, some of which I just mentioned, support our view that we are very conservative in our lending.

I've been doing this job for over 38 years, and our Bank is now roughly 750 times the size it was when I started. We have made money every year, and for the past decade we have posted industry leading results almost every year. That's a pretty good track record, and it has been achieved by adhering to sound principles, making smart decisions and working very hard. It is my great honor to work with many exceptional men and women, who every day devote their considerable intellect, energy and effort into making our Bank exceptional. To each, I say "thank you, and well done. You did extraordinary work in 2017." I look forward to continuing to work with this team for many years to come.

Those of you who have followed our Bank for some time know that we are always striving to improve everything we do. In that vein, next quarter you will see a significant enhancement in the way we conduct our conference call and provide you management commentary on the quarter. Specifically, we will provide information equivalent to that contained in today's prepared remarks as a written management commentary at the same time as we provide our earnings press release. This change will allow each of you several hours to review that management commentary before the conference call. The conference call will be devoted almost entirely to Q & A.

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

Transcript of Q&A

Jennifer Demba - *SunTrust Robinson Humphrey, Inc.*

First, kind of a macro question. Can you just talk about what you're seeing in the national commercial real estate market in terms of demand trends, whether they be by category or geography? And any changes you've observed in the last 3 to 6 months? What do you expect in 2018?

George Gleason

Jennifer, in 2018, we expect a continuation of the same sort of demand trends in the aggregate that we saw in 2017, a year ago or more. We talked about the fact that there has been a lot of commercial real estate produced in the U.S. over the last 4, 5 years before last year. And that we expected that rate of production of new assets would slow slightly. We saw that throughout last year. We expect that to be fairly stable going forward in the new year. All of that was anticipated. And as we commented a year ago, we expected to still produce record growth even in that environment. And we did that with our $9.11 billion in RESG originations last year, eclipsing our previous annual record from 2016, which I believe, was about $8.2 billion, I don't remember the exact 2016 number. But almost $1 billion of increased volume produced in 2017 versus 2016, and we did that purely based on the quality of the relationships and our ability to gain additional market share. So we expect that trend to continue. The positive side of all of that, in addition to the fact that we expect more growth in 2018 than in 2017, is that our sponsors and others seem to be reasonably disciplined in the projects they're pursuing and not creating product for which there is not a requisite demand. So we feel very positive about 2018.

Jennifer Demba

George, in terms of the additional earnings you guys will get after tax reform, you said you're investing heavily in the business. You've added in these annual bonus opportunities. Can you just talk to us about what you're looking for in M&A today? Has that changed at all versus the last 6 to 12 months?

George Gleason

Our long-term commitment to do triple accretive transactions is undiminished. And we certainly have a better prospect of doing triple accretive transactions when our stock price is trading at a more appropriate level than it has been recently. So we've got no real change in our expectations or strategies.

They are -- as we talked about many times, Jennifer, the best thing about our company is if we make acquisitions, that's great. We expect we will make additional acquisitions, many of them in the future. But if we don't make acquisitions, we have a tremendous organic growth model, as you know. Our non-purchased loans grew 32.6% last year. There are not many banks in the country that probably have the capability to grow non-purchased loans, 32.6% a year, while adhering to the very stringent profitability and asset quality standards that we adhere to. So we've got a great organic model, and as we've always said, acquisitions are icing on the cake in addition to that organic growth model.

Timur Braziler - *Wells Fargo Securities, LLC*

I guess, the first question relates to the planned remaining infrastructure build around IT and system development that you're expecting in the first half of this coming year. Maybe just some specifics on what's remaining there? And of the amount spent, is much of that going to stick around or is that going to be variable in nature initially?

George Gleason

One of the benefits we got in Q4 is we are adding more team members. And you see the increase in salary in Q4. We're also reducing our cost on outside consultants and others. So I think, Tim, you can, or Greg, correct me on this. But I think our salaries in Q4 were up about $2 million.

Greg McKinney

Yes.

George Gleason

And our consulting costs were down about $600,000. So part of the final stages of this build are to continue to put into place the remaining people we need on staff, get those people incorporated and deployed, and mitigate the cost of those additional people by eliminating some of our reliance on outside consultants. Clearly, we can do things more efficiently if we do them with internal resources long term as opposed to external resources. So it's a mixture of both. We're going to be adding the final compliments to those teams to really achieve the infrastructure build that we designed in Q1 and Q2. You'll see some of that in each quarter. We'll be largely finished with that. We expect by mid-year and hopefully some of the cost of that human build layer will be offset by reductions in consulting fees as we go through the year.

