



**GREAT SOUTHERN  
BANCORP, INC.**

ALWAYS  
ALONGERVIEW

ANNUAL REPORT FOR SHAREHOLDERS 2016

# MAY 9, 2017

## 28TH ANNUAL MEETING of Shareholders

Great Southern Operations Center  
218 S. Glenstone, Springfield, MO

### CORPORATE HEADQUARTERS

1451 E. Battlefield  
Springfield, MO 65804  
800-749-7113

### MAILING ADDRESS

P.O. Box 9009  
Springfield, MO 65808

## Corporate profile

Great Southern Bank was founded in 1923, with a \$5,000 investment, four employees and 936 customers. Today, it has grown to \$4.6 billion in total assets, with nearly 1,300 dedicated associates serving 182,000 households.

Headquartered in Springfield, Mo., the Company operates 108 offices in nine states, including 104 retail banking centers in Missouri, Arkansas, Iowa, Kansas, Minnesota and Nebraska, three commercial loan offices in Dallas, Tex., Tulsa, Okla., and Chicago, Ill., and one home loan office in Springfield, Mo. Great Southern offers one-stop shopping with a comprehensive lineup of financial services that give customers more choices for their money. Customers can choose from a wide variety of checking accounts, savings accounts and lending options. With the understanding that convenient access to banking services is a top priority, customers can access the Bank when, where and how they prefer, whether it's through a banking center, an ATM, Online Banking, Mobile Banking, or by telephone.

## Stock information

The Company's common stock is listed on the NASDAQ Global Select Market under the symbol "GSBC."

As of December 31, 2016, there were 13,968,386 total shares of common stock outstanding and approximately 2,000 shareholders of record.

The last sale price of the Company's common stock on December 31, 2016, was \$54.65.

## HIGH/LOW STOCK PRICE

	2016		2015		2014	
	High	Low	High	Low	High	Low
First Quarter	45.00	35.47	\$40.44	\$35.10	\$31.00	\$26.95
Second Quarter	41.29	34.56	42.95	37.44	32.25	28.00
Third Quarter	43.54	34.48	43.42	37.54	33.77	29.53
Fourth Quarter	56.70	38.35	52.94	42.11	40.28	29.80

## DIVIDEND DECLARATIONS

	2016	2015	2014
	First Quarter	\$.22	\$.20
Second Quarter	.22	.22	.20
Third Quarter	.22	.22	.20
Fourth Quarter	.22	.22	.20

## DIVIDEND REINVESTMENT

For details on the automatic reinvestment of dividends in common stock of the Company, call Computershare at 800-368-5948, (outside of the U.S. 781-575-4223), or visit [computershare.com](http://computershare.com).

## FORM 10-K

The Annual Report on Form 10-K filed with the Securities and Exchange Commission may be obtained from the Company's website at [GreatSouthernBank.com](http://GreatSouthernBank.com), the SEC website or without charge by request to:

Kelly Polonus  
Great Southern Bancorp, Inc.  
P.O. Box 9009  
Springfield, MO 65808

## INVESTOR RELATIONS

Kelly Polonus  
Great Southern Bank  
P.O. Box 9009  
Springfield, MO 65808

## AUDITORS

BKD, LLP  
P.O. Box 1190  
Springfield, MO 65801-1190

## LEGAL COUNSEL

Silver, Freedman, Taff and Tiernan, L.L.P.  
3299 K St., N.W., Suite 100  
Washington, DC 20007

Carnahan, Evans, Cantwell & Brown, P.C.  
P.O. Box 10009  
Springfield, MO 65808

## TRANSFER AGENT AND REGISTRAR

Computershare Trust Company, N. A.  
Shareholder correspondence:  
Computershare  
P.O. Box 30170  
College Station, TX 77842-3170

Overnight correspondence:  
Computershare  
211 Quality Circle, Suite 210  
College Station, TX 77845

Hearing Impaired # TDD: 800-952-9245  
[computershare.com](http://computershare.com)

# OUR VIEW

**William V. Turner**  
CHAIRMAN OF THE BOARD

**Joseph W. Turner**  
PRESIDENT AND  
CHIEF EXECUTIVE OFFICER

## To our shareholders

On behalf of the nearly 1,300 Great Southern associates, we are pleased to present our 2016 Annual Report – “Always a Longer View.” Always considering a long-term view is central to how we do business at Great Southern, whether it relates to our customers, associates, communities or shareholders. This guiding principle has been the key to our success for 94 years and, if anything, we follow this principle more closely than ever. We guard against making short-sighted decisions that deliver only near-term benefit; we want our decisions and subsequent actions to provide benefit over the long term. We acknowledge that it is not always easy. It requires visionary thinking and planning, a sharp focus, patience, and many times, fortitude. Many of our accomplishments in 2016, which are shared below, reflect our long-view philosophy and we believe that these activities will pay dividends in the years to come. Again, it is our privilege to report the Company’s 2016 results, and more importantly, what lies ahead for 2017 and beyond.



94  
YEARS  
AND COUNTING

### EXPANDING by strategic opportunity

In January 2016, we completed the purchase of 12 banking centers and related deposits and certain loans in the St. Louis market from Cincinnati-based Fifth Third Bank, which more than doubled both our banking center network and our number of customer deposit accounts in this market. We added more than 12,000 customer households and a team of talented, experienced associates. Loans acquired totaled approximately \$159 million and deposits assumed totaled approximately \$228 million. While this transaction was immediately accretive to earnings, we were not focused on short-term results. We viewed this as an opportunity to significantly increase our infrastructure and scale for future lasting growth. We now have 19 well-placed banking centers that put us in a position to grow our presence in an important market.

### OPTIMIZING our customer access networks

During 2016, the Company decreased its banking center network from 110 to 104 full-service retail offices, which serve more than 182,000 households in six states. Our banking center network and lines of business are regularly evaluated to ensure we are serving customers in the best way possible and in response to their changing needs and preferences. Thus, we open banking centers and invest resources where customer demand leads, and from time to time, consolidate banking centers when market conditions dictate.

In 2016, we made the difficult decision to consolidate operations of 16 banking centers into other nearby Great Southern offices. Each consolidated office was evaluated on a number of criteria, including access and availability of services to

# 2016

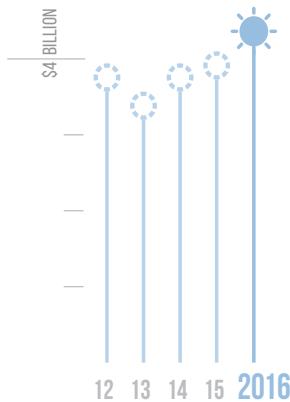
affected customers, the proximity of other Great Southern banking centers, profitability, transaction volumes, and market dynamics. Of these 16 consolidated banking centers, 11 were in Missouri, four were in Iowa and one was in Kansas. Nine of these banking centers were acquired as part of various FDIC-assisted acquisitions. In addition, in early 2016, two Missouri banking centers, with associated deposits, were sold to separate buyers.

We continue to believe that banking centers are the most important delivery channel for our customers, but also the most expensive and dynamic channel. We constantly analyze our system of banking centers to ensure efficiency. As evidence of our analysis, consider our activities over the last four years. We have acquired 24 offices – 13 banking centers in Missouri and 11 in Iowa through our various acquisitions. A total of five new offices were opened in Omaha, Neb., Fayetteville, Ark., Ferguson, Mo., Columbia, Mo., and Overland Park, Kan. Thirty-one banking centers were consolidated into other Great Southern offices – 24 in Missouri, six in Iowa and one in Kansas; a total of six banking centers were relocated to better facilities in Springfield, Mo., Maple Grove, Minn., Ava, Mo., Ames, Iowa, and Omaha, Neb.(two offices); and two Missouri banking centers were sold. None of these decisions were made to boost short-term profit, but rather to position the Company for long-term growth.

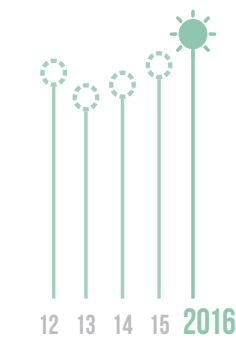
Stand-alone commercial lending offices with the right local team of lenders provide a compelling economic business model. These offices have proven to be successful for our Company through the years. We started with commercial lending offices more than 10 years ago in St. Louis, Kansas City and Northwest Arkansas and we've since established retail banking networks in each of these market areas. Three years ago, stand-alone commercial lending offices were opened in Tulsa and Dallas, with both offices providing significant commercial loan production and efficient overhead. In the first quarter of 2017, we opened a commercial loan production office in downtown Chicago. A local and highly experienced commercial lender was hired to manage that office. Other markets are also being considered for future sites.

While we are focusing on fine-tuning our brick-and-mortar network, we are also concentrating on other delivery channels, such as mobile banking. Customer preferences regularly change; the challenge is how to address these preferences when individual customers desire change at varying degrees and speeds. It's a balancing act, especially with the fast pace of technology. Again in 2016, we experienced significant growth in the number of our mobile app users. More and more customers are discovering the ease and simplicity of mobile banking services, whether it's transferring money, making a

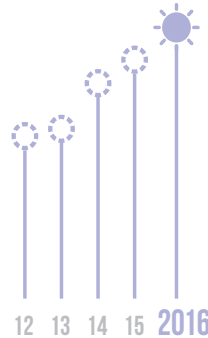
total assets



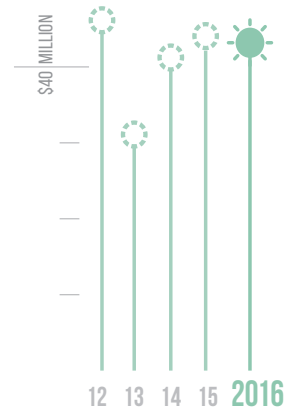
total deposits



total loans



total net income



deposit using the smartphone's camera or receiving alert messages. Enhancing the functionality of our mobile app is a priority with the latest being a person-to-person electronic payment service called Send Money, which allows Great Southern debit card customers to send one-time transfers to recipients at any financial institution.

## FIGHTING fraud

Debit card fraud in the banking industry continues to be a significant issue. In 2016, we, along with most banks, experienced significant losses due to compromised systems at various merchants.

We are working hard to fight debit card fraud and fraud in general. In partnership with our customers, we enhanced our services to help protect our customers' accounts and reduce future fraud loss to the Company.

For example, chip-enabled debit cards have been issued to the entire deposit customer base. Chip debit cards offer customers an added layer of security, providing enhanced protection against fraud, especially counterfeit cards.

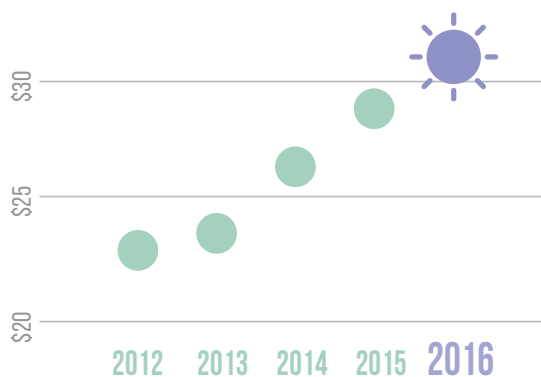
Furthermore, we implemented Fraud Watch, a debit card transaction notification system that automatically alerts customers in real time to potentially fraudulent activity on their Great Southern debit cards. We expect a healthy return on investment in this anti-fraud system by reducing fraud losses for years to come.

## RESTRUCTURING for scope and size

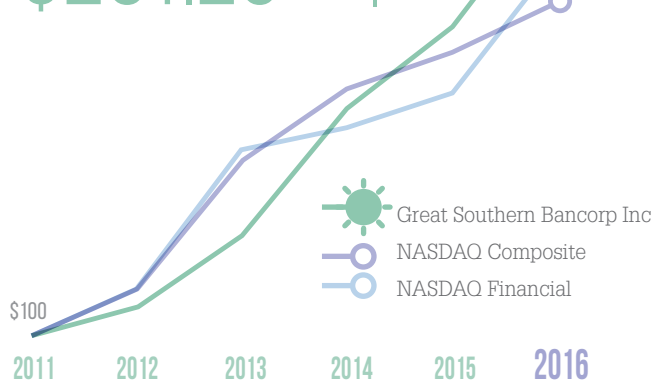
Chief Lending Officer Steve Mitchem will retire from the Company in April 2017 after more than 27 years of dedicated service. During his tenure, the Company's loan portfolio grew from \$360 million, with lending operations primarily in the southwest Missouri region, to \$3.8 billion with lending operations in nine states. In early 2016, Steve and Management began planning for his retirement to ensure a smooth management transition. At that time, the lending division was restructured to better reflect the Company's size and scope. The lending division now has two separate areas of responsibility – loan production led by John Bugh and credit administration led by Kevin Baker. John and Kevin



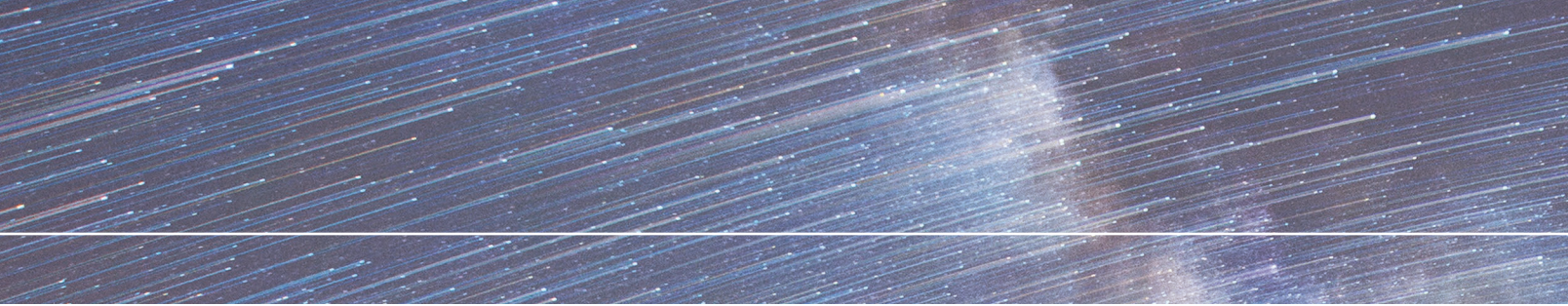
book value  
per common share  
**\$30.77**



total return  
5 YEAR CUMULATIVE\*  
**\$261.23**



\* The graph above compares the cumulative total stockholder return on GSBC Common Stock to the cumulative total returns of the NASDAQ U.S. Stock Index and the NASDAQ Financial Stocks Index for the period from December 31, 2011, through December 31, 2016. The graph assumes that \$100 was invested in GSBC Common Stock on December 31, 2011, and that all dividends were reinvested.



are long-term Great Southern lenders, who each have more than 27 years of banking experience. We appreciate Steve's commitment and leadership; he will be greatly missed and we wish him a healthy and enjoyable retirement.

## INCREASING our capital strength

Strong capital is a priority for our Company. Changes in the economic cycle seem to produce strategic opportunities. Winners in banking are those that have available capital and are thus able to take advantage of the opportunities that may arise. Even while our capital levels significantly exceeded regulatory thresholds, in August 2016, we took advantage of attractive market pricing to raise additional regulatory capital by participating in a public sale of \$75 million of 5.25% Fixed-to-Floating Rate Subordinated Notes. The Notes were sold at par, resulting in net proceeds, after underwriting discounts, commissions and insurance costs, of approximately \$73.5 million. These funds are being used for general corporate purposes, including a contribution of capital to the Bank to support organic growth and possible opportunistic acquisitions. We fully recognize this additional capital has a temporary negative effect on earnings, but in the long term, it positions us for growth and strategic opportunities.

## WORKING for results

We are pleased with the performance of our Company in 2016. We will provide a few highlights here, but we invite you to review detailed information in this Annual Report and our 2016 Form 10-K filed with the Securities and Exchange Commission.

Earnings for the year ended December 31, 2016, were \$45.3 million, or \$3.21 per diluted common share. Return on average common equity was 10.93%, return on average assets was 1.04%, and net interest margin was 4.05%. The Company ended the year with assets of \$4.6 billion. Total stockholders' equity was \$429.8 million, or 9.4% of assets, equivalent to a book value of \$30.77 per common share.

Relationships with new and existing commercial and consumer customers increased significantly in 2016. We maintained strong company-wide loan production, which was somewhat offset by repayment headwinds, resulting in net loan growth of \$499.7 million, or 16.6%. Net loan

growth excludes loans previously acquired in FDIC-assisted transactions and mortgage loans held for sale, but includes the loans acquired from Fifth Third. Increased loan production occurred across several loan types, primarily multi-family loans, commercial real estate loans, construction loans, consumer loans and home equity lines of credit, and came from most of Great Southern's primary lending locations, including Springfield, St. Louis, Kansas City, Des Moines and Minneapolis, as well as our Dallas and Tulsa loan production offices. Since the end of 2015, our largest increases in outstanding balances by loan type were in multi-family residential mortgages at \$232.4 million and commercial real estate at \$136.8 million. While loan growth in 2016 was strong, this growth was not produced by succumbing to pricing pressures or other competitive forces. Our underwriting remains conservative and we grow the loan portfolio one quality relationship at a time. As we shared earlier in this letter, over the last 27 years, we have grown the loan portfolio from \$360 million to \$3.8 billion. This growth did not occur evenly and will not likely occur evenly in the future. There will be years that economic conditions and the competitive landscape allow for stronger growth, and years where growth may not be so strong. What will be consistent is our commitment to conduct our credit activities in the best long-term interest of our shareholders.

Credit quality continued to improve in 2016. Non-performing assets, excluding FDIC-covered and formerly covered non-performing assets and other FDIC-assisted acquired assets, at December 31, 2016, were \$39.3 million, a decrease of \$4.7 million from \$44.0 million at December 31, 2015. Non-performing assets as a percentage of total assets were 0.86% at December 31, 2016, compared to 1.07% at December 31, 2015.

Total deposits, including deposits from Fifth Third branches, increased \$408.6 million, or 12.5%, from the end of 2015. We experienced net growth in core deposits (checking and savings accounts and certificates of deposit) of \$368.1 million, and \$40.5 million in wholesale funding. We are quite pleased with this net growth in core deposits, in consideration of the potential disruption caused by the banking center consolidations and sales that occurred during the year. Our deposit mix is a source of strength with checking and savings accounts representing approximately 59.6% of the deposit portfolio and retail certificates of deposit making up approximately 31.6%.

# 2017 and what lies ahead >

## LOOKING to 2017 and beyond

We will capitalize on our strengths and prepare for the challenges that will likely come our way with continued economic and political uncertainty. Maintaining a sharp focus on developing and expanding customer relationships, sustaining a strong credit discipline and driving operational efficiencies will be our priorities. We have built an attractive franchise in vibrant markets with excellent potential for organic growth. Our geographic footprint is a proven strength for our lending team as it allows us to make loans in many different market areas, giving us the ability to grow at a reasonable rate with rational pricing and structure. Likewise on the retail side, we are optimistic about developing relationships in our banking center network, which has the capacity to bring on considerably more business without commensurate growth in our expense base. We anticipate that increased competition for deposits to support loan demand and the possibility of rising interest rates will be a challenge on the funding side. Again, the size and scope of our Company will prove advantageous as we can increase funding by offering geographically targeted deposit products with special pricing, helping us reduce the risk of cannibalization and increased funding costs in the entire deposit portfolio.

Moving forward, we pledge to keep in mind the long-term interests of those we serve. For our associates, we want to make our Company a great place to work and grow professionally. For our customers, it is our mission to build winning and lasting relationships by providing the right products and services delivered how and when they prefer. For our many communities, we strive to support causes and address needs to help them be even better places to live and work. And finally, for our shareholders, we desire to provide a superior long-term return on their investment in our Company. It is not realistic to expect our Company, or any company, to significantly increase earnings year after year. In any given year, we may be subject to competitive and economic forces, interest rate fluctuations and other variables that may affect earnings. We will not be pressured into making short-sighted decisions, like loose credit underwriting to increase earnings, which could hurt the long-term prospects for our Company. All of our decisions keep our shareholders' long-term interests in mind as we go about our daily work.


Finally, we owe a debt of gratitude to our Board of Directors for their guidance and support. In November 2016, we lost an exemplary Director and dear friend with the passing of Grant Q. Haden. He is sorely missed. As of March 1, 2017, we warmly welcomed two new Directors to our Board – Debra Mallonee (Shantz) Hart and Kevin Ausburn. We value diversity of talent, knowledge and experience in our Board members, and we are confident that these new members will contribute a wealth of knowledge and complement and strengthen our existing Board.

Thank you for your support of Great Southern. We invite your feedback at any time.

Sincerely yours,



William V. Turner



Joseph W. Turner

# SEEING OPPORTUNITY for lasting growth

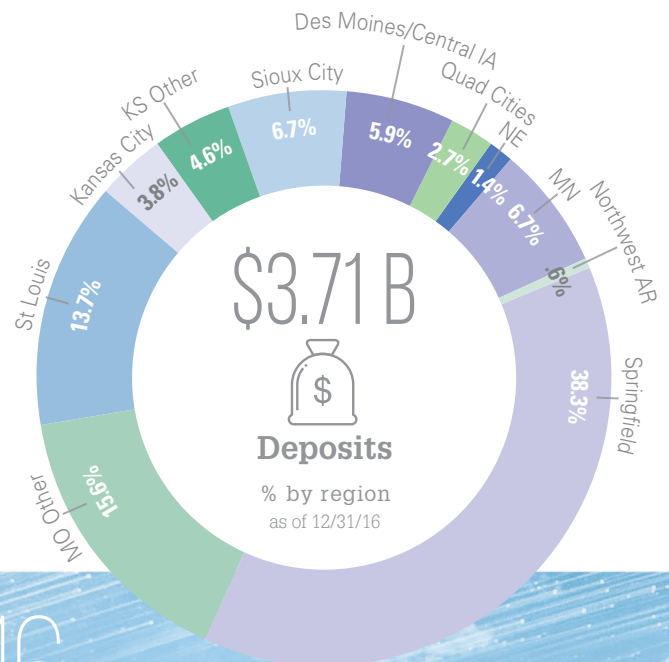
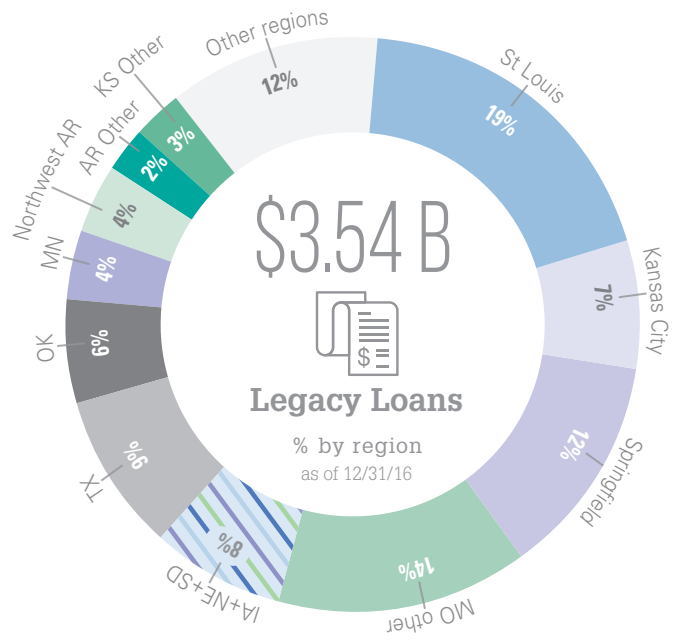
We won't claim to have foreseen our future growth in 1923, but we can say how it came about. We determined to look beyond our doors, not in search of the nearest open spot, but for places where we could fill a need, diversify our company and find future long-term growth.

We started with one office in downtown Springfield, Mo. As our customer base grew, so did we. Eventually, the Great Southern sun could be seen rising throughout southwest Missouri. As we looked to neighboring states, we found metropolitan areas that provided lending opportunities and a larger customer base to service. We weighed every expansion carefully, making sure each was a good fit.

We now operate 108 offices across nine states; Missouri, Iowa, Arkansas, Kansas, Minnesota, Nebraska, Texas, Oklahoma, and Illinois.

## WHAT'S NEXT

We have positioned ourselves in strong and vibrant markets throughout our footprint, and we continue to identify the capacity for growth in each. With the assistance of our knowledgeable and enthusiastic associates, we remain focused on deepening customer relationships and growing both our deposits and our loan portfolio.



2016



- Communities with Banking Centers
- Stand-alone Commercial Lending Offices



**70+**  
communities



**9**  
states



locations

**2016**  
**100+**

**2010**  
75

**2007**  
39

**1923**  
1

LONG-TERM GROWTH

# STAYING AHEAD with customers

Our approach to customer service not only establishes solid relationships, but also allows us to build the kind of trust that gains us a special place in our customers' daily lives. As the industry changes, we continue to be more than their bank; we are who they rely on because we know them, their families and their needs.

We remain focused on being relevant with our customers. Despite the rise in smartphone popularity and mobile banking capabilities, we confirmed our belief through various focus groups and surveys that consumers continue to want the ability to access and speak with experts in person when they have questions about their financial needs. The opportunity to interact with our customers in a personal manner reinforces our commitment to build winning relationships and provides us with an opportunity to expand and deepen existing relationships.

## Smart expansion

We continue to invest in key markets that demonstrate success and future growth potential. The 2016 acquisition in St. Louis more than doubled our presence in an already successful market. Through the hard work and familiar faces of our associates, we were successful in retaining a significant number of customer deposits from acquired accounts. In addition to the investment in St. Louis, our commitment to the Omaha market led to the relocation of two leased facilities to permanently-owned buildings offering better accessibility, visibility and coverage for our customers.



# 2016

182,000+  
customer households

3.1 services per  
household

10 YEARS+  
average length of  
retail customer relationship  
(including acquisitions)



# 1923

936  
customers

RELATIONSHIPS MADE

NOW

# & BEYOND

Even great relationships can be greater as we get to know our customers better.

## Deepening each relationship

We deepen customer relationships by listening to our customers and understanding their current and future needs. We then provide the right products to address these needs with a clear understanding of how the products work. If we get this right, strengthening both customer loyalty and share of wallet will likely follow.

We developed an effective 2-2-2 “welcome” program that ensures our associates reach out personally to new customers in a timely, consistent and helpful manner. First with a handwritten thank you two days after establishing a relationship, followed by phone calls after both two weeks and two months to be sure our new customer is satisfied and to build on the relationship.

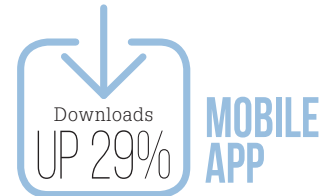
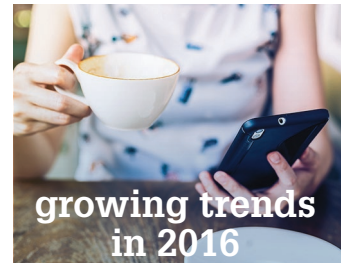
Using marketing analytics, we can better know our customers and their relationships. This knowledge supports our goal to strengthen

relationships and our marketing strategies to seek out the best opportunities for our customers. These analytics further our efforts to identify key customer prospects and tailor our message to obtain better results.

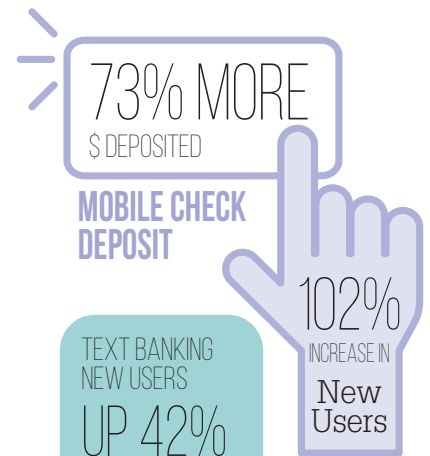
## Continuous change for the better

We actively seek new products and services that our customers will find useful and beneficial. In 2016, we introduced chip debit cards to provide additional security for our debit card customers. Chip technology offers an additional layer of security, providing enhanced protection against fraud when using a chip-enabled terminal. Each time a chip debit card is used at a chip-enabled terminal, a unique transaction code is generated that cannot be replicated, making it more difficult for criminals to fraudulently duplicate the card.

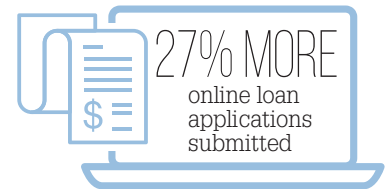
In October 2016, we began offering a popular 15-month promotional certificate of deposit earning 1.11% APY; to date, this product has resulted in more than \$100 million in deposits.



23% more app logins ● ●



102%  
INCREASE IN  
New Users



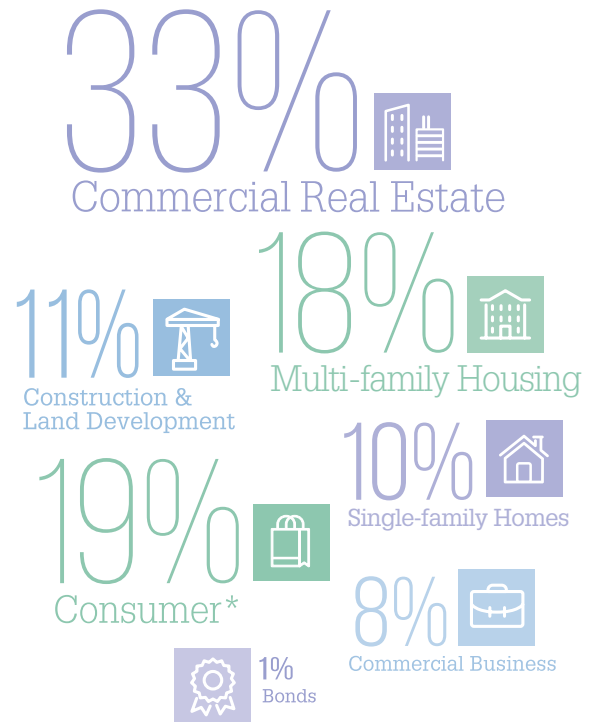
# AND TOMORROW

# FOCUSED on what we do best

The Company's overall loan portfolio is diverse by type and represents a wide array of consumer and commercial customer relationships as shown in the graphic to the right. The largest segment of our loan portfolio is commercial real estate loans, a niche and an area of expertise for our Company for decades. 2016 was a record production year for commercial lending with more than \$1.2 billion loans originated. Seven of the 12 commercial loan offices in our franchise each produced in excess of \$100 million in new commercial loans in 2016.

Our lending achievements are a result of our experienced and growing lending team. Led by commercial lending market managers with an average of more than 20 years of lending experience, we are well positioned to serve lending needs throughout our footprint. To leverage additional opportunities, in 2016, we added more lenders to our Minneapolis, Dallas and Kansas City markets. In addition, we introduced a Credit Analyst Training program to further strengthen our lending team in the long term. The program involves six months of general training prior to being assigned to a commercial lending office.

As we look forward, we continue to focus on developing relationships and growing the loan portfolio with high-quality loans. A commitment to sustaining a strong credit discipline is central to our portfolio management, and the Bank's Loan Committee, which meets twice weekly, keeps these credit discipline principles top-of-mind.

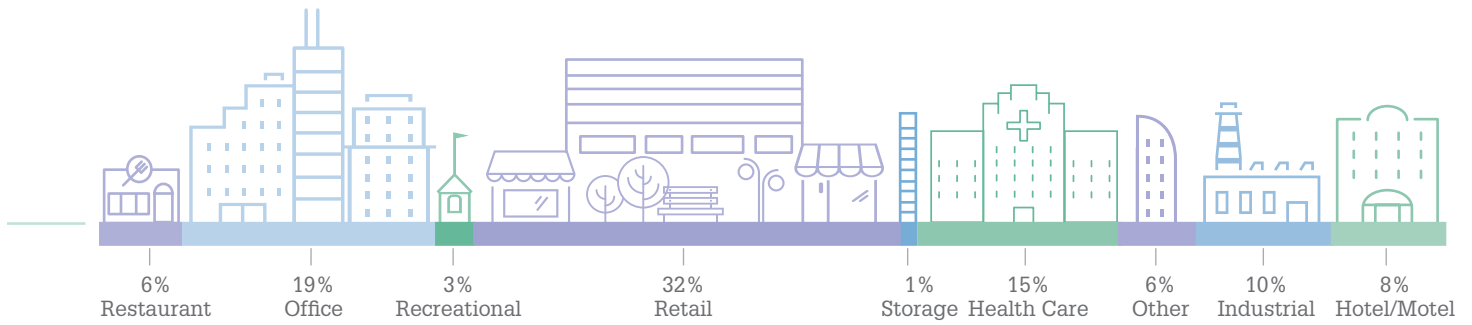


\$3.54 BILLION

## Legacy Loan Portfolio

as of 12/31/16 \*includes Home Equity Loans of \$108,906

POSITIVE GAINS



## \$1.16 BILLION **Commercial Real Estate Loans by type**

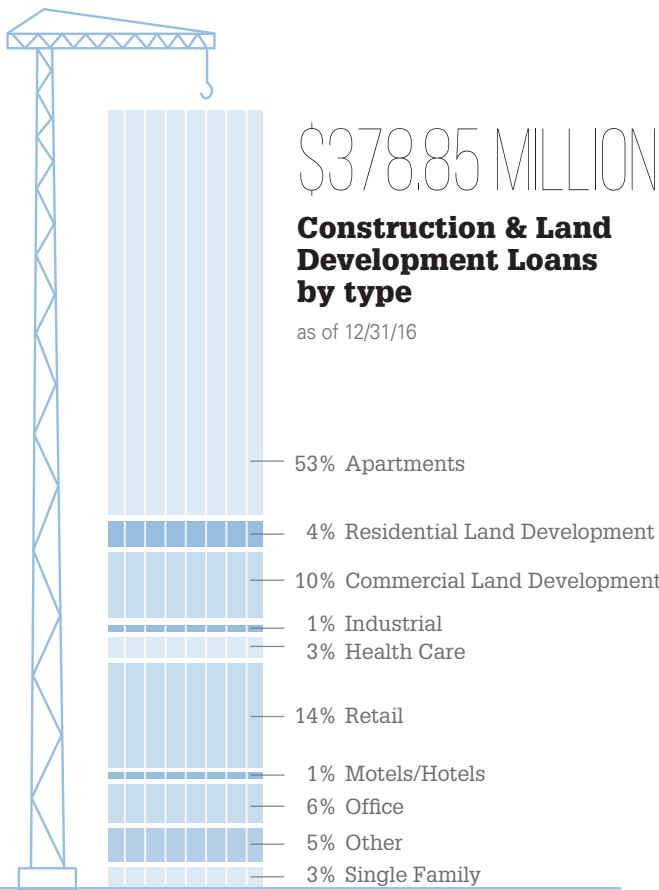
as of 12/31/16

**2017** →



## CHICAGO BOUND

The decision to expand our commercial lending presence to Chicago wasn't an overnight decision. Geographically, Illinois fits well within our footprint throughout the Midwest and we have several existing clients who are based out of, or have assets in, Chicago. The stable commercial real estate market and opportunities were very attractive; however, we knew selecting a qualified individual to manage this new market was paramount to its success. After more than two years of considering this market, we were introduced to Rick Percifield. Rick brings more than thirty years of banking and lending experience in the Chicago area to our Company and he is based in downtown Chicago.



POSITIVE MARKETS

# always the bigger PICTURE

Through our Community Matters program, we're focused on making a sustainable impact by lending and investing in our local economies, financially contributing to community partners to meet area needs, and encouraging our associates to volunteer in meaningful projects and financial education activities.

Every community has its own unique characteristics, its own needs and its own story; however, one thing always remains the same, it is home to its members. We understand that the strength and livelihood of where we live depends on the commitment and involvement of its residents. That is why community matters to us.

## OUR TEAMS

Our new regional Community Matters Teams are vital in fulfilling our Community Matters program on a local level. Comprised of area bank leaders with diverse perspectives and experience, they develop unique plans to ensure we recognize and address the needs of their region, building strong community partnerships and encouraging their employees to be active in civic and local nonprofit activities.



GREAT SOUTHERN BANK  
DONATIONS & SPONSORSHIPS  
**\$1,000,000+**

ASSOCIATE DONATIONS  
**\$94,000+**

ORGANIZATIONS WE SUPPORT  
**900+**

IMPACTFUL

INVOLVED



### Education

We support a variety of educational and literacy programs to make learning possible for children and adults of all ages through our strong partnerships with schools, colleges and universities, and organizations that offer specialized educational programs.



### Health and Human Services

We partner with charities that give direct assistance to people in need, providing a wide range of services from sheltering the homeless to developing our youth. We also work with health organizations that offer support to patients and their families.



### Community Development

We provide financing and support for programs that increase access to affordable housing, stimulate our local economies, and promote economic growth.



### Arts and Culture

We contribute to activities, programs and events that offer enrichment through cultural and artistic experiences, as well as preserving history.



SCHOOLS VISITED

141+



STUDENTS REACHED

4,000+

### COMMUNITY DEVELOPMENT



Community Development Lending

Community Investments

Small Business Lending

ENGAGED

INVESTED

# DIRECTORS

of Great Southern Bancorp, Inc. & Great Southern Bank

**William V. Turner**  
Chairman of the Board

**Joseph W. Turner**  
President and Chief Executive Officer

**Kevin R. Ausburn**  
Board Member  
Chairman and CEO, SMC  
Packaging Group

**William E. Barclay**  
Board Member  
Retired – Springfield, Mo.

**Julie Turner Brown**  
Board Member  
Shareholder, Carnahan, Evans,  
Cantwell & Brown, P.C.

**Thomas J. Carlson**  
Board Member  
President, Mid America  
Management, Inc.

**Larry D. Frazier**  
Board Member  
Retired – Hollister, Mo.

**Debra Mallonee  
(Shantz) Hart**  
Board Member  
Attorney; Owner, Housing  
Plus, LLC and Sustainable  
Housing Solutions

**Douglas M. Pitt**  
Board Member  
Business Owner and  
Care To Learn Founder

**Earl A. Steinert, Jr.**  
Board Member  
Co-owner, EAS Investment  
Enterprises, Inc.; CPA

# LEADERSHIP TEAM

**Kevin Baker**  
Chief Credit Officer

**Tammy Baurichter**  
Controller

**John Bugh**  
Chief Sales Lending Officer

**Kris Conley**  
Director of Retail Banking

**Rex Copeland\***  
Chief Financial Officer

**Debbie Flowers**  
Director of Credit  
Risk Administration

**Doug Marrs\***  
Director of Operations

**Steve Mitchem\***  
Chief Lending Officer

**Kelly Polonus**  
Director of Communications  
and Marketing

**Lin Thomason\***  
Director of Information  
Services

**Bryan Tiede**  
Director of Risk Management

**Joseph Turner\***  
President and  
Chief Executive Officer

**Matt Snyder**  
Director of Human Resources

\*Denotes Executive Officer



# IN MEMORIAM



## Grant Q. Haden

Grant Q. Haden, a board member of Great Southern for six years, passed away on November 24, 2016. Grant practiced law for almost 25 years and was a founding member of the Springfield, Mo. law firm of Haden, Cowherd & Bullock LLC. In addition to serving on the Great Southern Board, Grant served as the president of the Ozarks Trails Council of the Boy Scouts of America, as an elder at First and Calvary Presbyterian Church and on the board of CoxHealth. Grant is survived by his wife, CeCe, sons Jonathan and Ben, and daughter, Emily.

During his time on the Board of Directors, Grant offered support and insight while also serving on the audit, compensation, nominating and stock option committees. He is greatly missed and remembered for his passion, dedication and a life well lived.

# SELECTED CONSOLIDATED FINANCIAL DATA

The tables on pages 16, 17 and 18 set forth selected consolidated financial information and other financial data of the Company. The selected statement of condition and statement of operations data, insofar as they relate to the years ended December 31, 2016, 2015, 2014, 2013 and 2012, are derived from our Consolidated Financial Statements, which have been audited by BKD, LLP. See Item 6. "Selected Consolidated Financial Data," Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8. "Financial Statements and Supplementary Information" in the Company's Annual Report on Form 10-K. Results for past periods are not necessarily indicative of results that may be expected for any future period.

	DECEMBER 31,				
	2016	2015	2014	2013	2012
<b>SUMMARY STATEMENT OF CONDITION INFORMATION:</b>	(DOLLARS IN THOUSANDS)				
Assets	\$4,550,663	\$4,104,189	\$3,951,334	\$3,560,250	\$3,955,182
Loans receivable, net	3,776,411	3,352,797	3,053,427	2,446,769	2,346,467
Allowance for loan losses	37,400	38,149	38,435	40,116	40,649
Available-for-sale securities	213,872	262,856	365,506	555,281	807,010
Other real estate owned, net	32,658	31,893	45,838	53,514	68,874
Deposits	3,677,230	3,268,626	2,990,840	2,808,626	3,153,193
Total borrowings	416,786	406,797	514,014	343,795	391,114
Stockholders' equity (retained earnings substantially restricted)	429,806	398,227	419,745	380,698	369,874
Common stockholders' equity	429,806	398,227	361,802	322,755	311,931
Average loans receivable	3,659,360	3,235,787	2,784,106	2,403,544	2,326,273
Average total assets	4,370,793	4,067,399	3,824,493	3,789,876	4,005,613
Average deposits	3,475,887	3,203,262	3,007,588	2,996,941	3,199,683
Average stockholders' equity	414,799	438,683	402,670	378,650	352,282
Number of deposit accounts	231,272	217,139	217,877	192,323	197,733
Number of full-service offices	104	110	108	96	107

	FOR THE YEAR ENDED DECEMBER 31,				
	2016	2015	2014	2013	2012
	(IN THOUSANDS)				
<b>SUMMARY STATEMENT OF OPERATIONS INFORMATION:</b>					
Interest income:					
Loans	\$ 178,883	\$ 177,240	\$ 172,569	\$ 163,903	\$ 170,163
Investment securities and other	6,292	7,111	10,793	14,892	23,345
	<u>185,175</u>	<u>184,351</u>	<u>183,362</u>	<u>178,795</u>	<u>193,508</u>
Interest expense:					
Deposits	17,387	13,511	11,225	12,346	20,720
Federal Home Loan Bank advances	1,214	1,707	2,910	3,972	4,430
Short-term borrowings and repurchase agreements	1,137	65	1,099	2,324	2,610
Subordinated debentures issued to capital trust	803	714	567	561	617
Subordinated notes	1,578	—	—	—	—
	<u>22,119</u>	<u>15,997</u>	<u>15,801</u>	<u>19,203</u>	<u>28,377</u>
Net interest income	163,056	168,354	167,561	159,592	165,131
Provision for loan losses	9,281	5,519	4,151	17,386	43,863
Net interest income after provision for loan losses	<u>153,775</u>	<u>162,835</u>	<u>163,410</u>	<u>142,206</u>	<u>121,268</u>
Noninterest income:					
Commissions	1,097	1,136	1,163	1,065	1,036
Service charges and ATM fees	21,666	19,841	19,075	18,227	19,087
Net realized gains on sales of loans	3,941	3,888	4,133	4,915	5,505
Net realized gains on sales of available-for-sale securities	2,873	2	2,139	243	2,666
Recognized impairment of available-for-sale securities	—	—	—	—	(680)
Late charges and fees on loans	1,747	2,129	1,400	1,264	1,028
Gain (loss) on derivative interest rate products	66	(43)	(345)	295	(38)
Gain recognized on business acquisitions	—	—	10,805	—	31,312
Accretion (amortization) of income/expense related to business acquisition	(6,935)	(18,345)	(27,868)	(25,260)	(18,693)
Other income	4,055	4,973	4,229	4,566	4,779
	<u>28,510</u>	<u>13,581</u>	<u>14,731</u>	<u>5,315</u>	<u>46,002</u>
Noninterest expense:					
Salaries and employee benefits	60,377	58,682	56,032	52,468	51,262
Net occupancy expense	26,077	25,985	23,541	20,658	20,179
Postage	3,791	3,787	3,578	3,315	3,301
Insurance	3,482	3,566	3,837	4,189	4,476
Advertising	2,228	2,317	2,404	2,165	1,572
Office supplies and printing	1,708	1,333	1,464	1,303	1,389
Telephone	3,483	3,235	2,866	2,868	2,768
Legal, audit and other professional fees	3,191	2,713	3,957	4,348	4,323
Expense on other real estate owned	4,111	2,526	5,636	4,068	8,748
Partnership tax credit investment amortization	1,681	1,680	1,720	2,108	1,825
Acquired deposit intangible asset amortization	1,910	1,750	1,519	1,228	1,258
Other operating expenses	8,388	6,776	14,305	6,900	7,502
	<u>120,427</u>	<u>114,350</u>	<u>120,859</u>	<u>105,618</u>	<u>108,603</u>
Income from continuing operations before income taxes	61,858	62,006	57,282	41,903	58,667
Provision for income taxes	16,516	15,564	13,753	8,174	14,580
Net income from continuing operations	45,342	46,502	43,529	33,729	44,087
Discontinued operations					
Income from discontinued operations, net of income taxes	—	—	—	—	4,619
Net income	45,342	46,502	43,529	33,729	48,706
Preferred stock dividends and discount accretion	—	554	579	579	608
Net income available to common shareholders	<u>\$ 45,342</u>	<u>\$ 45,948</u>	<u>\$ 42,950</u>	<u>\$ 33,150</u>	<u>\$ 48,098</u>

**AT OR FOR THE YEAR ENDED DECEMBER 31,**

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
(NUMBER OF SHARES IN THOUSANDS)					
<b>PER COMMON SHARE DATA:</b>					
Basic earnings per common share	\$ 3.26	\$ 3.33	\$ 3.14	\$ 2.43	\$ 3.55
Diluted earnings per common share	3.21	3.28	3.10	2.42	3.54
Diluted earnings from continuing operations per common share	3.21	3.28	3.10	2.42	3.20
Cash dividends declared	0.88	0.86	0.80	0.72	0.72
Book value per common share	30.77	28.67	26.30	23.60	22.94
Average shares outstanding	13,912	13,818	13,700	13,635	13,534
Year-end actual shares outstanding	13,968	13,888	13,755	13,674	13,596
Average fully diluted shares outstanding	14,141	14,000	13,876	13,715	13,592
<b>EARNINGS PERFORMANCE RATIOS:</b>					
Return on average assets(1)	1.04%	1.14%	1.14%	0.89%	1.22%
Return on average stockholders' equity(2)	10.93	12.13	12.63	10.52	16.55
Non-interest income to average total assets	0.65	0.33	0.39	0.14	1.49
Non-interest expense to average total assets	2.76	2.81	3.16	2.79	2.71
Average interest rate spread(3)	3.93	4.44	4.74	4.60	4.53
Year-end interest rate spread	3.60	3.80	3.86	3.88	3.57
Net interest margin(4)	4.05	4.53	4.84	4.70	4.61
Efficiency ratio(5)	62.86	62.85	66.30	64.05	51.44
Net overhead ratio(6)	2.10	2.48	2.77	2.66	1.56
Common dividend pay-out ratio(7)	27.41	26.22	25.81	29.75	20.34
<b>ASSET QUALITY RATIOS (8):</b>					
Allowance for loan losses/year-end loans	1.04%	1.20%	1.34%	1.92%	2.21%
Non-performing assets/year-end loans and foreclosed assets	1.02	1.28	1.39	2.46	2.98
Allowance for loan losses/non-performing loans	265.60	230.24	471.77	201.53	180.84
Net charge-offs/average loans	0.29	0.20	0.24	0.91	2.43
Gross non-performing assets/year end assets	0.86	1.07	1.11	1.75	1.84
Non-performing loans/year-end loans	0.37	0.49	0.26	0.80	0.94
<b>BALANCE SHEET RATIOS:</b>					
Loans to deposits	102.70%	102.58%	102.09%	87.12%	74.42%
Average interest-earning assets as a percentage of average interest-bearing liabilities	121.33	121.60	120.95	116.03	110.12
<b>CAPITAL RATIOS:</b>					
Average common stockholders' equity to average assets	9.5%	9.4%	9.0%	8.5%	7.4%
Year-end tangible common stockholders' equity to assets	9.2	9.6	9.0	8.9	7.7
Great Southern Bancorp, Inc.:					
Tier 1 capital ratio	10.8	11.5	13.3	15.6	15.7
Total capital ratio	13.6	12.6	14.5	16.9	16.9
Tier 1 leverage ratio	9.9	10.2	11.1	11.3	9.5
Common equity Tier 1 ratio	10.2	10.8	—	—	—
Great Southern Bank:					
Tier 1 capital ratio	11.8	11.0	11.4	14.2	14.7
Total capital ratio	12.7	12.1	12.6	15.4	15.9
Tier 1 leverage ratio	10.8	9.8	9.5	10.2	8.9
Common equity Tier 1 ratio	11.8	11.0	—	—	—
<b>RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDEND REQUIREMENT (9):</b>					
Including deposit interest	3.80x	4.66x	4.41x	3.07x	3.22x
Excluding deposit interest	14.07x	20.01x	11.59x	6.44x	8.66x

(1) Net income divided by average total assets.

(2) Net income divided by average stockholders' equity.

(3) Yield on average interest-earning assets less rate on average interest-bearing liabilities.

(4) Net interest income divided by average interest-earning assets.

(5) Non-interest expense divided by the sum of net interest income plus non-interest income.

(6) Non-interest expense less non-interest income divided by average total assets.

(7) Cash dividends per common share divided by earnings per common share.

(8) Excludes assets covered by FDIC loss sharing agreements.

(9) In computing the ratio of earnings to fixed charges and preferred stock dividend requirement: (a) earnings have been based on income before income taxes and fixed charges, and (b) fixed charges consist of interest and amortization of debt discount and expense including amounts capitalized and the estimated interest portion of rents.



## 2016 FINANCIAL INFORMATION

# CONTENTS

20	Management's Discussion and Analysis of Financial Condition and Results of Operation
60	Report of Independent Registered Public Accounting Firm
61	Consolidated Statements of Financial Condition
63	Consolidated Statements of Income
65	Consolidated Statements of Comprehensive Income
66	Consolidated Statements of Stockholders' Equity
68	Consolidated Statements of Cash Flows
71	Notes to Consolidated Financial Statements

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

### Forward-looking Statements

When used in this Annual Report and in other documents filed or furnished by the Company with the Securities and Exchange Commission (the "SEC"), in the Company's press releases or other public or stockholder communications, and in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "intends" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including, among other things, (i) non-interest expense reductions from Great Southern's banking center consolidations might be less than anticipated and the costs of the consolidation and impairment of the value of the affected premises might be greater than expected; (ii) expected revenues, cost savings, earnings accretion, synergies and other benefits from the Fifth Third Bank branch acquisition and the Company's other merger and acquisition activities might not be realized within the anticipated time frames or at all, and costs or difficulties relating to integration matters, including but not limited to customer and employee retention, might be greater than expected; (iii) changes in economic conditions, either nationally or in the Company's market areas; (iv) fluctuations in interest rates; (v) the risks of lending and investing activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses; (vi) the possibility of other-than-temporary impairments of securities held in the Company's securities portfolio; (vii) the Company's ability to access cost-effective funding; (viii) fluctuations in real estate values and both residential and commercial real estate market conditions; (ix) demand for loans and deposits in the Company's market areas; (x) the ability to adapt successfully to technological changes to meet customers' needs and developments in the marketplace; (xi) the possibility that security measures implemented might not be sufficient to mitigate the risk of a cyber attack or cyber theft, and that such security measures might not protect against systems failures or interruptions; (xii) legislative or regulatory changes that adversely affect the Company's business, including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act and its implementing regulations, and the overdraft protection regulations and customers' responses thereto; (xiii) changes in accounting principles, policies or guidelines; (xiv) monetary and fiscal policies of the Federal Reserve Board and the U.S. Government and other governmental initiatives affecting the financial services industry; (xv) results of examinations of the Company and the Bank by their regulators, including the possibility that the regulators may, among other things, require the Company to increase its allowance for loan losses or to write-down assets; (xvi) costs and effects of litigation, including settlements and judgments; and (xvii) competition. The Company wishes to advise readers that the factors listed above and other risks described from time to time in documents filed or furnished by the Company with the SEC could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake-and specifically declines any obligation- to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

### Critical Accounting Policies, Judgments and Estimates

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States and general practices within the financial services industry. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

### Allowance for Loan Losses and Valuation of Foreclosed Assets

The Company believes that the determination of the allowance for loan losses involves a higher degree of judgment and complexity than its other significant accounting policies. The allowance for loan losses is calculated with the objective of maintaining an allowance level believed by management to be sufficient to absorb estimated loan losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates of, among other things, expected default probabilities, loss once loans default, expected commitment usage, the amounts and timing of expected future cash flows on impaired loans, value of collateral, estimated losses, and general amounts for historical loss experience.

The process also considers economic conditions, uncertainties in estimating losses and inherent risks in the loan portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses may be required which would adversely impact earnings in future periods. In addition, the Bank's regulators could require additional provisions for loan losses as part of their examination process.