Timur Braziler

Okay. That's helpful. And then maybe switching to RESG. Historically, the group has had excellent success in driving elevated fees, and in many cases higher rates along with the loan generation. Going forward, as we enter a rising rate environment here, is there any diminishing pricing power of that model or do you still expect to get that same level of fees and the higher rates for the business that you provide?

George Gleason

I would comment that the rates we get on RESG loans have been very consistent with the rates that we get on loans in Community Banking. So the assumption that our RESG loans are much higher yielding than our loans, on average, originated through our Community Banking group is probably an inaccurate assumption. But we have not seen, in recent quarters, any relative change in our pricing power or ability to get paid for the services we provide in RESG. So we continue to feel good about that.

Stephen Scouten - *Sandler O'Neill + Partners, L.P.*

Question for you on loan demand through the quarter. I know after last quarter's call you said you projected to have kind of a strong October. And I'm just curious how origination activity progressed through the quarter and as you look into the start of 2018 and relative to pay-down activity as well?

George Gleason

Yes. Well, origination activity was, as I said in my prepared remarks, for Q4 at RESG at a record level. That number, Tim, do you recall the number.

Tim Hicks

$2.56 billion.

George Gleason

$2.56 billion in new loans originated. So obviously, if you annualize that, which may or may not be appropriate, but that implies $10 billion plus annual origination pace, which is consistent with the guidance we've given, that we expect more growth in 2018 than we had in 2017. And our fundings on RESG loans were also at a record level in Q4, in excess of $1.6 billion. And that funding includes fundings on loans newly originated and closed and fundings on previously closed loans. The

counterbalance of that is we had about $1.4 billion in pay-downs, either payoffs or pay-downs, on RESG loans. So as I said in my prepared remarks, that combination of record origination volume throughout 2017 offset by very robust volume kept our total RESG funded growth for last year to just north of $1.4 billion, which is not insubstantial. But certainly, we would have preferred the payoffs been a little slower and let us keep a little more of that origination volume on books for a longer period of time. But we expect a similar environment next year, where we will have record originations. The pipeline, as Tim alluded to, looks good. We have got a lot of things lined up already for closing in Q1, a lot of things in underwriting that will be coming to committee. So we've got a great pipeline for 2018. We expect a record level of originations. And once again expect a high level of pay-downs to diminish the balance sheet impact of that to some degree.

Stephen Scouten - *Sandler O'Neill + Partners, L.P.*

Okay. That's helpful. And going on the expense side, I think, you guys have said, maybe $3 million to $5 million in quarterly expense growth this quarter, which obviously, we were well below, which is great. But is there any sort of lag there, where we'll see some of that, maybe that we thought was coming this quarter in 1Q or is the actual expense growth you guys were projecting less than you initially projected due to some of the consulting reductions or other things that maybe you haven't mentioned yet?

George Gleason

It’s both of those things. Greg and I were talking about that this morning. And there was -- again, as I mentioned earlier, about $600,000 reduction in consulting costs that we'd really not anticipated and another $400,000, $500,000 of cost that came in better than we expected. And kudos and thanks to our team members who worked to make those cost-savings a reality -- well done. We added about $2 million in salary. And that was on the low side, probably of what we would have expected to have added. We had some positions budgeted to add that we just did not fill those positions until Q1 because we're continuing to look for the best candidates to fill those positions. So part of it was that some of the hiring we expected to get done in Q4 has gotten pushed to Q1, and part of it was we got some savings and cost reductions that we appreciate and hadn’t anticipated getting quite this early.

Stephen Scouten

Okay. And maybe last one for me, if I could, is just on the M&A side. I mean, you mentioned, you responded to Jenny's question. But I'm curious has the finality of the tax reform plan, has that changed the conversation from many sellers, has that created any certainty that you think will drive more fruitful M&A conversations?

George Gleason

Stephen, I don't know the answer of that honestly. I think time will tell.

Ken Zerbe - *Morgan Stanley*

I guess, just a sort of final point on the loan growth. I get the originations are going to be strong and the pay-downs are probably going to be strong too. But are you guys giving a full year 2018 range for net growth in non-purchased loans?

George Gleason

No, we're not. We're simply stating that we expect it to be more than 2017. And again, to be honest, the reason we're not doing that, as you know, in 2017 we grew non-purchased loans, 32.6%, which is an exceptional number. And as I said earlier, any bank in the country would be thrilled to report that kind of growth in their loan portfolio. But because we gave a range, people in the investment world seemed to obsess throughout the year, whether we're going to come in at the middle of the range, or the top of range or the bottom of the range. And that obsessive compulsion with whether we are a couple hundred million here or a couple hundred million there obscured the fact that we grew our non-purchased loan portfolio 32.6%, which is exceptional. So we just don't want to create that kind of environment, where people get so focused on bottom of the range, top of the range, middle of the range that they lose the sight of the reality that we're putting up fabulously good growth numbers and everybody ought to be pleased with it. So we're simply saying we expect more growth in '18 than in '17.

Ken Zerbe

I definitely understand the OCD part of it. I guess, second question. In terms of the purchased loan yields, looks like it did come down a little bit, fair bit this quarter. Was that just normal volatility or are we at a point where the purchased loan yields are actually permanently lower?

George Gleason

I think you got a combination of factors there. We have articulated for the last 2 years that we expect, over time, those purchased loan yields will come more in line with our organic loan yields as the discounts on those portfolios run off and those loans season and the quality of those becomes better as we season them out and fix the ones that are broken to our normal standards. And we've also commented that we expect significant volatility in the yield on that portfolio from quarter-to-quarter as we certainly saw over the last year, as a result of which loans pay off and in which quarter. So I think it's a combination. I think the underlying trend line is down toward a more normalized yield on that portfolio consistent with our non-purchased loans. But you will see volatility up and down along that trend line just depending on the randomness of what loans payoffs and in which quarter.

Ken Zerbe

Got it. Understood. And then just last question. In terms of the securities portfolio of mix shift, it sounds like that's going to continue going more towards the shorter duration, higher quality, low-yielding securities. At what point does that stop or what point are you going to be comfortable so that mix between the short versus long duration, where you could see some stabilization in yield?

George Gleason

Your point is well taken. And just to emphasize what Greg said, in Q2, Q3 and Q4 of last year we purchased short duration agency mortgage-backed securities that don't yield a lot, but are also very defensive from a market risk and an interest rate risk perspective. And particularly, in Q2, we sold longer duration securities and munis because we were concerned about how those would fair in a rising rate environment and with the expected and possible lower federal tax rate. So we managed the portfolio very defensively last year. We will continue to manage it very defensively until we believe we are at a point in the interest rate cycle where it's appropriate to add duration and where we believe there's value in munis and other alternatives to these very short things that we're buying that would make them more worth buying. So I think we’re a ways from us being more aggressive in the way we manage that portfolio.

Michael Rose - *Raymond James & Associates, Inc.*

So obviously, we've picked apart the expense and the revenue side, but I'm trying to put the pieces together. And clearly, there's a mix shift on the securities that was just mentioned. You guys have declining accretable yield, totally understand that. There has been a mixed shift in growth between the RESG portfolio and then other areas that you talked about. You have some expense build. I guess, if I heard Tyler's comments correctly, it doesn't sound like the efficiency ratio is going to improve shorter term. So as I look at the full year '17, you guys were 34.9%, I think, if I'm reading the tea leaves right, we probably shouldn't expect much operating leverage or expense efficiency improvement this year, if I'm weighing the pros and cons. Is that the right way to kind of think about it? And then we'll see better leverage and improved efficiencies as we get into 2019?

George Gleason

Michael, I would say yes. That's a fairly accurate assessment in our view, consistent with our view. And as Tyler mentioned, we think, we'll be plus or minus a little bit from where we've been. In particularly Q1 and Q2 you'll see a modest impact from the tax equivalent yields of the lower tax rates that actually, I think, Tyler mentioned would tend to push the efficiency ratio up about 18 basis points. The infrastructure build will tend to put a little upper pressure on that. But at the same time, we do expect good growth that will provide revenue to offset some of that. And then I think, we will hopefully start seeing some improvements, incremental, small improvements quarter-to-quarter and in the back half of the year and more so in 2019. So I think you're pretty much on target with your thinking there.