Additional discussion of the allowance for loan losses is included in "Item 1. Business - Allowances for Losses on Loans and Foreclosed Assets" in the Company's 2016 Annual Report on Form 10-K. Inherent in this process is the evaluation of individual significant credit relationships. From time to time certain credit relationships may deteriorate due to payment performance, cash flow of the borrower, value of collateral, or other factors. In these instances, management may revise its loss estimates and assumptions for these specific credits due to changing circumstances. In some cases, additional losses may be realized; in other instances, the factors that led to the deterioration may improve or the credit may be refinanced elsewhere and allocated allowances may be released from the particular credit. In the fourth quarter of 2014, the Company began using a three-year average of historical losses for the general component of the allowance for loan loss calculation. The Company had previously used a five-year average. The Company believes that the three-year average provides a better representation of the current risks in the loan portfolio. This change was made after consultation with our regulators and third-party consultants, as well as a review of the practices used by the Company's peers. No other significant changes were made to management's overall methodology for evaluating the allowance for loan losses during the periods presented in the financial statements of this report.

In addition, the Company considers that the determination of the valuations of foreclosed assets held for sale involves a high degree of judgment and complexity. The carrying value of foreclosed assets reflects management's best estimate of the amount to be realized from the sales of the assets. While the estimate is generally based on a valuation by an independent appraiser or recent sales of similar properties, the amount that the Company realizes from the sales of the assets could differ materially from the carrying value reflected in the financial statements, resulting in losses that could adversely impact earnings in future periods.

### Carrying Value of Loans Acquired in FDIC-assisted Transactions and Indemnification Asset

The Company considers that the determination of the carrying value of loans acquired in the FDIC-assisted transactions and the carrying value of the related FDIC indemnification asset involves a high degree of judgment and complexity. The carrying value of the acquired loans and the FDIC indemnification asset reflect management's best ongoing estimates of the amounts to be realized on each of these assets. The Company determined initial fair value accounting estimates of the acquired assets and assumed liabilities in accordance with FASB ASC 805, *Business Combinations*. However, the amount that the Company realizes on these assets could differ materially from the carrying value reflected in its financial statements, based upon the timing of collections on the acquired loans in future periods. Because of the loss sharing agreements with the FDIC on certain of these assets, the Company should not incur any significant losses related to these assets. To the extent the actual values realized for the acquired loans are different from the estimates, the indemnification asset will generally be impacted in an offsetting manner due to the loss sharing support from the FDIC. Subsequent to the initial valuation, the Company continues to monitor identified loan pools and related loss sharing assets for changes in estimated cash flows projected for the loan pools, anticipated credit losses and changes in the accretible yield. Analysis of these variables requires significant estimates and a high degree of judgment. See Note 4 of the accompanying audited financial statements for additional information regarding the TeamBank, Vantus Bank, Sun Security Bank, InterBank and Valley Bank FDIC-assisted transactions.

### Goodwill and Intangible Assets

Goodwill and intangible assets that have indefinite useful lives are subject to an impairment test at least annually and more frequently if circumstances indicate their value may not be recoverable. Goodwill is tested for impairment using a process that estimates the fair value of each of the Company's reporting units compared with its carrying value. The Company defines reporting units as a level below each of its operating segments for which there is discrete financial information that is regularly reviewed. As of December 31, 2016, the Company has one reporting unit to which goodwill has been allocated – the Bank. If the fair value of a reporting unit exceeds its carrying value, then no impairment is recorded. If the carrying value amount exceeds the fair value of a reporting unit,

further testing is completed comparing the implied fair value of the reporting unit's goodwill to its carrying value to measure the amount of impairment. Intangible assets that are not amortized will be tested for impairment at least annually by comparing the fair values of those assets to their carrying values. At December 31, 2016, goodwill consisted of \$5.4 million at the Bank reporting unit, which included goodwill of \$4.2 million that was recorded during 2016 related to the acquisition of 12 branches from Fifth Third Bank. Other identifiable intangible assets that are subject to amortization are amortized on a straight-line basis over a period of seven years. At December 31, 2016, the amortizable intangible assets consisted of core deposit intangibles of \$7.1 million, including \$3.8 million related to the Fifth Third Bank transaction in January 2016, \$1.8 million related to the Valley Bank transaction in June 2014 and \$519,000 related to the Boulevard Bank transaction in March 2014. These amortizable intangible assets are reviewed for impairment if circumstances indicate their value may not be recoverable based on a comparison of fair value. See Note 1 of the accompanying audited financial statements for additional information.

For purposes of testing goodwill for impairment, the Company used a market approach to value its reporting unit. The market approach applies a market multiple, based on observed purchase transactions for each reporting unit, to the metrics appropriate for the valuation of the operating unit. Significant judgment is applied when goodwill is assessed for impairment. This judgment may include developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables and incorporating general economic and market conditions.

Based on the Company's goodwill impairment testing, management does not believe any of its goodwill or other intangible assets are impaired as of December 31, 2016. While the Company believes no impairment existed at December 31, 2016, different conditions or assumptions used to measure fair value of the reporting unit, or changes in cash flows or profitability, if significantly negative or unfavorable, could have a material adverse effect on the outcome of the Company's impairment evaluation in the future.

### **Current Economic Conditions**

Changes in economic conditions could cause the values of assets and liabilities recorded in the financial statements to change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses, or capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

Following the bursting of the housing bubble in mid-2007 and the subsequent housing market correction and subprime mortgage crisis, the United States entered into a significant prolonged economic downturn. Unemployment rose from 4.7% in November 2007 to peak at 10.0% in October 2009. The elevated unemployment levels negatively impacted consumer confidence, which had a detrimental impact on industry-wide performance nationally as well as in the Company's Midwest market area. Economic conditions have improved considerably over the past few years as indicated by increasing consumer confidence levels, increased economic activity and low unemployment levels.

The national unemployment rate decreased from 5.0% as of December 2015 to 4.7% as of December 2016. The labor force participation rate, which is the share of working-age Americans who are either employed or are actively looking for a job, remained level at 63%. The economy added 156,000 jobs in December 2016, with employment gains predominantly occurring in health care and social assistance. Job growth totaled 2.2 million in 2016, which was less than the 2.7 million increase in 2015. As of December 31, 2016, the unemployment rate for the Midwest, where most of the Company's business is conducted, was at 4.1% significantly lower than the 4.6% U.S. rate. Unemployment rates at December 31, 2016, were: Missouri at 4.4%, Arkansas at 3.9%, Kansas at 4.2%, Iowa at 3.6%, Nebraska at 3.4%, Minnesota at 3.9%, Oklahoma at 5.0% and Texas at 4.6%. A few state unemployment rates increased compared to December 2015 levels; however, Oklahoma was the only state with an unemployment rate greater than the national average. Oklahoma was affected by job losses in the manufacturing, mining and logging industries. Of the metropolitan areas in which Great Southern Bank does business, the Tulsa market area had the highest unemployment level at December 31, 2016 at 5.0%. The unemployment rate at 3.9% for the Springfield market area was below the national average reported as of December 31, 2016. Metropolitan areas in Arkansas, Iowa, Nebraska and Minnesota boasted unemployment levels among the lowest in the nation.

Sales of newly built, single-family homes were at a seasonally adjusted annual rate of 536,000 units in December 2016, according to the U.S. Department of Housing and Urban Development and the U.S. Census Bureau. This represents a 10.4% decrease since November 2016 and a 0.4% drop from the December 2015 rate of 538,000. The median sales price of new houses sold in December 2016 was \$322,500, with an average sales price of \$384,000. The seasonally adjusted estimate of new houses for sale at the end of December 2016 was 259,000, which represented a supply of 5.8 months at the current sales rate. Sales of existing single-family homes closed out 2016 as the best year in a decade, even as sales declined in December as the result of ongoing affordability tensions and historically low supply levels. In December, existing sales decreased 2.8% resulting in sales only 0.7% higher than a year ago. First-time buyers made up 32% of those transactions, the biggest share in four years, easing concerns that a shortage of affordable houses has been pushing entry-level buyers out of the market. The median existing-home price for all housing types in December was \$232,200, up 4% from December 2015 (\$223,200). Total housing inventory at the end of December dropped 10.8% to 1.65 million existing homes available for sale, which is the lowest level since National Association of Realtors began tracking the supply of all housing types in 1999. Unsold inventory is at a 3.6 month supply at the current sales pace.



Distressed sales, which include foreclosures and short sales, rose to 7% in December, down from 8% a year ago. Foreclosures sold for an average discount of 20% below market value, while short sales were discounted 10%.

The performance of commercial real estate markets has improved throughout the Company's market areas as shown by increased real estate sales and financing activity. According to real estate services firm CoStar Group, retail, office and industrial types of commercial real estate properties continue to improve or remain stable in occupancy, absorption and rental income, both nationally and in our market areas.

While current economic indicators show improvement nationally in employment, housing starts and prices, commercial real estate occupancy, absorption and rental income, our management will continue to closely monitor regional, national and global economic conditions, as these could significantly impact our market areas.

### **Loss Sharing Agreements**

On April 26, 2016, Great Southern Bank executed an agreement with the FDIC to terminate the loss sharing agreements for Team Bank, Vantus Bank and Sun Security Bank, effective immediately. The agreement required the FDIC to pay \$4.4 million to settle all outstanding items related to the terminated loss sharing agreements. As a result of entering into the agreement, assets that were covered by the terminated loss sharing agreements, including covered loans in the amount of \$61.5 million and covered other real estate owned in the amount of \$468,000 as of March 31, 2016, were reclassified as non-covered assets effective April 26, 2016. In anticipation of terminating the loss sharing agreements, an impairment of the related indemnification assets was recorded during the three months ended March 31, 2016 in the amount of \$584,000. On the date of the termination, the indemnification asset balances (and certain other receivables from the FDIC) related to Team Bank, Vantus Bank and Sun Security Bank, which totaled \$4.4 million at March 31, 2016, became \$0 as a result of the receipt of funds from the FDIC as outlined in the termination agreement. There will be no future effects on non-interest income (expense) related to adjustments or amortization of the indemnification assets for Team Bank, Vantus Bank or Sun Security Bank; however, adjustments and amortization related to the InterBank indemnification asset and loss sharing agreement will continue. The remaining accretable yield adjustments that affect interest income are not changed by this transaction and continue to be recognized for all FDIC-assisted transactions in the same manner as they have been previously.

The termination of the loss sharing agreements for the TeamBank, Vantus Bank and Sun Security Bank transactions has had no impact on the yields for the loans that were previously covered under these agreements. All future recoveries, gains, losses and expenses related to these previously covered assets will now be recognized entirely by Great Southern Bank since the FDIC will no longer be sharing in such gains or losses. Accordingly, the Company's future earnings will be positively impacted to the extent the Company recognizes gains on any sales or recoveries in excess of the carrying value of such assets. Similarly, the Company's future earnings will be negatively impacted to the extent the Company recognizes expenses, losses or charge-offs related to such assets.

### **General**

The profitability of the Company and, more specifically, the profitability of its primary subsidiary, the Bank, depends primarily on its net interest income, as well as provisions for loan losses and the level of non-interest income and non-interest expense. Net interest income is the difference between the interest income the Bank earns on its loans and investment portfolio, and the interest it pays on interest-bearing liabilities, which consists mainly of interest paid on deposits and borrowings. Net interest income is affected by the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on these balances. When interest-earning assets approximate or exceed interest-bearing liabilities, any positive interest rate spread will generate net interest income.

In the year ended December 31, 2016, Great Southern's total assets increased \$446.5 million, or 10.9%, from \$4.10 billion at December 31, 2015, to \$4.55 billion at December 31, 2016. Full details of the current year changes in total assets are provided in the "Comparison of Financial Condition at December 31, 2016 and December 31, 2015" section.

**Loans.** In the year ended December 31, 2016, Great Southern's net loans increased \$419.4 million, or 12.6%, from \$3.34 billion at December 31, 2015, to \$3.76 billion at December 31, 2016. Partially offsetting the increase in loans was a decrease of \$79.7 million in the FDIC-acquired loan portfolios. Excluding previously acquired covered and non-covered loans and mortgage loans held for sale, but including the loans acquired from Fifth Third Bank, total loans increased \$499.7 million from December 31, 2015 to December 31, 2016. The increases occurred across several loans types, primarily in other residential (multi-family) loans, commercial real estate loans, one- to four-family residential loans, consumer loans and home equity lines of credit. The increase was primarily due to loan growth in our existing banking center network, and also due to the loans acquired from Fifth Third Bank during the year. As loan demand is affected by a variety of factors, including general economic conditions, and because of the competition we face and our focus on pricing discipline and credit quality, we cannot be assured that our loan growth will match or exceed the level of increases achieved in 2016 or prior years. The Company's strategy continues to be focused on maintaining credit risk and interest rate risk at appropriate levels.

Loan growth has occurred in most loan types and has come from most of Great Southern's primary lending locations, including Springfield, St. Louis, Kansas City, Des Moines, and Minneapolis, as well as the loan production offices in Dallas and Tulsa. Net loan balances have increased primarily in the areas of commercial construction, consumer, and commercial real estate (including multi-family). Generally, the Company considers these types of loans to involve a higher degree of risk compared to some other types of loans, such as first mortgage loans on one- to four-family, owner-occupied residential properties, and has established certain minimum underwriting standards to help assure portfolio quality. For commercial real estate and construction loans, these standards and procedures include, but are not limited to, an analysis of the borrower's financial condition, collateral, repayment ability, verification of liquid assets and credit history as required by loan type. In addition, geographic diversity of collateral, lower loan-to-value ratios and limitations on speculative construction projects help to mitigate overall risk in these loans. It has been, and continues to be, Great Southern's practice to verify information from potential borrowers regarding assets, income or payment ability and credit ratings as applicable and as required by the authority approving the loan. Underwriting standards also include loan-to-value ratios which vary depending on collateral type, debt service coverage ratios or debt payment to income ratios, where applicable, credit histories, use of guaranties and other recommended terms relating to equity requirements, amortization, and maturity. Great Southern's loan committee reviews and approves all new loan originations in excess of lender approval authorities. Consumer loans are primarily secured by new and used motor vehicles and these loans are also subject to certain minimum underwriting standards to assure portfolio quality. Great Southern's consumer underwriting and pricing standards have been fairly consistent over the past several years. The underwriting standards employed by Great Southern for consumer loans include a determination of the applicant's payment history on other debts, credit scores, employment history and an assessment of ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is of primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, in relation to the proposed loan amount.

Of the total loan portfolio at December 31, 2016 and 2015, 75.9% and 73.5%, respectively, was secured by real estate, as this is the Bank's primary focus in its lending efforts. At December 31, 2016 and 2015, commercial real estate and commercial construction loans were 42.1% and 42.8% of the Bank's total loan portfolio (excluding loans acquired through FDIC-assisted transactions), respectively. Commercial real estate and commercial construction loans generally afford the Bank an opportunity to increase the yield on, and the proportion of interest rate sensitive loans in, its portfolio. They do, however, present somewhat greater risk to the Bank because they may be more adversely affected by conditions in the real estate markets or in the economy generally. At December 31, 2016 and 2015, loans made in the Springfield, Mo. metropolitan statistical area (Springfield MSA) were 12% and 15% of the Bank's total loan portfolio (excluding loans acquired through FDIC-assisted transactions), respectively. The Company's headquarters are located in Springfield and we have operated in this market since 1923. Because of our large presence and experience in the Springfield MSA, many lending opportunities exist. However, if the economic conditions of the Springfield MSA were worse than those of other market areas in which we operate or the national economy overall, the performance of these loans could decline comparatively. At December 31, 2016 and 2015, loans made in the St. Louis, Mo. metropolitan statistical area (St. Louis MSA) were 19% and 18% of the Bank's total loan portfolio (excluding loans acquired through FDIC-assisted transactions, but including loans acquired from Fifth Third Bank), respectively. The Company's expansion into the St. Louis MSA beginning in May 2009 has provided an opportunity to not only expand its markets and provide diversification from the Springfield MSA, but also has provided access to a larger economy with increased lending opportunities despite higher levels of competition. Loans made in the St. Louis MSA are primarily commercial real estate, commercial business and multi-family residential loans which are less likely to be impacted by the higher levels of unemployment rates, as mentioned above under "Current Economic Conditions," than if the focus were on one- to four-family residential and consumer loans. For further discussions of the Bank's loan portfolio, and specifically, commercial real estate and commercial construction loans, see "Item 1. Business – Lending Activities" in the Company's 2016 Annual Report on Form 10-K.

The percentage of fixed-rate loans in our loan portfolio has increased from 46% as of December 31, 2010 to 57% as of December 31, 2016 due to customer preference for fixed rate loans during this period of low interest rates. The majority of the increase in fixed rate loans was in commercial construction and consumer loans, both of which typically have loans with short durations. Of the total amount of fixed rate loans in our portfolio as of December 31, 2016, approximately 77% mature within one to five years and therefore are not considered to create significant long-term interest rate risk for the Company. Fixed rate loans make up only a portion of our balance sheet and our overall interest rate risk strategy. As of December 31, 2016, our interest rate risk models indicated a one-year interest rate earnings sensitivity position that is fairly neutral. For further discussion of our interest rate sensitivity gap and the processes used to manage our exposure to interest rate risk, see "Quantitative and Qualitative Disclosures About Market Risk – How We Measure the Risks to Us Associated with Interest Rate Changes." For discussion of the risk factors associated with interest rate changes, see "Risk Factors – We may be adversely affected by interest rate changes."

While our policy allows us to lend up to 95% of the appraised value on one-to four-family residential properties, originations of loans with loan-to-value ratios at that level are minimal. Private mortgage insurance is typically required for loan amounts above the 80% level. Few exceptions occur and would be based on analyses which determined minimal transactional risk to be involved. We consider these lending practices to be consistent with or more conservative than what we believe to be the norm for banks our size. At

December 31, 2016 and December 31, 2015, an estimated 0.2% and 0.2%, respectively, of total owner occupied one- to four-family residential loans had loan-to-value ratios above 100% at origination. At December 31, 2016 and December 31, 2015, an estimated 1.3% and 2.1%, respectively, of total non-owner occupied one- to four-family residential loans had loan-to-value ratios above 100% at origination.

At December 31, 2016, troubled debt restructurings totaled \$21.1 million, or 0.6% of total loans, down \$23.9 million from \$45.0 million, or 1.3% of total loans, at December 31, 2015. Concessions granted to borrowers experiencing financial difficulties may include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. During the years ended December 31, 2016 and 2015, respectively, no loans were restructured into multiple new loans. For further information on troubled debt restructurings, see Note 3 of the accompanying audited financial statements.

The loss sharing agreement for InterBank with the FDIC is subject to limitations on the types of losses covered and the length of time losses are covered, and is conditioned upon the Bank complying with its requirements in the agreement with the FDIC, including requirements regarding servicing and other loan administration matters. The original terms of the loss sharing agreement extends for ten years for single family real estate loans and for five years for other loans. As noted above, the loss sharing agreements for Team Bank, Vantus Bank and Sun Security Bank were terminated on April 26, 2016.

At December 31, 2016, approximately five and one half years remained on the loss sharing agreement for single family real estate loans acquired from InterBank and the remaining loans had an estimated average life of four to twelve years. At December 31, 2016, approximately six months remained on the loss sharing agreement for non-single-family loans acquired from InterBank and the remaining loans had an estimated average life of one to two years. While the expected repayments for certain of the acquired loans extend beyond the terms of the loss sharing agreement, the Bank has identified and will continue to identify problem loans and will make every effort to resolve them within the time limits of the agreement. The Company may sell any loans remaining at the end of the loss sharing agreement subject to the approval of the FDIC.

Loans that were acquired through FDIC-assisted transactions, which are accounted for in pools, are currently included in the analysis and estimation of the allowance for loan losses. If expected cash flows to be received on any given pool of loans decreases from previous estimates, then a determination is made as to whether the loan pool should be charged down or the allowance for loan losses should be increased (through a provision for loan losses). This is true of all acquired loan pools regardless of whether or not they are covered by a loss sharing agreement. If a charge down occurs to a loan pool that is covered by the loss sharing agreement, the full amount of the charge down will be reflected in the allowance for loan losses and a separate asset will be recorded for the amount to be recovered from the FDIC. The loss sharing agreements (both current and terminated) and their related limitations are described in detail in Note 4 of the accompanying audited financial statements. For acquired loan pools that currently are not covered by loss sharing agreements, the Company may allocate, and at December 31, 2016, has allocated, a portion of its allowance for loan losses related to these loan pools in a manner similar to how it allocates its allowance for loan losses to those loans which are collectively evaluated for impairment.

The level of non-performing loans and foreclosed assets affects our net interest income and net income. We generally do not accrue interest income on these loans and do not recognize interest income until the loans are repaid or interest payments have been made for a period of time sufficient to provide evidence of performance on the loans. Generally, the higher the level of non-performing assets, the greater the negative impact on interest income and net income.

**Available-for-sale Securities.** In the year ended December 31, 2016, available-for-sale securities decreased \$49.0 million, or 18.6%, from \$262.9 million at December 31, 2015, to \$213.9 million at December 31, 2016. The decrease was primarily due to calls of municipal securities, sales of certain mortgage-backed securities, the sale of an investment in a managed equity fund held by the Company, and normal monthly payments received related to the portfolio of mortgage-backed securities, partially offset by the purchase of certain mortgage-backed securities. The Company was required to divest the investment it held in the managed equity fund as a result of regulations recently adopted by the Federal Reserve Board. Other investment securities were reduced because they were no longer needed for pledging for public fund deposits.

**Premises and Equipment, net.** Great Southern had net premises and equipment of \$140.6 million at December 31, 2016, an increase of \$10.9 million, or 8.4%, from \$129.7 million at December 31, 2015. The increase in premises and equipment was primarily due to the acquisition of 12 branches from Fifth Third Bank in January 2016. For further information on the acquisition, see the Company's March 31, 2016 Quarterly Report on Form 10-Q.

**Goodwill and Other Intangible Assets.** The Company's goodwill and other intangible assets totaled \$12.5 million at December 31, 2016, an increase of \$6.7 million, or 117.1%, compared to \$5.8 million at December 31, 2015. The increase was due to the goodwill and core deposit intangible amounts recorded during the three months ended March 31, 2016 related to the Fifth Third Bank branch acquisition, as discussed above in the "Goodwill and Intangible Assets" section of this report.

**Deposits.** The Company attracts deposit accounts through its retail branch network, correspondent banking and corporate services areas, and brokered deposits. The Company then utilizes these deposit funds, along with FHLBank advances and other borrowings, to meet loan demand or otherwise fund its activities. In the year ended December 31, 2016, total deposit balances increased \$408.6 million, or 12.5%. Transaction account balances increased \$212.0 million, while retail certificates of deposit increased \$156.1 million. These increases were primarily a result of the Bank's assumption of deposits as part of the Fifth Third Bank branch acquisition in January 2016, as well as growth at existing branches and new retail certificate of deposit product offerings. Great Southern Bank customer deposits totaling \$14.0 million and \$12.2 million, at December 31, 2016 and December 31, 2015, respectively, were part of the CDARS program which allows bank customers to maintain balances in an insured manner that would otherwise exceed the FDIC deposit insurance limit. The FDIC counts these deposits as brokered, but these are deposit accounts that we generate with customers in our local markets. Brokered deposits, including CDARS program purchased funds, were \$310.3 million at December 31, 2016, an increase of \$38.8 million from \$271.5 million at December 31, 2015.

Our deposit balances may fluctuate depending on customer preferences and our relative need for funding. We do not consider our retail certificates of deposit to be guaranteed long-term funding because customers can withdraw their funds at any time with minimal interest penalty. When loan demand trends upward, we can increase rates paid on deposits to increase deposit balances and utilize brokered deposits to provide additional funding. The level of competition for deposits in our markets is high. It is our goal to gain deposit market share, particularly checking accounts, in our branch footprint. To accomplish this goal, increasing rates to attract deposits may be necessary, which could negatively impact the Company's net interest margin.

Our ability to fund growth in future periods may also depend on our ability to continue to access brokered deposits and FHLBank advances. In times when our loan demand has outpaced our generation of new deposits, we have utilized brokered deposits and FHLBank advances to fund these loans. These funding sources have been attractive to us because we can create either fixed or variable rate funding, as desired, which more closely matches the interest rate nature of much of our loan portfolio. While we do not currently anticipate that our ability to access these sources will be reduced or eliminated in future periods, if this should happen, the limitation on our ability to fund additional loans could have a material adverse effect on our business, financial condition and results of operations.

**Short-term Borrowings and Federal Home Loan Bank Advances.** Federal Home Loan Bank advances decreased \$232.0 million from \$263.5 million at December 31, 2015 to \$31.5 million at December 31, 2016. The decreased advances were replaced with overnight fed funds borrowings through the FHLBank based on funding needs. As such, short-term borrowings increased by \$171.0 million, from \$1.3 million at December 31, 2015 to \$172.3 million at December 31, 2016. The overnight fed funds borrowing rate was lower than the one week or longer term rates for FHLBank advances, so the Company elected to utilize the overnight borrowings.

**Subordinated Notes.** In August 2016, the Company issued \$75 million of 5.25% fixed-to-floating rate Subordinated Notes due August 15, 2026. The notes were sold at par, resulting in net proceeds, after underwriting discounts and commissions and other issuance costs, of approximately \$73.5 million. The Company intends to use the net proceeds of the offering for general corporate purposes.

**Net Interest Income and Interest Rate Risk Management.** Our net interest income may be affected positively or negatively by changes in market interest rates. A portion of our loan portfolio is tied to the "prime rate" and adjusts immediately when this rate adjusts (subject to the effect of loan interest rate floors, which are discussed below). We monitor our sensitivity to interest rate changes on an ongoing basis (see "Quantitative and Qualitative Disclosures About Market Risk"). In addition, our net interest income may be impacted by changes in the cash flows expected to be received from acquired loan pools. As described in Note 4 of the accompanying audited financial statements, the Company's evaluation of cash flows expected to be received from acquired loan pools is on-going and increases in cash flow expectations are recognized as increases in accretable yield through interest income. Decreases in cash flow expectations are recognized as impairments through the allowance for loan losses.

The current level and shape of the interest rate yield curve poses challenges for interest rate risk management. Prior to its increases of 0.25% on December 16, 2015 and 0.25% on December 14, 2016, the FRB last changed interest rates on December 16, 2008. Great Southern has a substantial portion of its loan portfolio (\$1.02 billion at December 31, 2016) which is tied to the one-month LIBOR index and will adjust at least once within 90 days after December 31, 2016. Of these loans, \$471 million had interest rate floors. Great Southern also has a significant portfolio of loans (\$387 million at December 31, 2016) which are tied to a "prime rate" of interest and will adjust immediately with changes to the "prime rate" of interest. Most of these loans are tied to some national index of "prime," while some are indexed to "Great Southern Bank prime" (GSB prime). The Company had elected to leave its GSB prime rate at 5.00%, but increased this rate to 5.25% in December 2015 following the FRB rate increase. The GSB prime rate was not changed following the FRB rate increase in December 2016. This does not affect a large number of customers, as there is no longer a significant portion of the loan portfolio indexed to the GSB prime rate. But for the interest rate floors, a rate cut by the FRB generally would have an anticipated immediate negative impact on the Company's net interest income due to the large total balance of loans which generally adjust immediately as the Federal Funds rate adjusts. Loans at their floor rates are, however, subject to the risk that borrowers will seek to refinance elsewhere at the lower market rate. Because the Federal Funds rate is already very low, there may

also be a negative impact on the Company's net interest income due to the Company's inability to significantly lower its funding costs in the current competitive rate environment, although interest rates on assets may decline further. Conversely, interest rate increases would normally result in increased interest rates on our prime-based loans. The interest rate floors in effect may limit the immediate increase in interest rates on certain of these loans, until such time as rates rise above the floors. However, the Company may have to increase rates paid on deposits to maintain deposit balances and pay higher rates on borrowings. The impact of the low rate environment on our net interest margin in future periods is expected to be fairly neutral. Any margin gained by rate increases on loans may be somewhat offset by reduced yields from our investment securities and our existing loan portfolio as payments are made and the proceeds are potentially reinvested at lower rates. Interest rates on certain adjustable rate mortgage-backed securities and loans may reset lower according to their contractual terms and index rate to which they are tied and new loans may be originated at lower market rates than the overall portfolio rate. For further discussion of the processes used to manage our exposure to interest rate risk, see "Quantitative and Qualitative Disclosures About Market Risk – How We Measure the Risks to Us Associated with Interest Rate Changes."

The negative impact of declining loan interest rates had been mitigated by the positive effects of the Company's loans which have interest rate floors. At December 31, 2016, the Company had a portfolio (excluding the loans acquired in the FDIC-assisted transactions) of prime-based loans totaling approximately \$387 million with rates that change immediately with changes to the prime rate of interest. Of those loans, \$382 million also had interest rate floors. These floors were at varying rates, with \$8 million of these loans having floor rates of 7.0% or greater and another \$76 million of these loans having floor rates between 5.0% and 7.0%. In addition, \$298 million of these loans have floor rates between 2.75% and 5.0%. At December 31, 2016, \$93 million of these loans were at their floor rates. Also included in these prime-based loans at December 31, 2016, the Company had a portfolio (excluding the loans acquired in the FDIC-assisted transactions) of GSB prime-based loans totaling approximately \$60 million with rates that change immediately with changes to the GSB prime rate of interest. Of those loans, \$58 million also had interest rate floors. At December 31, 2016, \$16 million of the \$58 million GSB prime rate loans with interest rate floors were at their floor rates. The loan yield for the total loan portfolio was approximately 83 basis points, 106 basis points and 141 basis points higher than the national "prime rate of interest" at December 31, 2016, 2015 and 2014, respectively, partly because of these interest rate floors. While interest rate floors have had an overall positive effect on the Company's results during this period, they do subject the Company to the risk that borrowers will elect to refinance their loans with other lenders. To the extent economic conditions improve, the risk that borrowers will seek to refinance their loans increases.

**Non-Interest Income and Operating Expenses.** The Company's profitability is also affected by the level of its non-interest income and operating expenses. Non-interest income consists primarily of service charges and ATM fees, accretion income (net of amortization) related to the FDIC-assisted acquisitions, late charges and prepayment fees on loans, gains on sales of loans and available-for-sale investments and other general operating income. In 2014, 2012, 2011 and 2009, non-interest income was also affected by the gains recognized on the FDIC-assisted transactions. In early 2016 and all of 2015 and 2014, increases in the cash flows expected to be collected from the FDIC-covered loan portfolios resulted in amortization (expense) recorded relating to reductions of expected reimbursements under the loss sharing agreements with the FDIC, which are recorded as indemnification assets. This is no longer the case for the TeamBank, Vantus Bank and Sun Security Bank transactions, subsequent to April 26, 2016 (due to the termination of the related loss sharing agreements effective as of that date). It is still the case for InterBank loans. Non-interest income may also be affected by the Company's interest rate derivative activities, if the Company chooses to implement derivatives.

Operating expenses consist primarily of salaries and employee benefits, occupancy-related expenses, expenses related to foreclosed assets, postage, FDIC deposit insurance, advertising and public relations, telephone, professional fees, office expenses and other general operating expenses. Details of the current period changes in non-interest income and non-interest expense are provided under "Results of Operations and Comparison for the Years Ended December 31, 2016 and 2015."

## **Business Initiatives**

The Company completed several initiatives to expand and enhance the franchise in 2016.

During 2016, the Company decreased its banking center network from 110 to 104 full-service retail offices. The Company regularly evaluates its banking center network and lines of business to ensure that it is serving customers in the best way possible. The banking center network constantly evolves with changes in customer needs and preferences, emerging technology and local market developments. In response to these changes, the Company opens banking centers and invests resources where customer demand leads, and from time to time, consolidates banking centers when market conditions dictate.

On January 29, 2016, Great Southern completed the acquisition of 12 branches and related deposits and loans from Cincinnati-based Fifth Third Bank in the St. Louis market area. This acquisition increased Great Southern's St. Louis-area banking center total from eight to ultimately 19 offices and doubled its customer deposit base in this market. The deposits assumed totaled approximately \$228 million and the loans acquired totaled approximately \$159 million.

Throughout 2016, the Company consolidated operations of 16 banking centers into other nearby Great Southern offices. Each consolidated office was evaluated on a number of criteria, including access and availability of services to affected customers, the proximity of other Great Southern banking centers, profitability and transaction volumes and market dynamics. Of these 16 consolidated banking centers, eleven were in Missouri, four in Iowa and one was in Kansas. Nine of these banking centers were acquired as part of various FDIC-assisted acquisitions. In addition, the Company also sold two Missouri banking centers, with associated deposits, to separate buyers in early 2016. The Great Southern banking center located in Thayer, Mo., was sold on February 19, 2016, and the office in Buffalo, Mo., was sold on March 18, 2016.

In addition, in January 2017, two leased banking centers were replaced by two new owned offices in the Omaha, Neb., metropolitan market area. Both new locations offer better convenience and access to area customers. Great Southern operates four offices in the Omaha market area.

The Company executed an agreement with the FDIC to terminate loss sharing agreements related to the FDIC-assisted acquisitions of TeamBank, Vantus Bank and Sun Security Bank in April 2016. The agreement required the FDIC to pay \$4.4 million to settle all outstanding items related to the terminated loss sharing agreements. As a result of entering into the agreement, assets that were covered by the terminated loss sharing agreements, including covered loans in the amount of \$61.5 million and covered other real estate owned in the amount of \$468,000 as of March 31, 2016, were reclassified as non-covered assets effective April 26, 2016. More information about this agreement can be found in the Company's Form 10-Q for the quarter ended March 31, 2016.

In July 2016, the Company filed a universal shelf registration statement (Form S-3) with the Securities and Exchange Commission. This registration allows the Company to expeditiously offer investors up to a total of \$250 million in common stock, preferred stock, trust preferred securities or debt obligations. With the Board's prior approval, public offerings can be made at various times and for various amounts depending on the needs of the Company.

In August 2016, utilizing the shelf registration statement, the Company completed the public offering and sale of \$75 million of its 5.25% Fixed-to-Floating Rate Subordinated Notes due August 15, 2026. The Notes were sold at par, resulting in net proceeds, after underwriting discounts, commissions and expenses, of approximately \$73.5 million. The Company intends to use the net proceeds of the offering for general corporate purposes.

In October 2016, the Company began mass issuing chip-enabled debit cards in phases to its deposit customer base. The mass issuance was completed in February 2017. Chip debit cards offer customers an added layer of security, providing enhanced protection against fraud. Chip debit cards are also available instantly at all Great Southern banking centers.

The Company expects to open a commercial loan production office in downtown Chicago in the first quarter of 2017. A local and highly experienced commercial lender has been hired to manage that office. The Company also operates commercial loan production offices in Tulsa, Okla., and Dallas.

A person-to-person (P2P) electronic payment service was introduced in early February 2017. Available for retail customers through the Company's smartphone mobile banking applications, the P2P service allows Great Southern debit card customers to send one-time transfers to recipients at any financial institution.

The Company's chief lending officer, Steve Mitchem, previously announced his plans to retire from the Company in April 2017. Mr. Mitchem joined Great Southern in 1990. During his tenure, the Company's loan portfolio grew from \$360 million, with lending operations primarily in the southwest Missouri region, to \$3.8 billion with lending operations in eight states. Mr. Mitchem and the Company began planning for his pending retirement more than a year ago to ensure a smooth management transition. At that time, the Company restructured the lending division to better reflect the Company's size and scope. The lending division now has two separate areas of responsibility – loan production led by John Bugh and credit administration led by Kevin Baker. Mr. Bugh and Mr. Baker are long-term Great Southern lenders, who each have more than 27 years of banking experience.

### **Effect of Federal Laws and Regulations**

*General.* Federal legislation and regulation significantly affect the operations of the Company and the Bank, and have increased competition among commercial banks, savings institutions, mortgage banking enterprises and other financial institutions. In particular, the capital requirements and operations of regulated banking organizations such as the Company and the Bank have been and will be subject to changes in applicable statutes and regulations from time to time, which changes could, under certain circumstances, adversely affect the Company or the Bank.

*Significant Legislation Impacting the Financial Services Industry.* On July 21, 2010, sweeping financial regulatory reform legislation entitled the “Dodd-Frank Wall Street Reform and Consumer Protection Act” (the “Dodd-Frank Act”) was signed into law. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things,

centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, with broad rulemaking authority for a wide range of consumer protection laws that apply to all banks, require new capital rules (discussed below), change the assessment base for federal deposit insurance, repeal the federal prohibitions on the payment of interest on demand deposits, amend the account balance limit for federal deposit insurance protection, and increase the authority of the Federal Reserve Board to examine the Company and its non-bank subsidiaries.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over a number of years, making it difficult to anticipate the overall financial impact on the Company and the financial services industry more generally. Provisions in the legislation that affect deposit insurance assessments and payment of interest on demand deposits could increase the costs associated with deposits. Provisions in the legislation that require revisions to the capital requirements of the Company and the Bank could require the Company and the Bank to seek additional sources of capital in the future.

A provision of the Dodd-Frank Act, commonly referred to as the “Durbin Amendment,” directed the FRB to analyze the debit card payments system and fix the interchange rates based upon their estimate of actual costs. The FRB has established the interchange rate for all debit transactions for issuers with over \$10 billion in assets at \$0.21 per transaction. An additional five basis points of the transaction amount and an additional \$0.01 may be collected by the issuer for fraud prevention and recovery, provided the issuer performs certain actions. The Bank is currently exempt from the rule on the basis of asset size.

*New Capital Rules.* The federal banking agencies have adopted new regulatory capital rules that substantially amend the risk-based capital rules applicable to the Bank and the Company. The new rules implement the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act. “Basel III” refers to various documents released by the Basel Committee on Banking Supervision. For the Company and the Bank, the general effective date of the new rules was January 1, 2015, and, for certain provisions, various phase-in periods and later effective dates apply. The chief features of the new rules are summarized below.

The new rules refine the definitions of what constitutes regulatory capital and add a new regulatory capital element, common equity Tier 1 capital. The minimum capital ratios are (i) a common equity Tier 1 (“CET1”) risk-based capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6%; (iii) a total risk-based capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4%. In addition to the minimum capital ratios, the new rules include a capital conservation buffer, under which a banking organization must have CET1 more than 2.5% above each of its minimum risk-based capital ratios in order to avoid restrictions on paying dividends, repurchasing shares, and paying certain discretionary bonuses. The new capital conservation buffer requirement began phasing in beginning on January 1, 2016 when a buffer greater than 0.625% of risk-weighted assets was required, which amount will increase an equal amount each year until the buffer requirement of greater than 2.5% of risk-weighted assets is fully implemented on January 1, 2019.

Effective January 1, 2015, the new rules also revised the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital levels show signs of weakness. Under the new prompt corrective action requirements, insured depository institutions are required to meet the following in order to qualify as “well capitalized:” (i) a common equity Tier 1 risk-based capital ratio of at least 6.5%, (ii) a Tier 1 risk-based capital ratio of at least 8%, (iii) a total risk-based capital ratio of at least 10% and (iv) a Tier 1 leverage ratio of 5%, and must not be subject to an order, agreement or directive mandating a specific capital level.

### **Recent Accounting Pronouncements**

See Note 1 to the accompanying audited financial statements for a description of recent accounting pronouncements including the respective dates of adoption and expected effects on the Company’s financial position and results of operations.

### **Comparison of Financial Condition at December 31, 2016 and December 31, 2015**

During the year ended December 31, 2016, total assets increased by \$446.5 million to \$4.55 billion. The increase was primarily attributable to the loan, premises and equipment and intangible assets related to the Fifth Third Bank branch acquisition, as well as an increase in loans originated by the Bank and cash and cash equivalents, partially offset by reductions in available-for-sale investment securities and the FDIC indemnification asset.

Net loans increased \$419.4 million to \$3.76 billion at December 31, 2016. Outstanding and undisbursed balances of other residential (multi-family) loans increased \$243.8 million, or 58.1%, commercial construction loans increased \$179.8 million, or 29.9%, commercial real estate loans increased \$143.4 million, or 13.7%, owner occupied one- to four-family residential loans increased \$90.1 million, or 81.7%, and consumer auto loans increased \$54.3 million, or 12.4%. Partially offsetting these increases was a decrease in net loans acquired through the FDIC-assisted transactions of \$79.7 million, or 22.0%, primarily because of loan repayments.

Related to the loans purchased in the 2012, 2011 and 2009 FDIC-assisted transactions, the Company originally recorded indemnification assets which represented payments expected to be received from the FDIC through loss sharing agreements. As noted

previously, the loss sharing agreements for Team Bank, Vantus Bank and Sun Security Bank, and the related remaining indemnification assets were terminated during 2016. The remaining balance of the FDIC indemnification is related to InterBank, and the total amount at December 31, 2016 was \$13.1 million, a decrease of \$11.0 million from \$24.1 million at December 31, 2015, \$21.1 million of which related to InterBank. The 2014 Valley Bank acquisition did not include a loss sharing agreement with the FDIC; therefore, no indemnification asset was recorded as part of the transaction.

Securities available for sale decreased \$49.0 million, or 18.6%, as compared to December 31, 2015. The decrease was primarily due to calls of municipal securities and U. S. government agency securities, sales of certain mortgage-backed securities, the sale of an investment in a managed equity fund held by the Company, and normal monthly payments received related to the portfolio of mortgage-backed securities, partially offset by the purchase of certain mortgage-backed securities. The Company was required to divest the investment it held in the managed equity fund as a result of regulations recently adopted by the Federal Reserve Board. Other investment securities were reduced because they were no longer needed for pledging for public fund deposits. The available-for-sale securities portfolio was 4.7% and 6.4% of total assets at December 31, 2016 and 2015, respectively.

Cash and cash equivalents were \$279.8 million at December 31, 2016, an increase of \$80.6 million, or 40.5%, from \$199.2 million at December 31, 2015. During the year ended December 31, 2016, cash and cash equivalents increased primarily due to the cash received in the Fifth Third Bank transaction, sales of and payments received on available-for-sale securities, increases in deposits and the net proceeds of the issuance of \$75.0 million of subordinated notes. This increase in cash and cash equivalents was partially offset by using a portion of the cash to fund loan growth.

Net premises and equipment increased \$10.9 million from December 31, 2015, primarily due to the branches acquired in the Fifth Third Bank transaction, partially offset by the transfer of branch properties closed in January 2016 to other real estate owned and the sale of two branches.

The Company's goodwill and other intangible assets totaled \$12.5 million at December 31, 2016, an increase of \$6.7 million, or 117.1%, compared to \$5.8 million at December 31, 2015. The increase was due to the goodwill and core deposit intangible amounts recorded during the three months ended March 31, 2016 related to the Fifth Third Bank branch acquisition, as discussed above in the "Goodwill and Intangible Assets" section of this report.

Total liabilities increased \$414.9 million from \$3.71 billion at December 31, 2015 to \$4.12 billion at December 31, 2016. The increase was primarily attributable to an increase in deposits and the issuance of subordinated notes. Deposits increased due to the deposits assumed in the Fifth Third Bank branch transaction, as well as growth in the Company's existing deposits and brokered deposits. In the year ended December 31, 2016, total deposit balances increased \$408.6 million, or 12.5%. Transaction account balances increased \$212.0 million during the year ended December 31, 2016, while retail certificates of deposit increased \$156.1 million during the year ended December 31, 2016.

Federal Home Loan Bank advances decreased \$232.0 million, from \$263.5 million at December 31, 2015 to \$31.5 million at December 31, 2016. The decreased advances were replaced with overnight fed funds borrowings through the FHLBank based on funding needs. As such, short-term borrowings increased by \$171.0 million, from \$1.3 million at December 31, 2015 to \$172.3 million at December 31, 2016. The overnight fed funds borrowing rate was lower than the one week or longer term rates for FHLBank advances, so the Company elected to utilize the overnight borrowings.

In August 2016, the Company issued \$75 million of 5.25% fixed-to-floating rate Subordinated Notes due August 15, 2026. The notes were sold at par, resulting in net proceeds, after underwriting discounts and commissions and other issuance costs, of approximately \$73.5 million. The Company intends to use the net proceeds of the offering for general corporate purposes.

Total stockholders' equity increased \$31.6 million from \$398.2 million at December 31, 2015 to \$429.8 million at December 31, 2016. The Company recorded net income of \$45.3 million for the year ended December 31, 2016, and dividends declared on common stock were \$12.2 million. Accumulated other comprehensive income decreased \$4.1 million. The decrease in accumulated other comprehensive income resulted from decreases in the fair value of the Company's available-for-sale investment securities. In addition, total stockholders' equity increased \$2.6 million due to stock option exercises.

## **Results of Operations and Comparison for the Years Ended December 31, 2016 and 2015**

### **General**

Net income decreased \$1.2 million, or 2.5%, during the year ended December 31, 2016, compared to the year ended December 31, 2015. Net income was \$45.3 million for the year ended December 31, 2016 compared to \$46.5 million for the year ended December 31, 2015. This decrease was due to an increase in non-interest expense of \$6.1 million, or 5.3%, a decrease in net interest income of



\$5.3 million, or 3.1%, an increase in the provision for loan losses of \$3.8 million, or 68.2% and an increase in provision for income taxes of \$952,000, or 6.1%, partially offset by an increase in non-interest income of \$14.9 million, or 109.9%. Net income available to common shareholders was \$45.3 million for the year ended December 31, 2016 compared to \$45.9 million for the year ended December 31, 2015.

### **Total Interest Income**

Total interest income increased \$824,000, or 0.4%, during the year ended December 31, 2016 compared to the year ended December 31, 2015. The increase was due to a \$1.6 million, or 0.9%, increase in interest income on loans, partially offset by an \$819,000, or 11.5%, decrease in interest income on investment securities and other interest-earning assets. Interest income on loans increased in 2016 due to higher average balances on loans, partially offset by lower average rates of interest. Interest income from investment securities and other interest-earning assets decreased during 2016 compared to 2015 primarily due to lower average balances, partially offset by higher average rates of interest.

### **Interest Income - Loans**

During the year ended December 31, 2016 compared to the year ended December 31, 2015, interest income on loans increased due to higher average balances, partially offset by lower average interest rates. Interest income increased \$21.8 million as the result of higher average loan balances, which increased from \$3.24 billion during the year ended December 31, 2015, to \$3.66 billion during the year ended December 31, 2016. The higher average balances were primarily due to organic loan growth, in addition to the loans obtained as part of the Fifth Third Bank branch acquisition. Interest income decreased \$20.2 million as the result of lower average interest rates on loans. The average yield on loans decreased from 5.48% during the year ended December 31, 2015 to 4.89% during the year ended December 31, 2016. This decrease was due to lower overall loan rates, and a lower amount of accretion income in the current year resulting from the increases in expected cash flows to be received from the FDIC-acquired loan pools, which is discussed in Note 4 of the accompanying audited financial statements.

On an on-going basis, the Company estimates the cash flows expected to be collected from the acquired loan pools. This cash flows estimate has increased, based on the payment histories and the collection of certain loans, thereby reducing loss expectations of certain loan pools, resulting in adjustments to be spread on a level-yield basis over the remaining expected lives of the loan pools. The loss sharing agreements for the Team Bank, Vantus Bank and Sun Security Bank transactions were terminated in April 2016, and the related indemnification assets were reduced to \$-0- at that time. The Valley Bank transaction does not include a loss sharing agreement with the FDIC. Therefore, for these four acquisition transactions, there is no related indemnification asset. The entire amount of the discount adjustment has been and will be accreted to interest income over time with no offsetting impact to non-interest income. For the loan pools acquired in the InterBank transaction, the increases in expected cash flows also reduce the amount of expected reimbursements under the loss sharing agreement with the FDIC, which is recorded as an indemnification asset. Therefore, the expected indemnification asset has also been reduced, resulting in adjustments to be amortized on a comparable basis over the remainder of the loss sharing agreement or the remaining expected life of the loan pools, whichever is shorter. For the years ended December 31, 2016 and 2015, the adjustments increased interest income by \$16.4 million and \$28.5 million, respectively, and decreased non-interest income by \$7.0 million and \$19.5 million, respectively. The net impact to pre-tax income was \$9.4 million and \$9.0 million, respectively, for the years ended December 31, 2016 and 2015.

As of December 31, 2016, the remaining accretable yield adjustment that will affect interest income is \$6.3 million and the remaining adjustment to the indemnification assets related to InterBank, including the effects of the clawback liability, that will affect non-interest income (expense) is \$(2.5) million. The \$6.3 million of accretable yield adjustment relates to Team Bank, Vantus Bank, Sun Security Bank, InterBank and Valley Bank. The expense, as noted, is only related to InterBank, as there is no longer, nor will there be in the future, indemnification asset amortization expense related to Team Bank, Vantus Bank or Sun Security Bank due to the early termination of the remaining related loss sharing agreements for those transactions in April 2016. Of the remaining adjustments, we expect to recognize \$4.3 million of interest income and \$(1.7) million of non-interest income (expense) during 2017. Additional adjustments may be recorded in future periods from the FDIC-assisted acquisitions, as the Company continues to estimate expected cash flows from the acquired loan pools. Apart from the yield accretion, the average yield on loans was 4.44% during the year ended December 31, 2016, compared to 4.60% during the year ended December 31, 2015, as a result of loan pay-offs, normal amortization of higher-rate loans and new loans that were made at current lower market rates. Interest income also decreased due to significant interest recoveries in the prior year period, as discussed in the paragraph below.

In the year ended December 31, 2015, the Company collected \$891,000 on certain acquired loans which had previously not been expected to be collectible. These collections were recorded as interest income in 2015 and had a positive impact on the net interest margin in that year of approximately three basis points. As the loans were subject to loss sharing agreements at that time, 80% of the amounts collected, or \$713,000, was recorded in 2015 and included in non-interest income under "accretion (amortization) of income related to business acquisitions."

## **Interest Income - Investments and Other Interest-earning Assets**

Interest income on investments and other interest-earning assets decreased \$819,000 in the year ended December 31, 2016 compared to the year ended December 31, 2015. Interest income decreased \$1.9 million as a result of a decrease in average balances from \$483.0 million during the year ended December 31, 2015, to \$366.3 million during the year ended December 31, 2016. Average balances of securities decreased due to certain U. S. government agency securities and municipal securities being called, the sale of certain mortgage-backed securities, normal monthly payments received related to the portfolio of mortgage-backed securities, and the sale during the year of an investment in a managed equity fund held by the Company. Interest income increased \$1.1 million due to an increase in average interest rates from 1.47% during the year ended December 31, 2015 to 1.72% during the year ended December 31, 2016, due to a higher portion of the investment portfolio in tax-exempt municipal bonds and higher market rates of interest on other interest-bearing deposits in financial institutions.

The Company's interest-earning deposits and non-interest-earning cash equivalents currently earn very low or no yield and therefore negatively impact the Company's net interest margin. At December 31, 2016, the Company had cash and cash equivalents of \$279.8 million compared to \$199.2 million at December 31, 2015. See "Net Interest Income" for additional information on the impact of this interest activity.

## **Total Interest Expense**

Total interest expense increased \$6.1 million, or 38.3%, during the year ended December 31, 2016, when compared with the year ended December 31, 2015, due to an increase in interest expense on deposits of \$3.9 million, or 28.7%, an increase in interest expense on the newly issued subordinated notes of \$1.6 million, an increase in interest expense on short-term and structured repo borrowings of \$1.1 million, or 1,649.2%, and an increase in interest expense on subordinated debentures issued to capital trust of \$89,000, or 12.5%, partially offset by a decrease in interest expense on FHLBank advances of \$493,000, or 28.9%.

## **Interest Expense - Deposits**

Interest on demand deposits increased \$832,000 due to an increase in average rates from 0.20% during the year ended December 31, 2015, to 0.26% during the year ended December 31, 2016. Interest on demand deposits increased \$198,000 due to an increase in average balances from \$1.40 billion in the year ended December 31, 2015, to \$1.50 billion in the year ended December 31, 2016. The increase in average balances of interest-bearing demand deposits was primarily a result of the deposits assumed as part of the Fifth Third Bank branch acquisition, partially offset by decreases in certain deposit types, such as public funds.

Interest expense on time deposits increased \$1.8 million as a result of an increase in average rates of interest from 0.85% during the year ended December 31, 2015, to 0.98% during the year ended December 31, 2016. Interest expense on time deposits increased \$1.0 million due to an increase in average balances of time deposits from \$1.26 billion during the year ended December 31, 2015, to \$1.37 billion during the year ended December 31, 2016. The increase in average balances of time deposits was primarily a result of increased balances of brokered deposits and time deposits opened through the Company's internet deposit acquisition channels. A large portion of the Company's certificate of deposit portfolio matures within six to eighteen months and therefore reprices fairly quickly; this is consistent with the portfolio over the past several years.