Michael Rose

Okay. That's helpful. And then just as a follow up. I think you guys have typically seen higher levels of pay-downs when rates fall in a given quarter. Clearly I think that was the case this quarter given the record production. As rates move higher, should we expect, I guess what I'm asking is what would be, in your expectations, the impacts from rising rates on the level of pay-downs?

George Gleason

I think it remains accelerated. I think it keeps them accelerated as they have been. If you are a borrower in one of our transactions and you're paying us L plus 400 for interest and the project gets completed and you have many secondary sources of permanent financing, as it seems all of our borrowers do these

days. And you can actually lower your rate, exiting the construction loan going to a permanent loan, you can move from a variable rate loan, which we've got for the construction to a long-term fixed-rate loan at a lower rate with nonrecourse, whereas we will have various elements of recourse in our loan, it encourages folks to move quickly from the construction loan to a permanent loan. Of course, this is on income properties, things like condos and lot development that sell, those are just selling well because our sponsors are building good product and the market is conducive for them selling. But the permanent loan market conditions right now are very encouraging of sponsors moving out of our construction loan quickly. Where I think that flips around is, if we get out here a year or 2 or 3, I don't know what that turn in the cycle is, and we get to a point where a sponsor thinks, wow, permanent loans have reached their peak and are going to go down next quarter or next year, then the sponsors will stay in our construction loans longer, expecting to maximize their financing into the permanent loan at a lower rate, a quarter or 2 or 3 down the road. So I think we'll continue to see this sort of very fast payment velocity until we reach a point, where we've reached a peak in the interest rate cycle and sponsors are wanting to stay in our credit longer, so they can get a better deal in a few months or few quarters on their permanent exit.

Michael Rose

That's really helpful. Maybe just one final one, if I could. Just as we think about the RESG portfolio, over time, you guys were doing kind of the most, as you referred to it, the most brain-damaging complex deals. I think you shifted away a little bit away from that, working more with bigger sponsors on some of the middle of the fairway type stuff that might have a lower yield. Where we stand in that at this point in the evolution? I think your acceptance rate has typically been around 5%. Where has that been in the past quarter or 2?

George Gleason

Michael, I have not been tracking that pull through to close rate. But what I can tell you is that a lot of the business relationships that we have, with sponsors, have grown up around or been founded on the fact that we could do really complex transactions and whether that's a mixed-use transaction or a transactions that has complicated tax attributes or complicated capital structure attributes or whatever, we've been able to handle tremendous complexity and do it well and execute on that well. And our sponsors, in many cases, have appreciated and respected that. When you execute for our sponsor in those transactions and they really like the way you do business with them, you tend to get a lot of other

business. So we've always done a mix of really complicated things and really plain vanilla things. But a lot of times, we have earned our initial business relationship with the sponsor based on our ability to handle a really complex deal that was very helpful to them, that we could execute on that.

Catherine Mealor - *Keefe, Bruyette, & Woods, Inc.*

As a follow-up to the margin question, do you have the dollar amount of the accretion on purchased loans this quarter?

George Gleason

I don't, but someone smarter than I may have that.

Tim Hicks

For fourth quarter, including purchased credit impaired and purchased non-impaired accretion was $14 million, which was below what our normal quarterly run rate was for the year. We had been running around $20 million per quarter. So it was less and that goes back to the fact, it just depends upon the pay-downs and the mix of pay-downs and how much life is left in their accretion schedules. Obviously, that impacted the purchased loan yield for the quarter.

Catherine Mealor

That makes sense. Is that $14 million maybe a good place to start as we move into next year as a base or was that abnormally low, do you feel, where we will pop back up somewhere in between the 2, as a base for next year?

Tim Hicks

I think we'd love to give some more clarity around that if we had it. The difficulty is we don't know when those pay-downs are going to come and which are going to come. So if we could provide some more clarity, we would. But to George's point, I think, there's a downward but bouncy trend on that yield going forward as it comes closer to our non-purchased loan yield. But I think, Greg mentioned, we still have over $90 million of purchased discount remaining. So we still have a sizable amount to be recognized. And again, it's hard to know what the mix of the payouts is going to be to give you any more clarity around that.