## **Interest Expense - FHLBank Advances, Short-term Borrowings and Structured Repurchase Agreements, Subordinated Debentures Issued to Capital Trust and Subordinated Notes**

Interest expense on FHLBank advances decreased due to lower average balances, partially offset by higher average rates of interest. Interest expense on FHLBank advances decreased \$1.4 million due to a decrease in average balances from \$175.9 million during the year ended December 31, 2015, to \$68.3 million during the year ended December 31, 2016. This decrease was primarily due to the paydown and partial replacement of short-term FHLBank advances with overnight fed funds borrowings from the FHLBank. Partially offsetting the decrease due to reduced average balances was an increase in interest expense of \$919,000 due to an increase in average interest rates from 0.97% in the year ended December 31, 2015, to 1.78% in the year ended December 31, 2016. The increase in the average rate was due to a change in the mix of advances compared to the prior year. Short-term advances with very low interest rates were utilized more significantly in the prior year, which caused the overall average rate to be lower. In the current year, the Company utilized more overnight borrowings from the FHLBank which are included in short-term borrowings, with the remaining balance of FHLBank advances being longer term at a higher rate.

Interest expense on short-term borrowings and repurchase agreements increased \$996,000 due to average rates that increased from 0.03% in the year ended December 31, 2015, to 0.35% in the year ended December 31, 2016. The increase was due to a change in the mix of borrowings in the current period, during which overnight fed funds borrowings from the FHLBank were increased, which are at a higher interest rate than customer repurchase agreements. Interest expense on short-term borrowings and repurchase agreements increased \$76,000 due to an increase in average balances from \$192.1 million during the year ended December 31, 2015, to \$327.7 million during the year ended December 31, 2016, which is primarily due to an increase in short-term borrowings from the FHLBank.

During the year ended December 31, 2016, compared to the year ended December 31, 2015, interest expense on subordinated debentures issued to capital trusts increased \$168,000 due to higher average interest rates. The average interest rate was 2.48% in 2015, compared to 3.12% in 2016. The increase in the interest rate resulted from the amortization of the cost of interest rate caps the Company purchased in 2013 to limit the interest rate risk from rising LIBOR rates related to the Company's subordinated debentures issued to capital trusts. Interest expense on subordinated debentures issued to capital trusts decreased \$79,000 due to a decrease in average balances from \$28.8 million for the year ended December 31, 2015 to \$25.8 million during the year ended December 31, 2016. The average balance decreased because the Company redeemed \$5.0 million of its subordinated debentures issued to capital trust during 2015. The remaining debentures are variable-rate debentures which bear interest at an average rate of three-month LIBOR plus 1.60%, adjusting quarterly. The average interest rate will continue to be higher than this until the third quarter of 2017 as a result of the amortization of the cost of the interest rate cap.

In August 2016, the Company issued \$75 million of 5.25% fixed-to-floating rate subordinated notes due August 15, 2026. The notes were sold at par, resulting in net proceeds, after underwriting discounts and commissions and other issuance costs, of approximately \$73.5 million. Interest expense on the subordinated notes for the year ended December 31, 2016 was \$1.6 million.

### **Net Interest Income**

Net interest income for the year ended December 31, 2016 decreased \$5.3 million to \$163.1 million compared to \$168.4 million for the year ended December 31, 2015. Net interest margin was 4.05% for the year ended December 31, 2016, compared to 4.53% in 2015, a decrease of 48 basis points. In both years, the Company's net interest income and margin have been significantly impacted by the increases in expected cash flows to be received from the FDIC-acquired loan pools and the resulting increase to accretible yield, which was discussed previously in "Interest Income – Loans" and is discussed in Note 4 of the accompanying audited financial statements. The positive impact of these changes on the years ended December 31, 2016 and 2015 were increases in interest income of \$16.4 million and \$28.5 million, respectively, and increases in net interest margin of 41 basis points and 77 basis points, respectively. Excluding the positive impact of the additional yield accretion, net interest margin decreased 12 basis points during the year ended December 31, 2016. The decrease in net interest margin was primarily due to a decrease in average interest rate on loans (primarily due to decreased interest income on loans acquired in the FDIC-assisted transactions) and an increase in the average interest rate on time deposits and borrowings, partially offset by an increase in the average interest rate on investment securities.

The Company's overall interest rate spread decreased 51 basis points, or 11.5%, from 4.44% during the year ended December 31, 2015, to 3.93% during the year ended December 31, 2016. The decrease was due to a 36 basis point decrease in the weighted average yield on interest-earning assets and a 15 basis point increase in the weighted average rate paid on interest-bearing liabilities. In comparing the two years, the yield on loans decreased 59 basis points while the yield on investment securities and other interest-earning assets increased 25 basis points. The rate paid on deposits increased 10 basis points, the rate paid on FHLBank advances increased 81 basis points, the rate paid on short-term borrowings increased 32 basis points and the rate paid on subordinated debentures issued to capital trust increased 64 basis points. In addition, the new subordinated notes paid interest at an average rate of 553 basis points.

For additional information on net interest income components, refer to the "Average Balances, Interest Rates and Yields" table in this Report.

### **Provision for Loan Losses and Allowance for Loan Losses**

Management records a provision for loan losses in an amount it believes sufficient to result in an allowance for loan losses that will cover current net charge-offs as well as risks believed to be inherent in the loan portfolio of the Bank. The amount of provision charged against current income is based on several factors, including, but not limited to, past loss experience, current portfolio mix, actual and potential losses identified in the loan portfolio, economic conditions, and internal as well as external reviews. The levels of non-performing assets, potential problem loans, loan loss provisions and net charge-offs fluctuate from period to period and are difficult to predict.

Weak economic conditions, higher inflation or interest rates, or other factors may lead to increased losses in the portfolio and/or requirements for an increase in loan loss provision expense. Management maintains various controls in an attempt to limit future losses, such as a watch list of possible problem loans, documented loan administration policies and a loan review staff to review the quality and anticipated collectability of the portfolio. Additional procedures provide for frequent management review of the loan portfolio based on loan size, loan type, delinquencies, financial analysis, on-going correspondence with borrowers and problem loan work-outs. Management determines which loans are potentially uncollectible, or represent a greater risk of loss, and makes additional provisions to expense, if necessary, to maintain the allowance at a satisfactory level.

The provision for loan losses increased \$3.8 million, to \$9.3 million, during the year ended December 31, 2016, when compared with the year ended December 31, 2015. At December 31, 2016, the allowance for loan losses was \$37.4 million, a decrease of \$749,000 from December 31, 2015. Total net charge-offs were \$10.0 million and \$5.8 million for the years ended December 31, 2016 and 2015, respectively. Excluding those related to loans covered by loss sharing agreements, six relationships made up \$5.5 million of the total \$10.0 million in net charge-offs for the year ended December 31, 2016. Gross charge-offs for the year were partially offset by recoveries, including recoveries on two separate relationships totaling \$1.1 million, which had previously been charged off. During the year ended December 31, 2016, \$3.8 million of the \$10.0 million of net charge-offs were in the consumer auto category. General market conditions and unique circumstances related to individual borrowers and projects contributed to the level of provisions and charge-offs. As properties were categorized as potential problem loans, non-performing loans or foreclosed assets, evaluations were made of the values of these assets with corresponding charge-offs as appropriate.

At December 31, 2016, loans acquired in the InterBank FDIC-assisted transaction were covered by a loss sharing agreement between the FDIC and Great Southern Bank, which affords Great Southern Bank at least 80% protection from losses in the acquired portfolio of loans. The FDIC loss sharing agreement is subject to limitations on the types of losses covered and the length of time losses are covered and is conditioned upon the Bank complying with its requirements in the agreement with the FDIC. These limitations are described in detail in Note 4 of the accompanying financial statements. In April 2016, the loss sharing agreements for Team Bank, Vantus Bank and Sun Security Bank were terminated. Loans acquired from the FDIC related to Valley Bank did not have a loss sharing agreement. All acquired loans were grouped into pools based on common characteristics and were recorded at their estimated fair values, which incorporated estimated credit losses at the acquisition date. These loan pools are systematically reviewed by the Company to determine the risk of losses that may exceed those identified at the time of the acquisition. Techniques used in determining risk of loss are similar to those used to determine the risk of loss for the legacy Great Southern Bank portfolio, with most focus being placed on those loan pools which include the larger loan relationships and those loan pools which exhibit higher risk characteristics. Review of the acquired loan portfolio also includes meetings with customers, review of financial information and collateral valuations to determine if any additional losses are apparent.

The allowance for loan losses as a percentage of total loans, excluding acquired covered and non-covered loans, was 1.04% and 1.20% at December 31, 2016 and 2015, respectively. Management considers the allowance for loan losses adequate to cover losses inherent in the Company's loan portfolio at December 31, 2016, based on recent reviews of the Company's loan portfolio and current economic conditions. If economic conditions were to deteriorate or management's assessment of the loan portfolio were to change, it is possible that additional loan loss provisions would be required, thereby adversely affecting future results of operations and financial condition.

### **Non-performing Assets**

Former TeamBank, Vantus Bank, Sun Security Bank and InterBank non-performing assets, including foreclosed assets and potential problem loans, are not included in the totals or in the discussion of non-performing loans, potential problem loans and foreclosed assets below as they are, or were, subject to loss sharing agreements with the FDIC, which cover at least 80% of principal losses that may be incurred in these portfolios for the applicable terms under the agreements. In addition, these assets were initially recorded at their estimated fair values as of their acquisition dates. The overall performance of the loan pools acquired in 2009, 2011 and 2012 in FDIC-assisted transactions has been better than original expectations as of the acquisition dates. Former Valley Bank loans are also excluded from the totals and the discussion of non-performing loans, potential problem loans and foreclosed assets below, although they are not covered by a loss sharing agreement. Former Valley Bank loans are accounted for in pools and were recorded at their fair value at the time of the acquisition; therefore, these loan pools are analyzed rather than the individual loans.

As previously discussed, the remaining loss sharing agreements for Team Bank, Vantus Bank and Sun Security Bank were terminated in April 2016. Loss sharing agreements covering single-family loans and foreclosed assets and non-single-family loans and foreclosed assets related to the Inter Savings Bank FDIC-assisted acquisition are still in place in accordance with their contractual terms.

As a result of changes in balances and composition of the loan portfolio, changes in economic and market conditions that occur from time to time, and other factors specific to a borrower's circumstances, the level of non-performing assets will fluctuate.

Non-performing assets, excluding FDIC-covered and formerly covered non-performing assets and other FDIC-assisted acquired assets, at December 31, 2016, were \$39.3 million, a decrease of \$4.7 from \$44.0 million at December 31, 2015. Non-performing assets, excluding FDIC-covered and formerly covered non-performing assets and other FDIC-assisted acquired assets, as a percentage of total assets were 0.86% at December 31, 2016, compared to 1.07% at December 31, 2015.

Compared to December 31, 2015, non-performing loans decreased \$2.5 million to \$14.1 million at December 31, 2016, and foreclosed assets decreased \$2.1 million to \$25.2 million at December 31, 2016. Non-performing commercial real estate loans comprised \$4.4 million, or 31.3%, of the total of \$14.1 million of non-performing loans at December 31, 2016. The majority of the decrease in the commercial real estate category was due to one relationship where the notes were sold and the loans paid off after charge-offs of \$2.0 million during 2016. Another relationship totaling \$982,000 was transferred to foreclosed assets. In addition, \$3.1 million of the

transfers to foreclosed assets in the commercial real estate category and approximately \$670,000 of the charge-offs were related to another relationship. Non-performing commercial business loans were \$3.1 million, or 21.9%, of total non-performing loans at December 31, 2016. The increase in non-performing commercial business loans was primarily due to the addition of one relationship in 2016. Non-performing consumer loans were \$2.6 million, or 18.7%, of total non-performing loans at December 31, 2016. Non-performing one-to four-family residential loans comprised \$2.0 million, or 13.9%, of the total non-performing loans at December 31, 2016. Non-performing land development loans were \$1.7 million, or 12.2%, of total non-performing loans at December 31, 2016. The increase in non-performing land development loans was primarily due to the addition of one relationship in 2016.

*Non-performing Loans.* Activity in the non-performing loans category during the year ended December 31, 2016, was as follows:

	<b>Beginning Balance, January 1</b>	<b>Additions</b>	<b>Removed from Non- Performing</b>	<b>Transfers to Potential Problem Loans</b>	<b>Transfers to Foreclosed Assets</b>	<b>Charge-Offs</b>	<b>Payments</b>	<b>Ending Balance, December 31</b>
(In Thousands)								
One- to four-family construction	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Subdivision construction	—	143	—	—	—	—	(34)	109
Land development	139	1,635	—	—	—	(30)	(26)	1,718
Commercial construction	—	—	—	—	—	—	—	—
One- to four-family residential	1,357	1,834	(84)	(103)	(412)	(197)	(433)	1,962
Other residential	—	178	—	—	—	(16)	—	162
Commercial real estate	13,488	6,949	—	—	(7,249)	(3,455)	(5,329)	4,404
Other commercial	288	3,448	—	(78)	—	(185)	(385)	3,088
Consumer	1,297	4,842	(259)	(114)	(666)	(990)	(1,472)	2,638
<b>Total</b>	<b>\$ 16,569</b>	<b>\$ 19,029</b>	<b>\$ (343)</b>	<b>\$ (295)</b>	<b>\$ (8,327)</b>	<b>\$ (4,873)</b>	<b>\$ (7,679)</b>	<b>\$ 14,081</b>

At December 31, 2016, the non-performing commercial real estate category included 10 loans, seven of which were added during the year. The largest relationship in this category, which was added prior to 2016, totaled \$1.7 million, or 38.5% of the total category, and is collateralized by a theatre property in Branson, Mo. One relationship in this category, which had a balance of \$6.5 million at December 31, 2015, had \$2.0 million in charge-offs and \$5.1 million in payments (net of operating funds advanced) during the year. The relationship was collateralized by three operating long-term health care facilities in Missouri. These related notes were sold during 2016 for payment of the amount of the remaining balances after the charge-offs, resulting in a balance of zero at December 31, 2016. During 2016, \$3.1 million of the transfers to foreclosed assets in the commercial real estate category and approximately \$670,000 of the charge-offs were related to another relationship. This relationship is secured by property located in the Branson, Mo., area, and includes a lakefront resort, marina and related amenities, condominiums and lots. In addition to those relationships already discussed, \$3.8 million of the transfers to foreclosed assets in the commercial real estate category during the year related to three additional relationships. The non-performing commercial business category included five loans, four of which were added during 2016. The largest loan in this category, which was added in 2016, totaled \$3.0 million, or 95.6% of the total category, and is secured by the borrower's interest in a condo project in Branson, Mo. The Bank's lending involvement with this project dates back to 2005. This project had experienced some performance difficulties in the past and a new borrower became involved in this project during 2013. The non-performing one- to four-family residential category included 38 loans, 27 of which were added during 2016. The non-performing land development category included two loans. The largest loan in this category, which was originated in 2007, totaled \$1.6 million, or 95.1% of the total category, and was collateralized by land in the St. Louis, Mo. area. The non-performing consumer category included 188 loans, 174 of which were added during 2016.

*Foreclosed Assets.* Of the total \$32.7 million of other real estate owned at December 31, 2016, \$1.4 million represents the fair value of foreclosed assets covered by FDIC loss sharing agreements, \$316,000 represents the fair value of foreclosed assets previously covered by FDIC loss sharing agreements, \$2.0 million represents foreclosed assets related to Valley Bank and not covered by loss sharing agreements, \$9,000 represents other repossessed assets related to acquired loans, and \$3.7 million represents properties which were not acquired through foreclosure, including former branch locations that have been closed and are held for sale and land which was acquired for a potential branch location. The acquired loss share covered and non-covered foreclosed and other assets acquired in the FDIC-assisted transactions and the properties not acquired through foreclosure are not included in the following table and discussion of other real estate owned. Because sales of foreclosed properties exceeded additions, total foreclosed assets decreased. Activity in foreclosed assets during the year ended December 31, 2016, was as follows:

	<b>Beginning Balance, January 1</b>	<b>Additions</b>	<b>Proceeds from Sales</b>	<b>Capitalized Costs</b>	<b>ORE Expense Write-Downs</b>	<b>Ending Balance, December 31</b>
	(In Thousands)					
One- to four-family construction	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Subdivision construction	7,016	—	(362)	—	(294)	6,360
Land development	12,133	—	(1,247)	—	—	10,886
Commercial construction	—	—	—	—	—	—
One- to four-family residential	1,375	477	(435)	—	(200)	1,217
Other residential	2,150	—	(1,252)	146	(90)	954
Commercial real estate	3,608	7,094	(6,170)	—	(691)	3,841
Commercial business	—	—	—	—	—	—
Consumer	1,109	13,332	(12,450)	—	—	1,991
<b>Total</b>	<b>\$ 27,391</b>	<b>\$ 20,903</b>	<b>\$ (21,916)</b>	<b>\$ 146</b>	<b>\$ (1,275)</b>	<b>\$ 25,249</b>

At December 31, 2016, the land development category of foreclosed assets included 22 properties, the largest of which was located in northwest Arkansas and had a balance of \$1.4 million, or 12.6% of the total category. Of the total dollar amount in the land development category of foreclosed assets, 39.1% and 33.1% was located in the Branson, Mo. area and in the northwest Arkansas area, respectively, including the largest property previously mentioned. The subdivision construction category of foreclosed assets included 27 properties, the largest of which was located in the Springfield, Mo. metropolitan area and had a balance of \$1.2 million, or 19.4% of the total category. Of the total dollar amount in the subdivision construction category of foreclosed assets, 29.4% and 19.4% is located in Branson, Mo. and Springfield, Mo., respectively, including the largest property previously mentioned. The commercial real estate category of foreclosed assets included six properties. The largest relationship in the commercial real estate category, which includes two properties which were added during 2016, totaled \$1.5 million, or 39.6% of the total category, and is made up of commercial retail property in Texas and Georgia, which was previously in non-performing loans. The second largest relationship in the commercial real estate category, which was added during 2016, totaled \$1.3 million, or 33.3% of the total category, and is a hotel located in the western United States, which was previously in non-performing loans. The \$6.2 million in sales in the commercial real estate category of foreclosed assets was primarily from three properties. Sales of \$2.1 million related to a property which is located in southeast Missouri and was added in 2015. Sales of \$2.9 million related to a property located in the Branson, Mo., area, and included a lakefront resort, marina and related amenities, condominiums and lots. Sales of \$982,000 related to a motel property located in Springfield, Mo. The one-to four-family residential category of foreclosed assets included nine properties, of which the largest relationship, with one property in the southwest Missouri area, had a balance of \$421,000, or 34.6% of the total category. Of the total dollar amount in the one-to- four-family category of foreclosed assets, 44.4% is located in the Branson, Mo., area. The other residential category of foreclosed assets included five properties, four of which were part of the same condominium community, located in Branson, Mo. and had a balance of \$694,000, or 72.7% of the total category. The sales of \$1.3 million in the other residential category were from six additional properties that were part of the same condominium community which were sold during 2016. The larger amount of additions and sales under consumer loans are due to a higher volume of repossessions of automobiles, which generally are subject to a shorter repossession process. Compared to previous years, in 2016 the Company experienced increased levels of delinquencies and repossessions in consumer loans, primarily indirect used automobile loans.

*Potential Problem Loans.* Potential problem loans decreased \$5.8 million during the year ended December 31, 2016, from \$12.8 million at December 31, 2015 to \$7.0 million at December 31, 2016. This decrease was due to \$6.0 million in loans transferred to the non-performing category, \$2.6 million in loans removed from potential problem loans due to improvements in the credits, \$2.2 million in charge-offs, \$65,000 in loans transferred to foreclosed assets, and \$3.4 million in payments on potential problem loans, partially offset by the addition of \$8.5 million of loans to potential problem loans. Potential problem loans are loans which management has identified through routine internal review procedures as having possible credit problems that may cause the borrowers difficulty in complying with current repayment terms. These loans are not reflected in non-performing assets, but are considered in determining the adequacy of the allowance for loan losses. Activity in the potential problem loans category during the year ended December 31, 2016, was as follows:

	Beginning Balance, January 1	Additions	Removed from Potential Problem	Transfers to Non- Performing	Transfers to Foreclosed Assets	Charge-Offs	Payments	Ending Balance, December 31
(In Thousands)								
One- to four-family construction	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Subdivision construction	288	—	(141)	(143)	—	—	(4)	—
Land development	4,130	5	—	—	—	—	—	4,135
Commercial construction	—	—	—	—	—	—	—	—
One- to four-family residential	844	196	(410)	(101)	(65)	(2)	(23)	439
Other residential	1,956	178	—	(178)	—	—	(1,956)	—
Commercial real estate	5,286	7,626	(1,802)	(5,544)	—	(2,142)	(1,362)	2,062
Other commercial	181	284	(153)	—	—	(68)	(40)	204
Consumer	134	221	(126)	(75)	—	—	(32)	122
<b>Total</b>	<b>\$ 12,819</b>	<b>\$ 8,510</b>	<b>\$ (2,632)</b>	<b>\$ (6,041)</b>	<b>\$ (65)</b>	<b>\$ (2,212)</b>	<b>\$ (3,417)</b>	<b>\$ 6,962</b>

At December 31, 2016, the land development category of potential problem loans included three loans. The largest loan in this category, which was added prior to 2016 and is collateralized by property in the Branson, Mo., area, totaled \$3.8 million, or 92.9% of the total category. The commercial real estate category of potential problem loans included four loans, all of which were added prior to 2016. The largest relationship in this category contains two loans, with a total balance of \$1.3 million, or 63.4% of the commercial real estate category. This relationship is collateralized by commercial entertainment property and other property in Branson, Mo. Two relationships made up \$4.5 million in transfers to non-performing assets and \$1.8 million in charge-offs in the commercial real estate category during 2016. These relationships are discussed above under non-performing loans. Of the \$1.4 million in payments in this category, 95% was related to one loan, which was paid in full during 2016. The other residential category of potential problem loans has a balance of zero at December 31, 2016. During the year, payment was received in full on one loan which was previously included in the other residential category of potential problem loans totaling \$2.0 million. This loan was to the same borrower that was referenced above in the land development category.

### Non-Interest Income

Non-interest income for the year ended December 31, 2016 was \$28.5 million compared with \$13.6 million for the year ended December 31, 2015. The increase of \$14.9 million, or 109.9 %, was primarily the result of the following items:

Amortization of income related to business acquisitions: The net amortization expense related to business acquisitions was reduced to \$6.9 million for the year ended December 31, 2016, compared to \$18.3 million for the year ended December 31, 2015. The amortization expense for the year ended December 31, 2016, consisted of the following items: \$5.8 million of amortization expense related to the changes in cash flows expected to be collected from the FDIC-covered loan portfolios, \$584,000 of impairment to certain indemnification assets and \$1.4 million of amortization of the clawback liability. The impairment of the indemnification asset was recorded pursuant to the expected loss on the FDIC loss share termination agreements that occurred in April 2016, as discussed in the Company's March 31, 2016 Quarterly Report on Form 10-Q. Partially offsetting the expense was income from the accretion of the discount related to the indemnification asset for the InterBank acquisition of \$896,000.

Net realized gains on sales of available-for-sale securities: During 2016, the Company sold an investment held at the holding company level for a gain of \$2.7 million. This investment, the original amount of which was \$1.0 million, was made in a managed equity fund. The Company was required to divest this investment as a result of recent regulations enacted by the Federal Reserve Board. There were no material gains on sales of investments in 2015.

Service charges and ATM fees: Service charges and ATM fees increased \$1.8 million compared to the prior year, primarily due to the additional accounts acquired in the Fifth Third Bank transaction in January 2016, which have had high levels of debit card activity, and overall higher levels of point-of-sale card activity.

Other income: Other income decreased \$918,000 compared to the prior year. During 2015, the Company recorded a \$1.1 million gain when it redeemed the trust preferred securities previously issued by Great Southern Capital Trust III at a discount. Also in 2015,

the Company sold a banking center building in Nebraska at a net gain of \$671,000. In addition, during 2015, the Company recognized a \$300,000 gain on the sale of a non-marketable investment. The Company recognized a \$257,000 gain on the sale of the Thayer, Mo., branch and deposits during the first quarter of 2016 and a \$110,000 gain was recognized on the sale of the Buffalo, Mo., branch and deposits during the first quarter of 2016. In addition, in 2016, a gain of \$238,000 was recognized on sales of fixed assets unrelated to the branch sales.

### **Non-Interest Expense**

Total non-interest expense increased \$6.0 million, or 5.3%, from \$114.4 million in the year ended December 31, 2015, to \$120.4 million in the year ended December 31, 2016. The Company's efficiency ratio for the year ended December 31, 2016 was 62.86%, slightly higher than the 62.85% in 2015. The 2016 ratio was negatively affected by the increase in non-interest expense and the decrease in net interest income, offset by an increase in non-interest income. The Company's ratio of non-interest expense to average assets decreased from 2.81% for the year ended December 31, 2015, to 2.76% for the year ended December 31, 2016. The decrease in the current year ratio was due to the increase in average assets in 2016 compared to 2015, partially offset by the increase in non-interest expense. Average assets for the year ended December 31, 2016, increased \$303.4 million, or 7.5%, from the year ended December 31, 2015. The following were key items related to the increase in non-interest expense for the year ended December 31, 2016 as compared to the year ended December 31, 2015:

Fifth Third Bank branch acquisition expenses: The Company incurred approximately \$1.4 million of expenses during 2016 related to the acquisition of certain branches of Fifth Third Bank, versus approximately \$482,000 in acquisition related expenses in the prior year. Those expenses for 2016 (net of prior year expense, if applicable), included approximately \$317,000 of legal, audit and other professional fees expense, approximately \$294,000 of computer license and support expense, approximately \$436,000 in charges to replace former Fifth Third Bank customer checks with Great Southern Bank checks, and approximately \$54,000 of travel, meals and other expenses related to the transaction and similar costs incurred during the year. A number of these increases are discussed in the related categories below.

Salaries and employee benefits: Salaries and employee benefits increased \$1.7 million over the prior year period. Salaries increased due to additional employee costs related to the branches acquired from Fifth Third Bank during the first quarter of 2016 (\$2.3 million during 2016), which was partially offset by the reduction in expenses related to the 16 banking centers which were closed or sold during the first quarter of 2016 (\$1.7 million during the prior year). The remaining increase was due to increased staffing due to growth in lending and other operational areas.

Expense on foreclosed assets: Expense on foreclosed assets increased \$1.6 million compared to the prior year due to expenses and valuation write-downs of foreclosed assets, and the loss on final disposition of certain assets during the current year. During 2016, expenses and loss on final disposition of two related properties totaling \$320,000 were incurred. In addition, approximately \$912,000 in valuation write-downs, primarily related to these two properties, were taken during 2016. Collection expenses and losses on sales of non-real estate assets (primarily automobiles) increased \$652,000 in 2016 compared to 2015. The Company has increased its consumer lending, primarily in indirect automobile lending, significantly in the past few years. The Company does not currently expect significant increases in this type of lending in future periods.