Catherine Mealor

Okay. That's fair. One last, more macro question around the tax bill. We've had a lot of conversations about how much of the tax benefit is going to be offset either from investments that companies choose to make in their own company, and people infrastructure which you all were obviously doing before we knew we were going to get lower taxes, and then also the argument could be maybe competed away either from more competitive rates on both the loan and the deposit side. Do you have any thoughts on how you think those could be impacted? How you may be impacted from that and some of the benefit that we're getting from lower taxes may be offset over the next couple of years?

George Gleason

That's a great question, Catherine. And again, there is a considerable amount of unknown about that. Let me tell you 2 things. #1, as you've seen various firms in our industry who have taken approaches to adjust either base compensation, there's sort of their minimum wage at the company level or bonus plans for that and they've done it a blanket sort of way. We looked at those options and really did not feel that those strategies were consistent with our strong pay for performance culture here. So we designed our incentive plan to really align the benefits of the employees get with the employee's ranking, performance-wise, within their team and unit. And so their contribution and the company's overall contribution. In regard to salary rates, we try to pay all of our employees a very good salary rates in in the markets that they are in for the job and performance that they are doing. So I think the bonus plan really addresses what we will need to do there, unless, and I emphasize this, unless, the actions taken by other companies just fundamentally move the minimum wage levels in particular markets and that requires us to address that in particular markets. But we think we've already done, with our annual salary budget process for 2018 and the bonus plan, what we need to do on the salary side.

The broader question of will deposit pricing or loan pricing or other things change in a way that it will cause us to lose or give up the benefits of lower tax rates. We view the tax rate reduction and additional capital that, that should let us accumulate through increased retained earnings as an important source of capital to support our long-term growth plans and we hope to maintain that. It remains to be seen if competitors in the industry will change their pricing models for either loans or deposits, which will erode away part of those tax benefits for the industry. I don't know the answer to that. We certainly are not going to be a leader in that. We are maintaining our pricing models and analytics as we historically have, and I hope the industry will do that. But it remains to be seen.

Catherine Mealor

And I know we're only a few weeks into the quarter, but you haven't seen any signs of that yet?

George Gleason

We have not.

Matt Olney - *Stephens Inc.*

George, I wanted to ask about, if there was a potential change in the SIFI threshold from $50 billion of assets to higher -- curious how you're thinking about that given the bank's asset size and the growth and what that could mean to Bank of the Ozarks.

George Gleason

Matt, we're hopeful that the threshold will move along with a number of other particular areas of regulatory relief that have been mentioned. We are in active dialogue with our congressional delegation and others, encouraging them to think about proactive changes in the regulatory environment that would reduce regulatory burden and let the industry be a more productive source of growth for the economy. So I don't really have anything else to say about that honestly.

Matthew Olney

Okay. And then just going back to the question on the investment securities portfolio and the remix there. In terms of the size, I believe it's around 13% of the average earning assets right now, and that's increased each quarter in 2017. At what point would you think that what start to level out?

George Gleason

Matt, I don't know the answer to that. Let me tell you what I do know. If you go back to 2008, '09 and '10, really '09, '10 and '11, I guess, which were times we felt it was tremendously advantageous to buy securities, I think back in that environment, our investment securities portfolio was about 30% of earning assets or may be a little higher. So we certainly, if were in an environment that's the opposite of today's environment where we think you need to be defensively managing that portfolio, if we were in an environment where thought it was very prudent to be offensive in management of that I can see that number growing substantially from the percentage you mentioned, where it currently stands. On the

other hand, we are not in that environment where we think it's time to be offensive. We're in an environment where we think it's time to be defensive. But at the same time, given the dynamics of our balance sheet, we think we need to continue to modestly increase our liquidity ratio. So I would guess that over the course of 2018, we would see our investment securities portfolio as a percent of earning assets grow modestly. And modestly being 1% or 2% of the earning asset mix, something like that. Not a ton, but a little bit. So if loans grow X percent, you would expect the securities portfolio to probably grow X plus 1% or X plus 2%.

Brian Martin - *FIG Partners, LLC*

Maybe just a couple of housekeeping questions. And just the loan growth in the quarter, ex-RESG, can you give a little color on which will be the key drivers among the Community Banking and Indirect and kind of where those areas kind of flushed out? And then geographically, was there any market that was better this quarter than others?

Tim Hicks

Q4 loan growth for Community Banking was $253 million. For consumer indirect, marine and RV, $185 million. Our Corporate Loan Specialties Group was $78 million. And we had a small decrease in our leasing portfolio. And Real Estate Specialties Group was $175 million as we've mentioned earlier.

Brian Martin

Okay. And then just geographically, I guess, including that RESG, was there any kind of market or any region that was driving much of the growth?

Tim Hicks

New York is still the largest contributor of our growth. We still have good contributions from our Florida markets and California markets and our Texas markets in RESG. So a fairly consistent mix of growth that we had in fourth quarter compared to previous quarters, where New York had the substantial amount of that percentage.

Brian Martin

Okay. Perfect. That's helpful. And then you guys mentioned the payoffs on the RESG, I think were $1.4 billion in the fourth quarter. Do you have what they were for the full year '17?

George Gleason

We don't. I don't have that information at hand. But I can tell you that the $1.4 billion was a record number.

Brian Martin

Okay. So it wouldn't have been that annualized. But your comments you about when you look at '18 kind of being similar to what we're seeing, I guess, more similar in the fourth quarter, which is at the peak level. Do you think just look at the annual level of payoffs for '17, similar to that type of level as you look at '18 on the payoff front?

George Gleason

Brian, we've got models on that and detailed month-to-month projections, but I don't have those at hand here. We normally don't make that information publicly available. What I would tell you, I think the broad outlines we expect record loan growth in 2018, exceeding our 2017 loan growth. We expect record RESG originations. We would expect record RESG paydowns as well. Net of that is, we think, we will net out a record growth year on non-purchased loans.

Brian Martin

Okay. Got it. Fair enough. Just last one, going back to the expenses for just a minute. The $1.4 million that was nonrecurring piece in the quarter, is that housed in the salary line?

George Gleason

It was $1.14 million.

Greg McKinney

$800,000 of that was in salary and about $300,000 was down in other.

Brian Martin

Okay. Then your comments last quarter, more big picture, the $3 million to $5 million that you guys anticipated in kind of that pickup in expenses, did that include or exclude that this adjustment. I guess, my assumption is excluded, it didn’t include the $1.14 million kind of restructuring severance that you guys announced or did that include that?

George Gleason

It did not. Those plans had not been conceived and executed at that point in time.

Matthew Keating - *Barclays PLC*

My first question would be for George. I appreciate the commentary that post Brannon's promotion, you have, I think, four direct reports in the RESG group. I guess, does that change all your expectations to spend three-quarters of your time within that business for the next couple of years?

George Gleason

I don't know if three-quarters is the right number or not. But I expect to spend a very large percentage of my time, a majority of my time with RESG, either in Dallas or in our other offices or with customers or traveling with those guys in 2018 and 2019. So clearly, I appreciate the extra role that Brannon is filling and the leadership he is providing there, which I think, will be a real positive. But I do expect to continue to devote a majority of my time to RESG matters in the next 2 years.

Matthew Keating

Okay. That's helpful. And then I appreciate the commentary on how the tax reform could maybe modestly reduce the level of subordinated debt offering. But also curious as it relates to capital return to shareholders -- have you guys thought about your dividend payout ratio, I guess, the absolute level of your dividend and wouldn't there be any change potentially given the earnings growth we'll see this year from tax reform from the traditional strategy of increasing dividend per share by 0.5% per quarter?

George Gleason

Of course, that's a decision to be made by our Board of Directors. I don't think management has any plans to recommend to the Board a change in our dividend policy and that policy has basically been to

let the payout ratio decline, while still increasing the dividend a small amount each quarter. So as you noticed, our -- even though we've increased the dividend for Tim, how many?

Tim Hicks

30 consecutive quarters.

George Gleason

30 consecutive quarters, our payout ratio has tended to decline because the rate of dividend increases is less than the rate of net income or EPS growth. I would suspect that the most likely scenario that Board will adopt, and again, it's a Board decision, but I expect the most likely scenario that they would adopt is to continue small incremental increases in the dividend and allow the additional earnings benefit from the tax rate reduction to be retained as capital to support future growth.

Matthew Keating

Understood. And then finally, on tax rate, I appreciate the guidance of 25% to 27%. Obviously, there's a lot of moving parts this year, in general, around the tax landscape. But do you feel there's enough cushion there and is that range really based on the levels of profitability the bank experiences this year with greater profitability leading to the higher end of that expectation?