Other operating expenses: Other operating expenses increased \$1.6 million in the year ended December 31, 2016 compared to 2015. Of this amount, \$436,000 relates to check charges to replace Fifth Third customer checks as part of the acquisition in the first quarter of 2016. There was also increased expense due to higher levels of debit card and check fraud losses in 2016. These losses totaled \$1.9 million in 2016 compared to \$619,000 in 2015. A large portion of the increase related to debit card fraud that resulted from a data security breach at a national retail merchant which operates stores in many of our markets, affecting some of our debit card customers who transacted business with the merchant. The losses incurred by the Company resulted from regulatory requirements that banks reimburse debit card customers for unauthorized transactions. In regard to this particular merchant breach, we currently believe that further loss exposure will not be significant.

Legal, audit and other professional fees: Legal, audit and other professional fees increased \$478,000 from the prior year due to legal and professional fees related to the Fifth Third transaction, legal fees related to the resolution of two large non-performing loan relationships, and increased audit and accounting fees.

Supplies expense: Supplies expense increased \$375,000 compared to the prior year primarily due to approximately \$318,000 of one-time costs incurred to stock a supply of chip-enabled debit cards. In October 2016, the Company began mass issuing chip-enabled debit cards to its deposit customer base.



## **Provision for Income Taxes**

The Company's effective tax rate was 26.7% and 25.1% for the years ended December 31, 2016 and 2015, respectively, which was lower than the statutory federal tax rate of 35%, due primarily to the utilization of certain investment tax credits and to tax-exempt investments and tax-exempt loans which reduced the Company's effective tax rate. In future periods, the Company expects its effective tax rate typically will be 26-28% of pre-tax net income, assuming it continues to maintain or increase its use of investment tax credits and maintain or increase its pre-tax net income. The Company's effective tax rate may fluctuate as it is impacted by the level and timing of the Company's utilization of tax credits and the level of tax-exempt investments and loans and the overall level of pretax income.

## **Average Balances, Interest Rates and Yields**

The following table presents, for the periods indicated, the total dollar amount of interest income from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. Average balances of loans receivable include the average balances of non-accrual loans for each period. Interest income on loans includes interest received on non-accrual loans on a cash basis. Interest income on loans includes the amortization of net loan fees which were deferred in accordance with accounting standards. Fees included in interest income were \$5.0 million, \$4.4 million and \$3.2 million for 2016, 2015 and 2014, respectively. Tax-exempt income was not calculated on a tax equivalent basis. The table does not reflect any effect of income taxes.

	Dec. 31, 2016 <sup>(2)</sup>	Year Ended December 31, 2016			Year Ended December 31, 2015			Year Ended December 31, 2014		
	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
(Dollars In Thousands)										
Interest-earning assets:										
Loans receivable:										
One- to four-family residential	4.16%	\$ 538,776	\$ 28,674	5.32%	\$ 459,378	\$ 34,653	7.54%	\$ 480,827	\$ 41,343	8.60%
Other residential	4.07	535,793	25,052	4.68	423,476	21,236	5.01	375,754	21,268	5.66
Commercial real estate	4.19	1,146,983	53,516	4.67	1,071,765	50,952	4.75	920,340	47,724	5.19
Construction	3.85	394,051	18,059	4.58	340,666	15,538	4.56	259,993	13,330	5.13
Commercial business	4.37	316,526	17,389	5.49	328,319	19,137	5.83	296,318	17,722	5.98
Other loans	5.83	693,550	34,176	4.93	569,873	33,377	5.86	404,375	28,593	7.07
Industrial revenue bonds (1)	5.21	33,681	2,017	5.99	42,310	2,347	5.55	46,499	2,589	5.57
Total loans receivable	4.58	3,659,360	178,883	4.89	3,235,787	177,240	5.48	2,784,106	172,569	6.20
Investment securities (1)	3.13	249,484	5,741	2.30	330,328	6,797	2.06	495,155	10,467	2.11
Other interest-earning assets	0.66	116,812	551	0.47	152,720	314	0.21	185,072	326	0.18
Total interest-earning assets	4.35	4,025,656	185,175	4.60	3,718,835	184,351	4.96	3,464,333	183,362	5.29
Non-interest-earning assets:										
Cash and cash equivalents		108,593			106,326			96,665		
Other non-earning assets		236,544			242,238			263,495		
Total assets		<u>\$4,370,793</u>			<u>\$4,067,399</u>			<u>\$3,824,493</u>		
Interest-bearing liabilities:										
Interest-bearing demand and savings	0.26	\$ 1,496,837	3,888	0.26	\$ 1,404,489	2,858	0.20	\$ 1,429,893	3,088	0.22
Time deposits	1.01	1,370,935	13,499	0.98	1,257,059	10,653	0.85	1,042,563	8,137	0.78
Total deposits	0.63	2,867,772	17,387	0.61	2,661,548	13,511	0.51	2,472,456	11,225	0.45
Short-term borrowings and repurchase agreements	0.50	327,658	1,137	0.35	192,055	65	0.03	188,906	1,099	0.58
Subordinated debentures issued to capital trust	2.49	25,774	803	3.12	28,754	714	2.48	30,929	567	1.83
Subordinated notes	5.45	28,526	1,578	5.53	—	—	—	—	—	—
FHLB advances	3.30	68,325	1,214	1.78	175,873	1,707	0.97	171,997	2,910	1.69
Total interest-bearing liabilities	0.76	3,318,055	22,119	0.67	3,058,230	15,997	0.52	2,864,288	15,801	0.55
Non-interest-bearing liabilities:										
Demand deposits		608,115			541,714			535,132		
Other liabilities		29,824			28,772			22,403		
Total liabilities		3,955,994			3,628,716			3,421,823		
Stockholders' equity		414,799			438,683			402,670		
Total liabilities and stockholders' equity		<u>\$4,370,793</u>			<u>\$4,067,399</u>			<u>\$3,824,493</u>		
Net interest income:										
Interest rate spread	3.59%		\$163,056	3.93%		\$168,354	4.44%		\$167,561	4.74%
Net interest margin*				4.05%			4.53%			4.84%
Average interest-earning assets to average interest-bearing liabilities		121.3%			121.6%			120.9%		

\* Defined as the Company's net interest income divided by total interest-earning assets.

(1) Of the total average balances of investment securities, average tax-exempt investment securities were \$72.0 million, \$79.9 million and \$87.9 million for 2016, 2015 and 2014, respectively. In addition, average tax-exempt industrial revenue bonds were \$32.0 million, \$36.1 million and \$38.5 million in 2016, 2015 and 2014, respectively. Interest income on tax-exempt assets included in this table was \$3.8 million, \$4.4 million and \$5.2 million for 2016, 2015 and 2014, respectively. Interest income net of disallowed interest expense related to tax-exempt assets was \$3.7 million, \$4.2 million and \$5.0 million for 2016, 2015 and 2014, respectively.

(2) The yield/rate on loans at December 31, 2016 does not include the impact of the accretible yield (income) on loans acquired in the FDIC-assisted transactions. See "Net Interest Income" for a discussion of the effect on 2016 results of operations.

## Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities for the periods shown. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in rate (i.e., changes in rate multiplied by old volume) and (ii) changes in volume (i.e., changes in volume multiplied by old rate). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to volume and rate. Tax-exempt income was not calculated on a tax equivalent basis.

	Year Ended December 31, 2016 vs. December 31, 2015			Year Ended December 31, 2015 vs. December 31, 2014		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Rate	Volume		Rate	Volume	
	(In Thousands)					
Interest-earning assets:						
Loans receivable	\$ (20,188)	\$ 21,831	\$ 1,643	\$ (21,429)	\$ 26,100	\$ 4,671
Investment securities	740	(1,796)	(1,056)	(272)	(3,398)	(3,670)
Other interest-earning assets	<u>326</u>	<u>(89)</u>	<u>237</u>	<u>50</u>	<u>(62)</u>	<u>(12)</u>
Total interest-earning assets	<u>(19,122)</u>	<u>19,946</u>	<u>824</u>	<u>(21,651)</u>	<u>22,640</u>	<u>989</u>
Interest-bearing liabilities:						
Demand deposits	832	198	1,030	(176)	(54)	(230)
Time deposits	<u>1,825</u>	<u>1,021</u>	<u>2,846</u>	<u>741</u>	<u>1,775</u>	<u>2,516</u>
Total deposits	2,657	1,219	3,876	565	1,721	2,286
Short-term borrowings and structured repo	996	76	1,072	(1,052)	18	(1,034)
Subordinated debentures issued to capital trust	168	(79)	89	189	(42)	147
Subordinated notes	—	1,578	1,578	—	—	—
FHLBank advances	<u>919</u>	<u>(1,412)</u>	<u>(493)</u>	<u>(1,267)</u>	<u>64</u>	<u>(1,203)</u>
Total interest-bearing liabilities	<u>4,740</u>	<u>1,382</u>	<u>6,122</u>	<u>(1,565)</u>	<u>1,761</u>	<u>196</u>
Net interest income	<u>\$ (23,862)</u>	<u>\$ 18,564</u>	<u>\$ (5,298)</u>	<u>\$ (20,086)</u>	<u>\$ 20,879</u>	<u>\$ 793</u>

## Results of Operations and Comparison for the Years Ended December 31, 2015 and 2014

### General

Net income increased \$3.0 million, or 6.8%, during the year ended December 31, 2015, compared to the year ended December 31, 2014. Net income was \$46.5 million for the year ended December 31, 2015 compared to \$43.5 million for the year ended December 31, 2014. This increase was due to an increase in net interest income of \$793,000, or 0.5% and a decrease in non-interest expense of \$6.5 million, or 5.4%, partially offset by an increase in provision for income taxes of \$1.8 million, or 13.2%, an increase in the provision for loan losses of \$1.4 million, or 33.0% and a decrease in non-interest income of \$1.2 million, or 7.8%. Non-interest income for the year ended December 31, 2014 included a gain recognized on business acquisition of \$10.8 million. Net income available to common shareholders was \$45.9 million for the year ended December 31, 2015 compared to \$43.0 million for the year ended December 31, 2014.

### Total Interest Income

Total interest income increased \$989,000, or 0.5%, during the year ended December 31, 2015 compared to the year ended December 31, 2014. The increase was due to a \$4.7 million, or 2.7%, increase in interest income on loans, partially offset by a \$3.7 million, or 34.1%, decrease in interest income on investments and other interest-earning assets. Interest income on loans increased in 2015 due to higher average balances on loans, partially offset by lower average rates of interest. Interest income from investment securities and other interest-earning assets decreased during 2015 compared to 2014 primarily due to lower average balances. The lower average balances of investments were primarily due to the sale of certain mortgage-backed securities, and as a result of management's decision to not reinvest mortgage-backed securities' monthly cash flows and proceeds of sales back into investments, but to utilize the proceeds to fund a portion of our loan growth. Prepayments on the mortgages underlying these securities resulted in amortization of premiums

which also reduced yields. Interest income on loans is affected by variations in the adjustments to accretable yield due to increases in expected cash flows to be received from the FDIC-acquired loan pools as discussed below in “Interest Income – Loans” and in Note 4 of the accompanying audited financial statements. In 2015, many higher yielding loans matured or were repaid. These loans were replaced with new loans that were generally at rates lower than those that repaid during the year, resulting in lower overall yields in the loan portfolio. Higher average balances of loans more than offset the lower interest yield on loans.

### **Interest Income - Loans**

During the year ended December 31, 2015 compared to the year ended December 31, 2014, interest income on loans increased due to higher average balances, partially offset by lower average interest rates. Interest income increased \$26.1 million as a result of higher average loan balances which increased from \$2.78 billion during the year ended December 31, 2014 to \$3.24 billion during the year ended December 31, 2015. The higher average balances were primarily due to increases in commercial construction loans, consumer loans, commercial real estate loans, other residential loans and owner occupied one- to four-family residential loan categories. A portion of this average balance increase resulted from the Company acquiring \$165.1 million in loans (net of discounts) as part of the Valley Bank FDIC-assisted transaction on June 20, 2014, the aggregate balance of which was \$93.4 million (net of discounts) at December 31, 2015.

Interest income decreased \$21.4 million as the result of lower average interest rates on loans. The average yield on loans decreased from 6.20% during the year ended December 31, 2014 to 5.48% during the year ended December 31, 2015. This decrease was due to lower overall loan rates, and a lower amount of accretion income in the current year in conjunction with the fair value of the loan pools acquired in the FDIC-assisted transactions, as the additional yield accretion was lower in 2015 compared to 2014. On an on-going basis, the Company estimates the cash flows expected to be collected from the acquired loan pools. This cash flows estimate has increased, based on the payment histories and reduced loss expectations of the loan pools, resulting in adjustments to be spread on a level-yield basis over the remaining expected lives of the loan pools. For the loan pools acquired in the 2009, 2011 and 2012 FDIC-assisted transactions, the increases in expected cash flows also reduced the amount of expected reimbursements under the loss sharing agreements with the FDIC, which are recorded as indemnification assets. Therefore, the expected indemnification assets have also been reduced, resulting in adjustments to be amortized on a comparable basis over the remainder of the loss sharing agreements or the remaining expected life of the loan pools, whichever is shorter. For the years ended December 31, 2015 and 2014, the adjustments increased interest income by \$28.5 million and \$35.0 million, respectively, and decreased non-interest income by \$19.5 million and \$28.7 million, respectively. The net impact to pre-tax income was \$9.0 million and \$6.2 million, respectively, for the years ended December 31, 2015 and 2014. As of December 31, 2015, the remaining accretable yield adjustment that will affect interest income is \$12.0 million and the remaining adjustment to the indemnification assets, including the effects of the clawback liability related to InterBank, that will affect non-interest income (expense) is \$(8.6) million. Of the remaining adjustments, we expect to recognize \$9.1 million of interest income and \$(6.0) million of non-interest income (expense) during 2016. Additional adjustments may be recorded in future periods from the FDIC-assisted transactions, as the Company continues to estimate expected cash flows from the acquired loan pools. Apart from the yield accretion, the average yield on loans was 4.60% for the year ended December 31, 2015, down from 4.94% for the year ended December 31, 2014, as a result of loan pay-offs and normal amortization of higher-rate loans and new loans that were made at current lower market rates.

In addition, the Company’s net interest margin has been positively impacted by additional yield accretion recognized in conjunction with updated estimates of the fair value of the loan pools acquired in the June 2014 Valley Bank FDIC-assisted transaction. Beginning with the three months ended December 31, 2014, the cash flow estimates have increased for certain of the Valley Bank loan pools primarily based on significant loan repayments and also due to collection of certain loans, thereby reducing loss expectations on certain of the loan pools. This resulted in increased income that was spread on a level-yield basis over the remaining expected lives of these loan pools. The Valley Bank transaction does not include a loss sharing agreement with the FDIC. Therefore, there is no related indemnification asset. The entire amount of the discount adjustment will be accreted to interest income over time with no offsetting impact to non-interest income. The amount of the Valley Bank discount adjustment accreted to interest income for the year ended December 31, 2015 was \$5.7 million, and is included in the impact on net interest income/net interest margin amount discussed above. Based on current estimates, we anticipate recording additional interest income accretion of \$3.0 million during 2016 related to these Valley Bank loan pools.

In the year ended December 31, 2015, the Company collected \$891,000 from customers on loans which had previously not been expected to be collectible. In accordance with the Company’s accounting methodology, these collections were accounted for as increases in estimated cash flows and were recorded as interest income, thereby increasing net interest income and net interest margin. These collections related to acquired loans which were subject to loss sharing agreements with the FDIC; therefore, 80% of the amounts collected, or \$713,000, was owed to the FDIC. This \$713,000 of expense is included in non-interest income under “accretion (amortization) of income related to business acquisitions.”

## **Interest Income - Investments and Other Interest-earning Assets**

Interest income on investments decreased \$3.4 million as a result of a decrease in average balances from \$495.2 million during the year ended December 31, 2014, to \$330.3 million during the year ended December 31, 2015. Average balances of securities decreased due to sales of certain mortgage-backed securities, normal monthly payments received related to the portfolio of mortgage-backed securities, and calls and maturities of maturities of municipal securities. The investment securities were reduced because they were no longer needed for pledging. Interest income on investments decreased \$272,000 as a result of a decrease in average interest rates from 2.11% during the year ended December 31, 2014 to 2.06% during the year ended December 31, 2015. The majority of the Company's securities in 2014 and 2015 were mortgage-backed securities which are backed by hybrid ARMs that have fixed rates of interest for a period of time (generally one to ten years) and then adjust annually. The actual amount of securities that reprice and the actual interest rate changes on these securities are subject to the level of prepayments on these securities and the changes that actually occur in market interest rates (primarily treasury rates and LIBOR rates). Mortgage-backed securities are also subject to reduced yields due to more rapid prepayments in the underlying mortgages. As a result, premiums on these securities may be amortized against interest income more quickly, thereby reducing the yield recorded.

Interest income on other interest-earning assets decreased \$62,000 mainly due to lower average balances from \$185.1 million during the year ended December 31, 2014, to \$152.7 million during the year ended December 31, 2015. Average balances of interest-earning deposits decreased primarily due to the use of excess liquidity to fund a portion of the Company's loan growth. The Company's interest-earning deposits and non-interest-earning cash equivalents currently earn very low or no yield and therefore negatively impact the Company's net interest margin. At December 31, 2015, the Company had cash and cash equivalents of \$199.2 million compared to \$218.6 million at December 31, 2014. See "Net Interest Income" for additional information on the impact of this interest activity.

## **Total Interest Expense**

Total interest expense increased \$196,000, or 1.2%, during the year ended December 31, 2015, when compared with the year ended December 31, 2014, due to an increase in interest expense on deposits of \$2.3 million, or 20.4% and an increase in interest expense on subordinated debentures issued to capital trust of \$147,000, or 25.9%, partially offset by a decrease in interest expense on FHLBank advances of \$1.2 million, or 41.3%, and a decrease in interest expense on short-term and structured repo borrowings of \$1.0 million, or 94.1%.

## **Interest Expense - Deposits**

Interest on demand deposits decreased \$176,000 due to a decrease in average rates from 0.22% during the year ended December 31, 2014, to 0.20% during the year ended December 31, 2015. Interest on demand deposits decreased \$54,000 due to a small decrease in average balances from \$1.43 billion in the year ended December 31, 2014, to \$1.40 billion in the year ended December 31, 2015. The decrease in average balances of interest-bearing demand deposits was primarily a result of a decrease in public funds deposits. Average noninterest-bearing demand balances increased from \$535 million for the year ended December 31, 2014, to \$542 million for the year ended December 31, 2015.

Interest expense on time deposits increased \$1.8 million due to an increase in average balances of time deposits from \$1.04 billion during the year ended December 31, 2014, to \$1.26 billion during the year ended December 31, 2015. The increase in average balances of time deposits was primarily a result of increased balances of brokered deposits and time deposits opened through the Company's internet deposit acquisition channels. The increase in time deposit balances was also due to the deposits acquired in the Valley Bank transaction on June 20, 2014. Interest expense on time deposits increased \$741,000 as a result of an increase in average rates of interest from 0.78% during the year ended December 31, 2014, to 0.85% during the year ended December 31, 2015. A large portion of the Company's certificate of deposit portfolio matures within six to eighteen months and therefore reprices fairly quickly; this is consistent with the portfolio over the past several years.

## **Interest Expense - FHLBank Advances, Short-term Borrowings and Structured Repurchase Agreements and Subordinated Debentures Issued to Capital Trust**

During the year ended December 31, 2015 compared to the year ended December 31, 2014, interest expense on FHLBank advances decreased due to lower average rates of interest, partially offset by slightly higher average balances. Interest expense on FHLBank advances decreased \$1.3 million due to a decrease in average interest rates from 1.69% in the year ended December 31, 2014, to 0.97% in the year ended December 31, 2015. The significant decrease in the average rate was due to the repayment of \$80 million of the Company's long-term higher-rate FHLBank advances in June 2014. As of December 31, 2015, \$232 million of the Company's \$264 million of total FHLBank advances are short-term advances with very low interest rates. Partially offsetting this decrease was an increase in interest expense on FHLBank advances of \$64,000 due to an increase in average balances from \$172.0 million in the year ended December 31, 2014, to \$175.9 million in the year ended December 31, 2015. This increase was primarily due to additional short-term FHLBank advances obtained by the Company during 2015 to fund loan growth and for other short term funding needs.

Interest expense on short-term and structured repo borrowings decreased \$1.1 million due to a decrease in average rates on short-term borrowings from 0.58% in the year ended December 31, 2014, to 0.03% in the year ended December 31, 2015. The Company repaid \$50 million of structured repurchase agreements in June 2014. As there were no higher-rate structured repurchase agreements during 2015, the average rate decreased significantly because the interest expense was all related to the lower-rate securities sold under repurchase agreements with customers. Partially offsetting that decrease, interest expense on short-term borrowings and structured repurchase agreements increased \$18,000 due to an increase in average balances from \$188.9 million during the year ended December 31, 2014, to \$192.1 million during the year ended December 31, 2015.

During the year ended December 31, 2015, compared to the year ended December 31, 2014, interest expense on subordinated debentures issued to capital trusts increased \$189,000 due to higher average interest rates. The average interest rate was 1.83% in 2014, compared to 2.48% in 2015. The increase in the interest rate resulted from the amortization of the cost of interest rate caps the Company purchased in 2013 to limit the interest rate risk from rising LIBOR rates related to the Company's subordinated debentures issued to capital trusts. Interest expense on subordinated debentures issued to capital trusts decreased \$42,000 due to a decrease in average balances from \$30.9 million for the year ended December 31, 2014 to \$28.8 million during the year ended December 31, 2015. The average balance decreased because the Company redeemed \$5.0 million of its subordinated debentures issued to capital trust during 2015. Additional information regarding this transaction is provided in Note 13 of the accompanying audited financial statements. The remaining debentures are variable-rate debentures which bear interest at an average rate of three-month LIBOR plus 1.60%, adjusting quarterly. The average interest rate will continue to be higher than this until the third quarter of 2017 as a result of the amortization of the cost of the interest rate cap.

### **Net Interest Income**

Net interest income for the year ended December 31, 2015 increased \$793,000 to \$168.4 million compared to \$167.6 million for the year ended December 31, 2014. Net interest margin was 4.53% for the year ended December 31, 2015, compared to 4.84% in 2014, a decrease of 31 basis points. The Company's net interest income and margin have been significantly impacted by additional yield accretion recognized in conjunction with updated estimates of the fair value of the loan pools acquired in the 2009, 2011 and 2012 FDIC-assisted transactions. The Company's margin was positively impacted in both years by the increases in expected cash flows to be received from the loan pools acquired in the FDIC-assisted transactions and the resulting increases to accretible yield which was discussed previously in "Interest Income – Loans" and is discussed in Note 4 of the accompanying audited financial statements. The impact of these changes on the years ended December 31, 2015 and 2014 were increases in interest income of \$28.5 million and \$35.0 million, respectively, and increases in net interest margin of 77 basis points and 101 basis points, respectively. Excluding the positive impact of the additional yield accretion, net interest margin decreased 7 basis points during the year ended December 31, 2015. The decrease in net interest margin was primarily due to a decrease in average interest rate on loans and an increase in the average interest rate on time deposits.

The Company's overall interest rate spread decreased 30 basis points, or 6.3%, from 4.74% during the year ended December 31, 2014, to 4.44% during the year ended December 31, 2015. The decrease was due to a 33 basis point decrease in the weighted average yield on interest-earning assets, partially offset by a three basis point decrease in the weighted average rate paid on interest-bearing liabilities. In comparing the two years, the yield on loans decreased 72 basis points while the yield on investment securities and other interest-earning assets decreased 12 basis points. The rate paid on deposits increased six basis points, the rate paid on FHLBank advances decreased 72 basis points, the rate paid on short-term borrowings decreased 55 basis points and the rate paid on subordinated debentures issued to capital trust increased 65 basis points.

For additional information on net interest income components, refer to the "Average Balances, Interest Rates and Yields" table in this Report.

### **Provision for Loan Losses and Allowance for Loan Losses**

The provision for loan losses increased \$1.4 million to \$5.5 million during the year ended December 31, 2015, when compared with the year ended December 31, 2014. At December 31, 2015, the allowance for loan losses was \$38.1 million, a decrease of \$286,000 from December 31, 2014. Total net charge-offs were \$5.8 million for each of the years ended December 31, 2015 and 2014, respectively. Excluding those related to loans covered by loss sharing agreements, five relationships made up \$2.6 million of the total \$5.8 million in net charge-offs for the year ended December 31, 2015. General market conditions and unique circumstances related to individual borrowers and projects also contributed to the level of provisions and charge-offs. As properties were categorized as potential problem loans, non-performing loans or foreclosed assets, evaluations were made of the values of these assets with corresponding charge-offs as appropriate.

Except for those loans acquired in the TeamBank and Vantus Bank transactions for which the loss sharing agreements have ended (i.e., non-single family real estate loans), loans acquired in the 2009, 2011 and 2012 FDIC-assisted transactions are covered by loss sharing agreements between the FDIC and Great Southern Bank which afford Great Southern Bank at least 80% protection from losses in the acquired portfolio of loans. The FDIC loss sharing agreements are subject to limitations on the types of losses covered and the length

of time losses are covered and are conditioned upon the Bank complying with its requirements in the agreements with the FDIC. These limitations are described in detail in Note 4 of the accompanying audited financial statements. These acquired loans were grouped into pools based on common characteristics and were recorded at their estimated fair values, which incorporated estimated credit losses at the acquisition dates. These loan pools are systematically reviewed by the Company to determine the risk of losses that may exceed those identified at the time of the acquisition. Techniques used in determining risk of loss are similar to those used to determine the risk of loss for the legacy Great Southern Bank portfolio, with most focus being placed on those loan pools which include the larger loan relationships and those loan pools which exhibit higher risk characteristics. Review of the acquired loan portfolio also includes meetings with customers, review of financial information and collateral valuations to determine if any additional losses are apparent. Former Valley Bank loans, which were also acquired in an FDIC-assisted transaction, are accounted for in pools and were recorded at their fair value at the time of the acquisition as of June 20, 2014; therefore, these loan pools are analyzed rather than the individual loans.

The Bank's allowance for loan losses as a percentage of total loans, excluding loans covered by the FDIC loss sharing agreements, was 1.20% and 1.34% at December 31, 2015 and 2014, respectively. Management considers the allowance for loan losses adequate to cover losses inherent in the Company's loan portfolio at December 31, 2015, based on recent reviews of the Company's loan portfolio and current economic conditions. If economic conditions were to deteriorate or management's assessment of the loan portfolio were to change, it is possible that additional loan loss provisions would be required, thereby adversely affecting future results of operations and financial condition.