Greg McKinney

Yes. I would certainly, Matthew, we have gone through and looked at tax rates for '17, tax rates for '18, contemplated earnings levels, we would expect to achieve and the mix of earnings levels between taxable and tax-exempt income, or revenue, as well as the impact that the Tax Act has on limits or other deductions that are allowable for tax purposes. We spent a considerable time working through the nuances of that calculation for 2018 to come up with that range. So we feel pretty good, that's a strong range, a range that's really going to be indicative of what we expect the tax expense to be for 2018. That does have a tendency to bounce around a little bit quarter-to-quarter with the way stock option accounting works when you do have vesting events, those do have a tendency to create some tax benefit that runs through that line, so there may be a quarter where may we have stock option or restricted stock vest there could be some positive benefits that could certainly drop that in the low end of that range. We feel really good about that range for 2018.

George Gleason

I would add to it that I think the theses was to come up with the range that provides equal upside and equal downside potential for variations. So the middle of the range is more consistent with our expectations.

Blair Brantley - *Brean Capital, LLC*

Just a quick question on the purchased loan trends and the runoff, they've gone down about $2 billion since Q3 of last year. Is there anything strategic in there or how are you thinking about that portfolio in terms of keeping these credits?

George Gleason

What we try to do is identify those credits that fit our credit profile and that will underwrite to our standards and pricing and so forth. So we are converting as many of those customers as loans mature and as the customers have new credit needs, we're converting as many of those to Bank of the Ozarks customers as we can, given our credit and pricing standards. And other customers, we're not converting over. So just because a customer is paying off a loan in the non-purchased portfolio, doesn't mean we are losing that customer in many cases those loans are coming over into the new originations in the non-purchased book because we are keeping the customer and he is just moving from 1 loan to the next, to the next, to the next. So we're trying to maintain the relationships that will meet our credit and pricing profitability standards. That portfolio declined 33.3% last year. That was a little faster than we expected it to run off. And as we mentioned in the prepared remarks, we would expect that rate of pay-downs obviously, to diminish just because the portfolio is a third smaller today than it was this time last year. So we would expect it to become less and less factored going forward.

Blair Brantley

Okay. And then just a question on the credit quality. Obviously, looks really good. I'm just curious about the reserve build this quarter -- is there something where you kind of hit a bottoming and we should see some building going forward?

George Gleason

I don't know that we can say hit the bottom or not. That's a formula driven deal, and the formula is what the formula is and that was what the formula dictated this quarter. So I don't know that the Q3 number was a bottom. I can't tell you whether the reserve will be up or down, a basis point or 2 or 3 or whatever as percent of non-purchased loans and leases at the end of next quarter. What I can tell you is we feel obviously very good about asset quality, given the nonperforming loan, nonperforming asset past due ratios we have been consistently posting over the last several years.

Blair Brantley

Okay. Just one last quick one on deposit growth. Can you give a geographic breakdown of growth there kind of focus on what you're seeing in the New York office?

Tyler Vance

Blair, I can comment specifically on New York. That office, where we added, we mentioned in the last call, we added 3 deposit gatherers during the course of year. That office performed exceptionally well, added about $1.4 billion in deposit growth. What that allowed us to do is tap down some of the spin-up campaigns that we had. We've not moved those as aggressively as we would have otherwise, which allowed us to hold our cost of interest-bearing deposits down in Q4. So that's been the biggest shining star outside of spin-up on the deposit side.

George Gleason

It’s also let us to take a more measured pace in rolling out new de novo branches because we realize we are getting more longevity out of our existing capacity there than we expected. So it's kind of rolled all of our branches in the future because we have got even more capacity than we thought we had based on what's happening with the New York team.

Operator

And that concludes our question-and-answer session for today. I'd like to turn the conference back over to Bank of the Ozarks for closing comments.

George Gleason

Thank you, guys, very much. We appreciate your joining the call today. Remember, we will disseminate our prepared remarks in the form of a management commentary at the same time we file our press release. There will be information about that next quarter. So we will not have prepared remarks on the conference call next quarter. We will go straight to Q&A. I look forward to visiting with you in about 90 days. And I hope you'll find our new format to be helpful in enhancing your understanding of our operating results. Thank you so much. Have a great day.