### **Non-performing Assets**

Former TeamBank, Vantus Bank, Sun Security Bank and InterBank non-performing assets, including foreclosed assets, are not included in the totals or in the discussion of non-performing loans, potential problem loans and foreclosed assets below as they are, or were, subject to loss sharing agreements with the FDIC, which cover at least 80% of principal losses that may be incurred in these portfolios for the applicable terms under the agreements. At December 31, 2015, there were no material non-performing assets that were previously covered, and are now not covered, under the TeamBank or Vantus Bank non-single-family loss sharing agreements. In addition, FDIC-supported TeamBank, Vantus Bank, Sun Security Bank and InterBank assets were initially recorded at their estimated fair values as of their acquisition dates of March 20, 2009, September 4, 2009, October 7, 2011, and April 27, 2012, respectively. The overall performance of the FDIC-covered loan pools acquired in 2009, 2011 and 2012 has been better than original expectations as of the acquisition dates. Former Valley Bank loans are also excluded from the totals and the discussion of non-performing loans, potential problem loans and foreclosed assets below, although they are not covered by a loss sharing agreement.

The loss sharing agreement for the non-single-family portion of the loans acquired in the TeamBank transaction ended on March 31, 2014. Any additional losses in that non-single-family portfolio will not be eligible for loss sharing coverage. At this time, the Company does not expect any material losses in this non-single-family loan portfolio, which totaled \$16.2 million, net of discounts, at December 31, 2015.

The loss sharing agreement for the non-single-family portion of the loans acquired in the Vantus Bank transaction ended on September 30, 2014. Any additional losses in that non-single-family portfolio will not be eligible for loss sharing coverage. At this time, the Company does not expect any material losses in this non-single-family loan portfolio, which totaled \$17.1 million, net of discounts, at December 31, 2015.

As a result of changes in balances and composition of the loan portfolio, changes in economic and market conditions that occur from time to time, and other factors specific to a borrower's circumstances, the level of non-performing assets will fluctuate.

Non-performing assets, excluding FDIC-covered non-performing assets and other FDIC-assisted acquired assets, at December 31, 2015, were \$44.0 million, an increase of \$272,000 from \$43.7 million at December 31, 2014. Non-performing assets, excluding FDIC-covered non-performing assets and other FDIC-assisted acquired assets, as a percentage of total assets were 1.07% at December 31, 2015, compared to 1.11% at December 31, 2014.

Compared to December 31, 2014, non-performing loans increased \$8.5 million to \$16.6 million at December 31, 2015, and foreclosed assets decreased \$8.1 million to \$27.4 million at December 31, 2015. Non-performing commercial real estate loans comprised \$13.5 million, or 81.4%, of the total of \$16.6 million of non-performing loans at December 31, 2015. Non-performing one-to four-family residential loans comprised \$1.4 million, or 8.2%, of the total non-performing loans at December 31, 2015. Non-performing consumer loans were \$1.3 million, or 7.8%, of total non-performing loans at December 31, 2015. Non-performing commercial business loans were \$288,000, or 1.7%, of total non-performing loans at December 31, 2015. Non-performing construction and land development loans were \$139,000, or 0.8%, of total non-performing loans at December 31, 2015.

*Non-performing Loans.* Activity in the non-performing loans category during the year ended December 31, 2015, was as follows:

	<b>Beginning Balance, January 1</b>	<b>Additions</b>	<b>Removed from Non- Performing</b>	<b>Transfers to Potential Problem Loans</b>	<b>Transfers to Foreclosed Assets</b>	<b>Charge-Offs</b>	<b>Payments</b>	<b>Ending Balance, December 31</b>
(In Thousands)								
One- to four-family construction	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Subdivision construction	—	109	—	—	—	(55)	(54)	—
Land development	255	144	—	(50)	—	(197)	(13)	139
Commercial construction	—	—	—	—	—	—	—	—
One- to four-family residential	1,665	1,361	(451)	(340)	(316)	(66)	(496)	1,357
Other residential	—	—	—	—	—	—	—	—
Commercial real estate	4,699	13,391	(1,469)	—	(2,620)	(22)	(491)	13,488
Other commercial	411	415	(56)	(35)	—	(384)	(63)	288
Consumer	1,117	2,175	(198)	(114)	(188)	(514)	(981)	1,297
<b>Total</b>	<b>\$ 8,147</b>	<b>\$ 17,595</b>	<b>\$ (2,174)</b>	<b>\$ (539)</b>	<b>\$ (3,124)</b>	<b>\$ (1,238)</b>	<b>\$ (2,098)</b>	<b>\$ 16,569</b>

At December 31, 2015, the non-performing commercial real estate category included nine loans, five of which were transferred from potential problem loans during the current year and related to three relationships. The largest relationship in this category, which was transferred from potential problem loans to non-performing loans during the three months ended December 31, 2015, totaled \$6.5 million, or 48.1% of the total category, and is collateralized by three operating long-term health care facilities in Missouri. This relationship with the Bank began in 2000 and has performed adequately until recently. A receiver was recently appointed to manage and stabilize the facilities. The second largest relationship in this category, which was also transferred from potential problem loans during the three months ended December 31, 2015, totaled \$3.7 million, or 27.6%, of the total category, and is collateralized by property in the Branson, Mo., area, including a lakefront resort, marina and related amenities, condominiums and lots. This borrower has been in business for over 30 years and a bank customer since 1992. In 2015, the project experienced declining occupancy rates and entered bankruptcy in the latter part of 2015. Of the \$1.5 million removed from non-performing commercial real estate loans during the year, \$1.3 million was related to one loan, and was removed due to improvement in the credit and payment performance. The non-performing one- to four-family residential category included 27 loans, 16 of which were added during the year. The non-performing consumer category included 101 loans, 83 of which were added during the year.

*Foreclosed Assets.* Of the total \$31.9 million of other real estate owned at December 31, 2015, \$1.8 million represents the fair value of foreclosed assets covered by FDIC loss sharing agreements, \$460,000 represents the fair value of foreclosed assets previously covered by FDIC loss sharing agreements, \$995,000 represents foreclosed assets related to Valley Bank and not covered by loss sharing agreements, \$25,000 represents other assets related to acquired loans, and \$1.2 million represents properties which were not acquired through foreclosure. The foreclosed assets and other assets related to acquired loans and the properties not acquired through foreclosure are not included in the following table and discussion of foreclosed assets. Because sales of foreclosed properties exceeded additions, total foreclosed assets decreased. Activity in foreclosed assets during the year ended December 31, 2015, was as follows:



	<b>Beginning Balance, January 1</b>	<b>Additions</b>	<b>Proceeds from Sales</b>	<b>Capitalized Costs</b>	<b>ORE Expense Write-Downs</b>	<b>Ending Balance, December 31</b>
	(In Thousands)					
One- to four-family construction	\$ 223	\$ —	\$ (223)	\$ —	\$ —	\$ —
Subdivision construction	9,857	—	(2,369)	—	(472)	7,016
Land development	17,168	—	(5,006)	—	(29)	12,133
Commercial construction	—	—	—	—	—	—
One- to four-family residential	3,353	473	(2,350)	—	(101)	1,375
Other residential	2,625	—	(488)	13	—	2,150
Commercial real estate	1,632	2,620	(614)	—	(30)	3,608
Commercial business	59	—	(59)	—	—	—
Consumer	624	5,110	(4,625)	—	—	1,109
<b>Total</b>	<b>\$ 35,541</b>	<b>\$ 8,203</b>	<b>\$ (15,734)</b>	<b>\$ 13</b>	<b>\$ (632)</b>	<b>\$ 27,391</b>

At December 31, 2015, the land development category of foreclosed assets included 26 properties, the largest of which was located in northwest Arkansas and had a balance of \$1.4 million, or 11.3% of the total category. Of the total dollar amount in the land development category of foreclosed assets, 35.4% and 36.2% was located in northwest Arkansas and in the Branson, Mo., area, respectively, including the \$1.4 million property previously mentioned. Of the \$5.0 million in proceeds from sales in the category, \$2.9 million related to the sale of six properties, which included one property located in northwest Arkansas which was sold during the three months ended December 31, 2015, totaling \$1.2 million. In addition, two properties totaling \$1.6 million in the Branson, Mo., area were sold, two properties in northwest Arkansas totaling \$1.3 million were sold and one property in southwest Missouri totaling \$585,000 was sold. The subdivision construction category of foreclosed assets included 25 properties, the largest of which was located in the Springfield, Mo. metropolitan area and had a balance of \$1.2 million, or 17.6% of the total category. Of the total dollar amount in the subdivision construction category of foreclosed assets, 32.2% and 17.6% is located in Branson, Mo. and Springfield, Mo., respectively. Of the \$2.4 million in sales in this category, \$2.3 million was from the sale of two properties. One subdivision property totaling \$1.3 million in the Kansas City, Mo. metropolitan area was sold and one subdivision property in the St. Louis, Mo. metropolitan area totaling \$931,000 was sold. The commercial real estate category of foreclosed assets included eight properties, three of which were related to the same borrower. The largest property in the commercial real estate category of foreclosed assets, which was located in southeast Missouri and was added during the three months ended March 31, 2015, totaled \$2.0 million, or 56.0% of the total category. The other residential category of foreclosed assets included 11 properties, 10 of which were all part of the same condominium community, which was located in Branson, Mo. and had a balance of \$1.8 million, or 83.7% of the total category. The one-to four-family residential category of foreclosed assets included seven properties, of which the largest relationship, with two properties in the southwest Missouri area, had a balance of \$554,000, or 40.3% of the total category. Of the total dollar amount in the one-to- four-family category of foreclosed assets, 38.2% is located in Branson, Mo.

*Potential Problem Loans.* Potential problem loans decreased \$12.2 million during the year ended December 31, 2015, from \$25.0 million at December 31, 2014 to \$12.8 million at December 31, 2015. This decrease was due to \$11.2 million in loans transferred to the non-performing category, \$8.6 million in loans removed from potential problem loans due to improvements in the credits, \$2.0 million in charge-offs, \$157,000 in loans transferred to foreclosed assets, and \$2.6 million in payments on potential problem loans, partially offset by the addition of \$12.3 million of loans to potential problem loans. Potential problem loans are loans which management has identified through routine internal review procedures as having possible credit problems that may cause the borrowers difficulty in complying with current repayment terms. These loans are not reflected in non-performing assets, but are considered in determining the adequacy of the allowance for loan losses. Activity in the potential problem loans category during the year ended December 31, 2015, was as follows:

	Beginning Balance, January 1	Additions	Removed from Potential Problem	Transfers to Non- Performing	Transfers to Foreclosed Assets	Charge-Offs	Payments	Ending Balance, December 31
(In Thousands)								
One- to four-family construction	\$ 1,312	\$ 368	\$ (683)	\$ —	\$ —	\$ —	\$ (997)	\$ —
Subdivision construction	4,252	863	(3,750)	(139)	—	—	(650)	576
Land development	5,857	—	(2,012)	—	—	—	(3)	3,842
Commercial construction	—	—	—	—	—	—	—	—
One- to four-family residential	1,906	489	(796)	(349)	(157)	(14)	(235)	844
Other residential	1,956	—	—	—	—	—	—	1,956
Commercial real estate	8,043	10,254	(670)	(10,687)	—	(1,433)	(221)	5,286
Other commercial	1,435	131	(464)	(21)	—	(527)	(373)	181
Consumer	214	227	(199)	(17)	—	(5)	(86)	134
Total	\$ 24,975	\$ 12,332	\$ (8,574)	\$ (11,213)	\$ (157)	\$ (1,979)	\$ (2,565)	\$ 12,819

At December 31, 2015, the commercial real estate category of potential problem loans included 10 loans, seven of which were added during the current year. The largest relationship in this category, which was made up of five new loans added during the three months ended December 31, 2015, had a balance of \$2.9 million, or 55.7% of the total category and is collateralized by various properties in the Branson, Mo., area., including commercial buildings, commercial land, residential lots and undeveloped land with clubhouse amenities and entertainment attractions. This relationship has been with the Bank for over 30 years. Of the \$10.7 million of transfers to non-performing, \$10.2 million were related to two relationships, which were discussed above in the non-performing loans section. All of the net charge-offs in the commercial real estate category related to these two relationships. The land development category of potential problem loans included one loan, which was added during a previous year and is collateralized by property in the Branson, Mo., area. The other residential category of potential problem loans included one loan which was added in a previous year, and is collateralized by properties located in the Branson, Mo., area. This loan was also to the same borrower that was referenced above in the land development category. The one- to four-family residential category of potential problem loans included 12 loans, two of which were added during the current year. The subdivision construction category of potential problem loans included three loans, two of which were added during the current year. Seven loans in this category were removed from potential problem loans during 2015, which included four loans to one borrower totaling \$1.6 million. The loans were removed due to improvements in the credit and payment performance. The one-to four-family construction category of potential problem loans is zero at December 31, 2015, and three loans in this category, all of which were to the same borrower, were removed from potential problem loans during the year due to improvement in the borrower's financial performance. These loans were also to the same borrower that was referenced above in the loans which were removed from potential problem loans in the subdivision construction category.

### Non-Interest Income

Non-interest income for the year ended December 31, 2015 was \$13.6 million compared with \$14.7 million for the year ended December 31, 2014. The decrease of \$1.1 million, or 7.8%, was primarily the result of the following increases and decreases:

Initial gain recognized on business acquisition: In 2014, the Company recognized a one-time gain of \$10.8 million (pre-tax) on the FDIC-assisted acquisition of Valley Bank, which occurred on June 20, 2014.

Excluding the gain referenced above, non-interest income increased \$9.7 million when compared to the year ended December 31, 2014, primarily as a result of the following items:

Amortization of income related to business acquisitions: The net amortization expense related to business acquisitions was \$18.3 million for the year ended December 31, 2015, compared to \$27.9 million for the year ended December 31, 2014. The amortization expense for the year ended December 31, 2015, consisted of the following items: \$18.0 million of amortization expense related to the changes in cash flows expected to be collected from the FDIC-covered loan portfolios and \$1.6 million of amortization of the clawback liability. In addition, the Company collected amounts on various problem assets acquired from the FDIC totaling \$892,000. Under the loss sharing agreements, 80% of these collected amounts must be remitted to the FDIC; therefore, the Company recorded a liability and related expense of \$714,000. Partially offsetting the expense was income from the accretion of the discount related to the

indemnification assets for the Sun Security Bank and InterBank acquisitions of \$1.4 million. In addition, a charge-off on a loan pool which exceeded the remaining discount on the pool by \$803,000 was recognized as a reduction to allowance for loan losses during the third quarter. The Bank expects to collect 80% of this amount as reimbursement from the FDIC, so income of \$643,000 was recorded in non-interest income.

Service charges and ATM fees: Service charges and ATM fees increased \$766,000 compared to the prior year, primarily due to an increase in fee income from the additional accounts acquired in the Valley Bank transaction in June 2014.

Other income: Other income increased \$744,000 compared to the prior year. The increase was primarily due to a \$1.1 million gain recognized when the Company redeemed the trust preferred securities previously issued by Great Southern Capital Trust III at a discount, as discussed in previous filings. This increase was offset by non-recurring debit card-related income of \$1.0 million recognized during the 2014 period which was not repeated in the 2015 period. Other income increased \$300,000 compared to the prior year due to a \$300,000 gain recognized on the sale of a non-marketable investment.

Late charges and fees on loans: Late charges and fees on loans increased \$729,000 compared to the prior year period. The increase was primarily due to yield maintenance penalty payments received on 12 commercial loan prepayments, totaling \$547,000 in 2015.

Net realized gains on sales of available-for-sale securities: Gains on sales of available-for-sale securities decreased \$2.1 million compared to the prior year. This was primarily due to the sale of securities in the prior year, which was not repeated in 2015. During 2014, the taxable municipal securities originally acquired in the Sun Security Bank acquisition were sold resulting in a gain of \$1.2 million. All of the Company's Small Business Administration securities were sold in 2014, which produced a gain of \$569,000. In addition, all of the mortgage-backed securities and collateralized mortgage obligations acquired in the Valley Bank acquisition were sold in 2014, and several additional securities were sold later in 2014, producing a gain of \$227,000, and one municipal bond was sold at a gain of \$95,000.

## **Non-Interest Expense**

Total non-interest expense decreased \$6.5 million, or 5.4%, from \$120.9 million in the year ended December 31, 2014, to \$114.4 million in the year ended December 31, 2015. The Company's efficiency ratio for the year ended December 31, 2015 was 62.85%, improving from 66.30% in 2014. The 2015 ratio was positively affected by the decrease in non-interest expense and the increase in net interest income, partially offset by a decrease in non-interest income. The Company's ratio of non-interest expense to average assets decreased from 3.16% for the year ended December 31, 2014, to 2.81% for the year ended December 31, 2015. The decrease in the current year ratio was primarily due to both the increase in average assets and the decrease in non-interest expense in 2015 compared to 2014. Average assets for the year ended December 31, 2015, increased \$242.9 million, or 6.4%, from the year ended December 31, 2014. The following were key items related to the increase in non-interest expense for the year ended December 31, 2015 as compared to the year ended December 31, 2014:

Other Operating Expenses: Other operating expenses decreased \$7.3 million, to \$8.5 million, in the year ended December 31, 2015 compared to the prior year primarily due to \$7.4 million in prepayment penalties paid in 2014 as the Company elected to repay \$130 million of its FHLB advances and structured repo borrowings prior to their maturity, which was not repeated in 2015.

Expense on foreclosed assets: Expense on foreclosed assets decreased \$3.1 million compared to the prior year primarily due to valuation write-downs of foreclosed assets during 2014 totaling \$2.0 million. In addition, total foreclosed assets decreased from the prior year, further reducing the expenses.

Legal, audit and other professional fees: Legal, audit and other professional fees decreased \$1.2 million when compared to the prior year, primarily due to additional expenses in the prior year related to the Valley Bank acquisition, significant collection costs of a few large loans and foreclosed assets, as well as the reduction of the total amount of foreclosed assets in the current year compared to the prior year.

Partially offsetting the decrease in non-interest expense was an increase in the following items:

Expenses related to operations of new banking centers in 2015: The Company incurred approximately \$245,000 and \$144,000 of additional non-interest expenses during the year ended December 31, 2015, in connection with the operations of new banking centers in Overland Park, Kansas and Columbia, Missouri, respectively. The majority of these expenses related to salary and benefits and occupancy expenses.

Salaries and employee benefits: Salaries and employee benefits increased \$2.7 million over the prior year, primarily due to increased staffing due to growth in lending and other operational areas, as well as approximately \$330,000 in retention payments and other acquisition-related salaries and benefits related to the Fifth Third Bank branch acquisition. In addition, the Company opened banking

centers in 2015 in Overland Park, Kansas and Columbia, Missouri, and operated the acquired Valley Bank for a full year in 2015 versus one-half year of operations in 2014.

**Net occupancy expense:** Net occupancy expense increased \$2.4 million in the year ended December 31, 2015 compared to 2014. In September 2015, the Company announced plans to consolidate operations of 16 banking centers into other nearby Great Southern banking center locations. The Company evaluated the carrying value of the affected premises (totaling approximately \$7.5 million) to determine if any impairment of the value of these premises is warranted and has recorded a valuation allowance of \$1.2 million related to certain affected premises, furniture, fixtures and equipment and leases in 2015. Occupancy expense also increased in 2015 as a result of the Valley Bank acquisition which occurred in June 2014, and due to the opening of the two branches in Overland Park and Columbia noted above.

### **Provision for Income Taxes**

In 2014, the Company elected to early-adopt FASB ASU No. 2014-01, which amends FASB ASC Topic 323, Investments – Equity Method and Joint Ventures. This Update impacted the Company's accounting for investments in flow-through limited liability entities which manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments in the Update permitted reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The Company has significant investments in such qualified affordable housing projects that meet the required conditions. The Company's adoption of this Update did not materially affect the Company's financial position or results of operations. There was no change in Net Income for the periods covered in this document and there was no cumulative effect adjustment to Retained Earnings.

Provision for income taxes as a percentage of pre-tax income was 25.1% and 24.0% for the years ended December 31, 2015 and 2014, respectively, which was lower than the statutory federal tax rate of 35%, due primarily to the effects of the tax credits utilized and to tax-exempt investments and tax-exempt loans which reduced the Company's effective tax rate. In future periods, the Company expects its effective tax rate typically will be 24-26% of pre-tax net income, assuming it continues to maintain or increase its use of investment tax credits. The Company's effective tax rate may fluctuate as it is impacted by the level and timing of the Company's utilization of tax credits and the level of tax-exempt investments and loans and the overall level of pretax income. At this time, the Company expects to continue to utilize a significant amount of tax credits in 2016.

### **Liquidity**

Liquidity is a measure of the Company's ability to generate sufficient cash to meet present and future financial obligations in a timely manner through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. These obligations include the credit needs of customers, funding deposit withdrawals and the day-to-day operations of the Company. Liquid assets include cash, interest-bearing deposits with financial institutions and certain investment securities and loans. As a result of the Company's management of the ability to generate liquidity primarily through liability funding, management believes that the Company maintains overall liquidity sufficient to satisfy its depositors' requirements and meet its customers' credit needs. At December 31, 2016, the Company had commitments of approximately \$142.0 million to fund loan originations, \$781.8 million of unused lines of credit and unadvanced loans, and \$26.4 million of outstanding letters of credit.

The following table summarizes the Company's fixed and determinable contractual obligations by payment date as of December 31, 2016. Additional information regarding these contractual obligations is discussed further in Notes 8, 9, 10, 11, 12, 13, 14, 17 and 20 of the accompanying audited financial statements.

	<b>Payments Due In:</b>			<b>Total</b>
	<b>One Year or Less</b>	<b>Over One to Five Years</b>	<b>Over Five Years</b>	
	(In Thousands)			
Deposits without a stated maturity	\$ 2,192,504	\$ —	\$ —	\$ 2,192,504
Time and brokered certificates of deposit	1,036,958	443,944	3,824	1,484,726
Federal Home Loan Bank advances	30,843	109	500	31,452
Short-term borrowings	286,023	—	—	286,023
Subordinated debentures	—	—	25,774	25,774
Subordinated notes	—	—	73,537	73,537
Operating leases	819	1,458	72	2,349
Dividends declared but not paid	3,073	—	—	3,073
	<b>\$3,550,220</b>	<b>\$445,511</b>	<b>\$103,707</b>	<b>\$4,099,438</b>

The Company's primary sources of funds are customer deposits, FHLBank advances, other borrowings, loan repayments, unpledged securities, proceeds from sales of loans and available-for-sale securities and funds provided from operations. The Company utilizes particular sources of funds based on the comparative costs and availability at the time. The Company has from time to time chosen not to pay rates on deposits as high as the rates paid by certain of its competitors and, when believed to be appropriate, supplements deposits with less expensive alternative sources of funds.

At December 31, 2016 and 2015, the Company had these available secured lines and on-balance sheet liquidity:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Federal Home Loan Bank line	\$551.0 million	\$505.5 million
Federal Reserve Bank line	602.0 million	633.7 million
Interest-Bearing and Non-Interest-Bearing		
Deposits	279.8 million	199.2 million
Unpledged Securities	50.7 million	59.8 million

**Statements of Cash Flows.** During the years ended December 31, 2016, 2015 and 2014, the Company had positive cash flows from operating activities. The Company experienced negative cash flows from investing activities during the years ended December 31, 2016 and 2015, and positive cash flows from investing activities during the year ended December 31, 2014. The Company experienced positive cash flows from financing activities during the years ended December 31, 2016 and 2015, and negative cash flows from financing activities during the year ended December 31, 2014.

Cash flows from operating activities for the periods covered by the Statements of Cash Flows have been primarily related to changes in accrued and deferred assets, credits and other liabilities, the provision for loan losses, realized gains on the sale of investment securities and loans, depreciation and amortization, gains on the purchase of additional business units and the amortization of deferred loan origination fees and discounts (premiums) on loans and investments, all of which are non-cash or non-operating adjustments to operating cash flows. Net income adjusted for non-cash and non-operating items and the origination and sale of loans held-for-sale were the primary sources of cash flows from operating activities. Operating activities provided cash flows of \$80.1 million, \$71.4 million and \$67.4 million during the years ended December 31, 2016, 2015 and 2014, respectively.

During the years ended December 31, 2016 and 2015, investing activities used cash of \$198.1 million and \$196.2 million, respectively, primarily due to the net increases and purchases of loans, partially offset by the net repayment or sales of investment securities. During the year ended December 31, 2014, investing activities provided cash of \$35.9 million, primarily due to the cash received from the FDIC-assisted acquisitions and the net repayment or sales of investment securities, partially offset by increases in loans.

Changes in cash flows from financing activities during the periods covered by the Statements of Cash Flows are primarily due to changes in deposits after interest credited, changes in FHLBank advances, changes in short-term borrowings and structured repurchase

agreements, dividend payments to stockholders, issuance of subordinated notes (2016) and redemption of preferred stock (2015). Financing activities provided cash flows of \$198.7 million and \$105.3 million during the years ended December 31, 2016 and 2015, respectively, primarily due to increases in customer deposit balances, partially offset by net increases or decreases in various borrowings, dividend payments to stockholders, issuance of subordinated notes and redemption of preferred stock. Financing activities used cash flows of \$112.6 million during the year ended December 31, 2014, primarily due to reduction of customer deposit balances, net increases or decreases in various borrowings and dividend payments to stockholders.

## Capital Resources

Management continuously reviews the capital position of the Company and the Bank to ensure compliance with minimum regulatory requirements, as well as to explore ways to increase capital either by retained earnings or other means.

As of December 31, 2016, total stockholders' equity and common stockholders' equity were \$429.8 million, or 9.4% of total assets, equivalent to a book value of \$30.77 per common share. As of December 31, 2015, total stockholders' equity and common stockholders' equity were \$398.2 million, or 9.7% of total assets, equivalent to a book value of \$28.67 per common share. At December 31, 2016, the Company's tangible common equity to tangible assets ratio was 9.2% as compared to 9.6% at December 31, 2015.

Banks are required to maintain minimum risk-based capital ratios. These ratios compare capital, as defined by the risk-based regulations, to assets adjusted for their relative risk as defined by the regulations. Under current guidelines, which became effective January 1, 2015, banks must have a minimum common equity Tier 1 capital ratio of 4.50%, a minimum Tier 1 risk-based capital ratio of 6.00%, a minimum total risk-based capital ratio of 8.00%, and a minimum Tier 1 leverage ratio of 4.00%. To be considered "well capitalized," banks must have a minimum common equity Tier 1 capital ratio of 6.50%, a minimum Tier 1 risk-based capital ratio of 8.00%, a minimum total risk-based capital ratio of 10.00%, and a minimum Tier 1 leverage ratio of 5.00%. On December 31, 2016, the Bank's common equity Tier 1 capital ratio was 11.8%, its Tier 1 capital ratio was 11.8%, its total capital ratio was 12.7% and its Tier 1 leverage ratio was 10.8%. As a result, as of December 31, 2016, the Bank was well capitalized, with capital ratios in excess of those required to qualify as such. On December 31, 2015, the Bank's common equity Tier 1 capital ratio was 11.0%, its Tier 1 capital ratio was 11.0%, its total capital ratio was 12.1% and its Tier 1 leverage ratio was 9.8%. As a result, as of December 31, 2015, the Bank was well capitalized, with capital ratios in excess of those required to qualify as such.

The FRB has established capital regulations for bank holding companies that generally parallel the capital regulations for banks. On December 31, 2016, the Company's common equity Tier 1 capital ratio was 10.2%, its Tier 1 capital ratio was 10.8%, its total capital ratio was 13.6% and its Tier 1 leverage ratio was 9.9%. To be considered well capitalized, a bank holding company must have a Tier 1 risk-based capital ratio of at least 6.00% and a total risk-based capital ratio of at least 10.00%. As of December 31, 2016, the Company was considered well capitalized, with capital ratios in excess of those required to qualify as such. On December 31, 2015, the Company's common equity Tier 1 capital ratio was 10.8%, its Tier 1 capital ratio was 11.5%, its total capital ratio was 12.6% and its Tier 1 leverage ratio was 10.2%. To be considered well capitalized, a bank holding company must have a Tier 1 risk-based capital ratio of at least 6.00% and a total risk-based capital ratio of at least 10.00%. As of December 31, 2015, the Company was considered well capitalized, with capital ratios in excess of those required to qualify as such.

In addition to the minimum common equity Tier 1 capital ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio, the Company and the Bank will have to maintain a capital conservation buffer consisting of additional common equity Tier 1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, repurchasing shares, and paying discretionary bonuses. The new capital conservation buffer requirement began phasing in beginning on January 1, 2016 when a buffer greater than 0.625% of risk-weighted assets was required, which amount will increase an equal amount each year until the buffer requirement of greater than 2.5% of risk-weighted assets is fully implemented on January 1, 2019.

On August 18, 2011, the Company entered into a Small Business Lending Fund-Securities Purchase Agreement ("Purchase Agreement") with the Secretary of the Treasury, pursuant to which the Company sold 57,943 shares of the Company's Senior Non-Cumulative Perpetual Preferred Stock, Series A (the "SBLF Preferred Stock") to the Secretary of the Treasury for a purchase price of \$57.9 million. The SBLF Preferred Stock was issued pursuant to Treasury's SBLF program, a \$30 billion fund established under the Small Business Jobs Act of 2010 that was created to encourage lending to small businesses by providing Tier 1 capital to qualified community banks and holding companies with assets of less than \$10 billion. As required by the SBLF Purchase Agreement, the proceeds from the sale of the SBLF Preferred Stock were used in connection with the redemption of all 58,000 shares of the Company's preferred stock, issued to Treasury in December 2008 pursuant to Treasury's TARP Capital Purchase Program (the "CPP"). The shares of CPP Preferred Stock were redeemed at their liquidation amount of \$1,000 per share plus the accrued but unpaid dividends to the redemption date.

The SBLF Preferred Stock qualified as Tier 1 capital. The holders of SBLF Preferred Stock were entitled to receive noncumulative dividends, payable quarterly, on each January 1, April 1, July 1 and October 1. The dividend rate, as a percentage of the liquidation

amount, could fluctuate between one percent (1%) and five percent (5%) per annum on a quarterly basis during the first 10 quarters during which the SBLF Preferred Stock was outstanding, based upon changes in the level of “Qualified Small Business Lending” or “QSBL” (as defined in the SBLF Purchase Agreement) by the Bank over the adjusted baseline level calculated under the terms of the SBLF Preferred Stock \$(249.7 million). Based upon the increase in the Bank’s level of QSBL over the adjusted baseline level, the dividend rate had been 1.0%. For the tenth calendar quarter through four and one-half years after issuance, the dividend rate was fixed at one percent (1%) based upon the level of qualifying loans. After four and one half years from issuance, the dividend rate would have increased to 9% (including a quarterly lending incentive fee of 0.5%).

On December 15, 2015, the Company (with the approval of its federal banking regulator) redeemed all 57,943 shares of the SBLF Preferred Stock at their liquidation amount of \$1,000 per share plus accrued but unpaid dividends to the redemption date. The redemption of the SBLF Preferred Stock was completed using internally available funds.

**Dividends.** During the year ended December 31, 2016, the Company declared common stock cash dividends of \$0.88 per share (27.4% of net income per common share) and paid common stock cash dividends of \$0.88 per share. During the year ended December 31, 2015, the Company declared common stock cash dividends of \$0.86 per share (26.2% of net income per common share) and paid common stock cash dividends of \$0.84 per share. The Board of Directors meets regularly to consider the level and the timing of dividend payments. The \$0.22 per share dividend declared but unpaid as of December 31, 2016, was paid to stockholders on January 13, 2017. In addition, the Company paid preferred dividends as described below in years prior to 2016.

While the SBLF Preferred Stock was outstanding, the terms of the SBLF Preferred Stock limited the ability of the Company to pay dividends and repurchase shares of common stock. Under the terms of the SBLF Preferred Stock, no repurchases could be effected, and no dividends could be declared or paid on preferred shares ranking *pari passu* with the SBLF Preferred Stock, junior preferred shares, or other junior securities (including the common stock) during the current quarter and for the next three quarters following the failure to declare and pay dividends on the SBLF Preferred Stock, except that, in any such quarter in which the dividend is paid, dividend payments on shares ranking *pari passu* may be paid to the extent necessary to avoid any resulting material covenant breach.

Under the terms of the SBLF Preferred Stock, the Company could only declare and pay a dividend on the common stock or other stock junior to the SBLF Preferred Stock, or repurchase shares of any such class or series of stock, if, after payment of such dividend, or after giving effect to such repurchase, (i) the dollar amount of the Company’s Tier 1 Capital would be at least equal to the “Tier 1 Dividend Threshold” and (ii) full dividends on all outstanding shares of SBLF Preferred Stock for the most recently completed dividend period have been or are contemporaneously declared and paid. We satisfied this condition through the redemption date of the SBLF Preferred Stock.

**Common Stock Repurchases and Issuances.** The Company has been in various buy-back programs since May 1990. Our ability to repurchase common stock was limited, but allowed, under the terms of the SBLF preferred stock as noted above, under “-Dividends” and was previously generally precluded due to our participation in the CPP from December 2008 through August 2011. During the years ended December 31, 2016 and 2015, the Company did not repurchase any shares of its common stock. During the years ended December 31, 2016 and 2015, the Company issued 80,454 shares of stock at an average price of \$26.47 per share and 133,126 shares of stock at an average price of \$25.26 per share, respectively, to cover stock option exercises.

Management has historically utilized stock buy-back programs from time to time as long as management believed that repurchasing the stock would contribute to the overall growth of shareholder value. The number of shares of stock that will be repurchased at any particular time and the prices that will be paid are subject to many factors, several of which are outside of the control of the Company. The primary factors, however, are the number of shares available in the market from sellers at any given time, the price of the stock within the market as determined by the market and the projected impact on the Company’s earnings per share and capital.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Asset and Liability Management and Market Risk

A principal operating objective of the Company is to produce stable earnings by achieving a favorable interest rate spread that can be sustained during fluctuations in prevailing interest rates. The Company has sought to reduce its exposure to adverse changes in interest rates by attempting to achieve a closer match between the periods in which its interest-bearing liabilities and interest-earning assets can be expected to reprice through the origination of adjustable-rate mortgages and loans with shorter terms to maturity and the purchase of other shorter term interest-earning assets.

### Our Risk When Interest Rates Change

The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is our most significant market risk.

### How We Measure the Risk to Us Associated with Interest Rate Changes

In an attempt to manage our exposure to changes in interest rates and comply with applicable regulations, we monitor Great Southern's interest rate risk. In monitoring interest rate risk we regularly analyze and manage assets and liabilities based on their payment streams and interest rates, the timing of their maturities and their sensitivity to actual or potential changes in market interest rates.

The ability to maximize net interest income is largely dependent upon the achievement of a positive interest rate spread that can be sustained despite fluctuations in prevailing interest rates. Interest rate sensitivity is a measure of the difference between amounts of interest-earning assets and interest-bearing liabilities which either reprice or mature within a given period of time. The difference, or the interest rate repricing "gap," provides an indication of the extent to which an institution's interest rate spread will be affected by changes in interest rates. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities repricing during the same period, and is considered negative when the amount of interest-rate sensitive liabilities exceeds the amount of interest-rate sensitive assets during the same period. Generally, during a period of rising interest rates, a negative gap within shorter repricing periods would adversely affect net interest income, while a positive gap within shorter repricing periods would result in an increase in net interest income. During a period of falling interest rates, the opposite would be true. As of December 31, 2016, Great Southern's interest rate risk models indicate that, generally, rising interest rates are expected to have a positive impact on the Company's net interest income, while declining interest rates would have a negative impact on net interest income. We model various interest rate scenarios for rising and falling rates, including both parallel and non-parallel shifts in rates. The results of our modeling indicate that net interest income is not likely to be materially affected either positively or negatively in the first twelve months following a rate change, regardless of any changes in interest rates, because our portfolios are relatively well matched in a twelve-month horizon. The effects of interest rate changes, if any, are expected to be more impacting to net interest income in the 12 to 36 months following a rate change.

The current level and shape of the interest rate yield curve poses challenges for interest rate risk management. Prior to its increases of 0.25% on December 16, 2015 and 0.25% on December 14, 2016, the FRB last changed interest rates on December 16, 2008. Great Southern has a substantial portion of its loan portfolio (\$1.02 billion at December 31, 2016) which is tied to the one-month LIBOR index and will adjust at least once within 90 days after December 31, 2016. Of these loans, \$471 million had interest rate floors. Great Southern also has a significant portfolio of loans (\$387 million at December 31, 2016) which are tied to a "prime rate" of interest and will adjust immediately with changes to the "prime rate" of interest.

As discussed under "*General-Net Interest Income and Interest Rate Risk Management*," at December 31, 2016 and 2015, there were \$387 million and \$424 million, respectively, of adjustable rate loans which were tied to a prime rate of interest which had interest rate floors. In previous years, when the market rates of interest began to fall, Great Southern had elected to leave its GSB prime at 5.00% for those loans that are indexed to GSB prime rather than a national prime rate of interest. This current rate for GSB prime loans is 5.25%. At December 31, 2016 and 2015, there were \$60 million and \$114 million, respectively, of loans indexed to GSB prime. While these interest rate floors and, to a lesser extent, the utilization of the GSB prime rate have helped keep the rate on our loan portfolio higher in this very low interest rate environment, they will also reduce the positive effect to our loan rates when market interest rates, specifically the "prime rate," increase. The interest rate on these loans will not increase until the loan floors are reached. Also, a significant portion of our retail certificates of deposit mature in the next twelve months and we expect that they generally will be replaced with new certificates of deposit at similar or higher interest rates to those that are maturing.

Interest rate risk exposure estimates (the sensitivity gap) are not exact measures of an institution's actual interest rate risk. They are only indicators of interest rate risk exposure produced in a simplified modeling environment designed to allow management to gauge



the Bank's sensitivity to changes in interest rates. They do not necessarily indicate the impact of general interest rate movements on the Bank's net interest income because the repricing of certain categories of assets and liabilities is subject to competitive and other factors beyond the Bank's control. As a result, certain assets and liabilities indicated as maturing or otherwise repricing within a stated period may in fact mature or reprice at different times and in different amounts and cause a change, which potentially could be material, in the Bank's interest rate risk.

In order to minimize the potential for adverse effects of material and prolonged increases and decreases in interest rates on Great Southern's results of operations, Great Southern has adopted asset and liability management policies to better match the maturities and repricing terms of Great Southern's interest-earning assets and interest-bearing liabilities. Management recommends and the Board of Directors sets the asset and liability policies of Great Southern which are implemented by the Asset and Liability Committee. The Asset and Liability Committee is chaired by the Chief Financial Officer and is comprised of members of Great Southern's senior management. The purpose of the Asset and Liability Committee is to communicate, coordinate and control asset/liability management consistent with Great Southern's business plan and board-approved policies. The Asset and Liability Committee establishes and monitors the volume and mix of assets and funding sources taking into account relative costs and spreads, interest rate sensitivity and liquidity needs. The objectives are to manage assets and funding sources to produce results that are consistent with liquidity, capital adequacy, growth, risk and profitability goals. The Asset and Liability Committee meets on a monthly basis to review, among other things, economic conditions and interest rate outlook, current and projected liquidity needs and capital positions and anticipated changes in the volume and mix of assets and liabilities. At each meeting, the Asset and Liability Committee recommends appropriate strategy changes based on this review. The Chief Financial Officer or his designee is responsible for reviewing and reporting on the effects of the policy implementations and strategies to the Board of Directors at their monthly meetings.

In order to manage its assets and liabilities and achieve the desired liquidity, credit quality, interest rate risk, profitability and capital targets, Great Southern has focused its strategies on originating adjustable rate loans or loans with fixed rates that mature in less than five years, and managing its deposits and borrowings to establish stable relationships with both retail customers and wholesale funding sources.

At times, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, we may determine to increase our interest rate risk position somewhat in order to maintain or increase our net interest margin.

The Asset and Liability Committee regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and market value of portfolio equity, which is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential changes in net interest income and market value of portfolio equity that are authorized by the Board of Directors of Great Southern.

In the normal course of business, the Company may use derivative financial instruments (primarily interest rate swaps) from time to time to assist in its interest rate risk management. In the fourth quarter of 2011, the Company began executing interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. Because the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. These interest rate derivatives result from a service provided to certain qualifying customers and, therefore, are not used to manage interest rate risk in the Company's assets or liabilities. The Company manages a matched book with respect to its derivative instruments in order to minimize its net risk exposure resulting from such transactions.

In 2013, the Company entered into two interest rate cap agreements related to its floating rate debt associated with its trust preferred securities. The agreements provide that the counterparty will reimburse the Company if interest rates rise above a certain threshold, thus creating a cap on the effective interest rate paid by the Company. These agreements are classified as hedging instruments, and the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. During 2015, the Company redeemed \$5.0 million of the total \$30.0 million of its trust preferred securities. The interest rate cap related to this \$5.0 million trust preferred security was terminated and the remaining cost of this interest rate cap was amortized to interest expense in 2015.

The Company's interest rate derivatives and hedging activities are discussed further in Note 18 of the accompanying audited financial statements.

The following tables illustrate the expected maturities and repricing, respectively, of the Bank's financial instruments at December 31, 2016. These schedules do not reflect the effects of possible prepayments or enforcement of due-on-sale clauses. The tables are based on information prepared in accordance with generally accepted accounting principles.

## Maturities

	<b>December 31,</b>						<b>Total</b>	<b>2016 Fair Value</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Thereafter</b>		
	(Dollars In Thousands)							
<b>Financial Assets:</b>								
Interest bearing deposits	\$ 159,566	—	—	—	—	—	\$ 159,566	\$ 159,566
Weighted average rate	0.66%	—	—	—	—	—	0.66%	
Available-for-sale debt securities(1)	\$ 11,792	\$ 5,137	\$ 14,677	\$ 18,145	\$ 6,247	\$ 157,874	\$ 213,872	\$ 213,872
Weighted average rate	6.59 %	5.40%	5.68%	5.95%	5.65%	2.23%	3.16%	
Held-to-maturity securities	—	\$ 247	—	—	—	—	\$ 247	\$ 258
Weighted average rate	—	7.36%	—	—	—	—	7.36%	
Adjustable rate loans	\$ 420,580	\$ 251,315	\$ 269,927	\$ 179,832	\$ 242,455	\$ 548,628	\$ 1,912,737	\$ 1,914,727
Weighted average rate	4.13 %	3.91%	3.80%	3.82%	3.76%	3.69%	3.85%	
Fixed rate loans	\$ 265,720	\$ 215,849	\$ 323,787	\$ 275,856	\$ 402,022	\$ 450,544	\$ 1,933,778	\$ 1,938,531
Weighted average rate	4.18 %	4.62%	4.86%	5.18%	5.33%	6.25%	5.21%	
Federal Home Loan Bank stock	—	—	—	—	—	\$ 13,034	\$ 13,034	\$ 13,034
Weighted average rate	—	—	—	—	—	2.46%	2.46%	
<b>Total financial assets</b>	<b><u>\$ 857,658</u></b>	<b><u>\$ 472,548</u></b>	<b><u>\$ 608,391</u></b>	<b><u>\$ 473,833</u></b>	<b><u>\$ 650,724</u></b>	<b><u>\$ 1,170,080</u></b>	<b><u>\$ 4,233,234</u></b>	
<b>Financial Liabilities:</b>								
Time deposits	\$ 1,036,958	\$ 276,535	\$ 70,408	\$ 49,427	\$ 47,574	\$ 3,824	\$ 1,484,726	\$ 1,491,247
Weighted average rate	0.89%	1.16%	1.57%	1.86%	1.94%	1.85%	1.01%	
Interest-bearing demand	\$ 1,539,216	—	—	—	—	—	\$ 1,539,216	\$ 1,539,216
Weighted average rate	0.26%	—	—	—	—	—	0.26%	
Non-interest-bearing demand	\$ 653,288	—	—	—	—	—	\$ 653,288	\$ 653,288
Weighted average rate	—	—	—	—	—	—	—	
Federal Home Loan Bank	\$ 30,836	\$ 85	\$ 30	—	—	\$ 501	\$ 31,452	\$ 32,379
Weighted average rate	3.26 %	5.14%	5.14%	—	—	5.54%	3.30%	
Short-term borrowings	\$ 286,023	—	—	—	—	—	\$ 286,023	\$ 286,023
Weighted average rate	0.50 %	—	—	—	—	—	0.50%	
Subordinated notes	—	—	—	—	—	\$ 75,000	\$ 75,000	\$ 76,031
Weighted average rate	—	—	—	—	—	5.45 %	5.45%	
Subordinated debentures	—	—	—	—	—	\$ 25,774	\$ 25,774	\$ 25,774
Weighted average rate	—	—	—	—	—	2.49%	2.49%	
<b>Total financial liabilities</b>	<b><u>\$ 3,546,321</u></b>	<b><u>\$ 276,620</u></b>	<b><u>\$ 70,438</u></b>	<b><u>\$ 49,427</u></b>	<b><u>\$ 47,574</u></b>	<b><u>\$ 105,099</u></b>	<b><u>\$ 4,095,479</u></b>	

(1) Available-for-sale debt securities include approximately \$146.0 million of mortgage-backed securities which pay interest and principal monthly to the Company. Of this total, \$130.6 million represents securities that have variable rates of interest after a fixed interest period. These securities will experience rate changes at varying times over the next ten years. This table does not show the effect of these monthly repayments of principal or rate changes.

## Repricing

	December 31,							2016
	2017	2018	2019	2020	2021	Thereafter	Total	Fair Value
	(Dollars In Thousands)							
<b>Financial Assets:</b>								
Interest bearing deposits	\$ 159,566	—	—	—	—	—	\$ 159,566	\$ 159,566
Weighted average rate	0.66%	—	—	—	—	—	0.66%	
Available-for-sale debt securities(1)	\$ 46,117	\$ 7,858	\$ 27,968	\$ 18,145	\$ 16,846	\$ 96,938	\$ 213,872	\$ 213,872
Weighted average rate	3.03%	4.53%	4.18%	5.95%	3.06%	2.37%	3.16%	
Held-to-maturity securities	—	\$ 247	—	—	—	—	\$ 247	\$ 258
Weighted average rate	—	7.36%	—	—	—	—	7.36%	
Adjustable rate loans	\$ 1,672,590	\$ 35,788	\$ 88,165	\$ 41,006	\$ 50,363	\$ 24,825	\$ 1,912,737	\$ 1,914,727
Weighted average rate	3.85%	3.81%	3.82%	4.21%	4.07%	3.53%	3.85%	
Fixed rate loans	\$ 265,720	\$ 215,849	\$ 323,787	\$ 275,856	\$ 402,022	\$ 450,544	\$ 1,933,778	\$ 1,938,531
Weighted average rate	4.18%	4.62%	4.86%	5.18%	5.33%	6.25%	5.21%	
Federal Home Loan Bank stock	\$ 13,034	—	—	—	—	—	\$ 13,034	\$ 13,034
Weighted average rate	2.46%	—	—	—	—	—	2.46%	
<b>Total financial assets</b>	<b>\$ 2,157,027</b>	<b>\$ 259,742</b>	<b>\$ 439,920</b>	<b>\$ 335,007</b>	<b>\$ 469,231</b>	<b>\$ 572,307</b>	<b>\$ 4,233,234</b>	
<b>Financial Liabilities:</b>								
Time deposits	\$ 1,036,958	\$ 276,535	\$ 70,408	\$ 49,427	\$ 47,574	\$ 3,824	\$ 1,484,726	\$ 1,491,247
Weighted average rate	0.89%	1.16%	1.57%	1.86%	1.94%	1.85%	1.01%	
Interest-bearing demand	\$ 1,539,216	—	—	—	—	—	\$ 1,539,216	\$ 1,539,216
Weighted average rate	0.26%	—	—	—	—	—	0.26%	
Non-interest-bearing demand(2)	—	—	—	—	—	\$ 653,288	\$ 653,288	\$ 653,288
Weighted average rate	—	—	—	—	—	—	—	
Federal Home Loan Bank advances	\$ 30,836	\$ 85	\$ 30	—	—	\$ 501	\$ 31,452	\$ 32,379
Weighted average rate	3.26%	5.14%	5.14%	—	—	5.54%	3.30%	
Short-term borrowings	\$ 286,023	—	—	—	—	—	\$ 286,023	\$ 286,023
Weighted average rate	0.50%	—	—	—	—	—	0.50%	
Subordinated notes	—	—	—	—	—	\$ 75,000	\$ 75,000	\$ 76,031
Weighted average rate	—	—	—	—	—	5.45%	5.45%	
Subordinated debentures	\$ 25,774	—	—	—	—	—	\$ 25,774	\$ 25,774
Weighted average rate	2.49%	—	—	—	—	—	2.49%	
<b>Total financial liabilities</b>	<b>\$ 2,918,807</b>	<b>\$ 276,620</b>	<b>\$ 70,438</b>	<b>\$ 49,427</b>	<b>\$ 47,574</b>	<b>\$ 732,613</b>	<b>\$ 4,095,479</b>	
<b>Periodic repricing GAP</b>	<b>\$ (761,780)</b>	<b>\$ (16,878)</b>	<b>\$ 369,482</b>	<b>\$ 285,580</b>	<b>\$ 421,657</b>	<b>\$ (160,306)</b>	<b>\$ 137,755</b>	
<b>Cumulative repricing GAP</b>	<b>\$ (761,780)</b>	<b>\$ (778,658)</b>	<b>\$ (409,176)</b>	<b>\$ (123,596)</b>	<b>\$ 298,061</b>	<b>\$ 137,755</b>		

(1) Available-for-sale debt securities include approximately \$146.0 million of mortgage-backed securities which pay interest and principal monthly to the Company. Of this total, \$130.6 million represents securities that have variable rates of interest after a fixed interest period. These securities will experience rate changes at varying times over the next ten years. This table does not show the effect of these monthly repayments of principal or rate changes.

(2) Non-interest-bearing demand is included in this table in the column labeled "Thereafter" since there is no interest rate related to these liabilities and therefore there is nothing to reprice.



**GREAT SOUTHERN  
BANCORP, INC.**

# **Great Southern Bancorp, Inc.**

## **Auditor's Report and Consolidated Financial Statements**

**December 31, 2016 and 2015**

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## Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders  
Great Southern Bancorp, Inc.  
Springfield, Missouri

We have audited the accompanying consolidated statements of financial condition of Great Southern Bancorp, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2016. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Great Southern Bancorp, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Great Southern Bancorp, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 3, 2017, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

**BKD, LLP**

*BKD, LLP*

Springfield, Missouri  
March 3, 2017

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Financial Condition**  
**December 31, 2016 and 2015**  
**(In Thousands, Except Per Share Data)**

**Assets**

	<u>2016</u>	<u>2015</u>
Cash	\$ 120,203	\$ 115,198
Interest-bearing deposits in other financial institutions	<u>159,566</u>	<u>83,985</u>
Cash and cash equivalents	279,769	199,183
Available-for-sale securities	213,872	262,856
Held-to-maturity securities	247	353
Mortgage loans held for sale	16,445	12,261
Loans receivable, net of allowance for loan losses of \$37,400 and \$38,149 at December 31, 2016 and 2015, respectively	3,759,966	3,340,536
FDIC indemnification asset	13,145	24,082
Interest receivable	11,875	10,930
Prepaid expenses and other assets	45,649	59,322
Other real estate owned, net	32,658	31,893
Premises and equipment, net	140,596	129,655
Goodwill and other intangible assets	12,500	5,758
Federal Home Loan Bank stock	13,034	15,303
Current and deferred income taxes	<u>10,907</u>	<u>12,057</u>
Total assets	<u>\$ 4,550,663</u>	<u>\$ 4,104,189</u>

*See Notes to Consolidated Financial Statements*

## Liabilities and Stockholders' Equity

	<u>2016</u>	<u>2015</u>
<b>Liabilities</b>		
Deposits	\$ 3,677,230	\$ 3,268,626
Federal Home Loan Bank advances	31,452	263,546
Securities sold under reverse repurchase agreements with customers	113,700	116,182
Short-term borrowings	172,323	1,295
Subordinated debentures issued to capital trust	25,774	25,774
Subordinated notes	73,537	—
Accrued interest payable	2,723	1,080
Advances from borrowers for taxes and insurance	4,643	4,681
Accrued expenses and other liabilities	<u>19,475</u>	<u>24,778</u>
Total liabilities	<u>4,120,857</u>	<u>3,705,962</u>
<b>Commitments and Contingencies</b>		
	<u>—</u>	<u>—</u>
<b>Stockholders' Equity</b>		
Capital stock		
Serial preferred stock, \$.01 par value; authorized 1,000,000 shares; issued and outstanding 2016 and 2015 – -0- shares	—	—
Common stock, \$.01 par value; authorized 20,000,000 shares; issued and outstanding 2016 – 13,968,386 shares, 2015 – 13,887,932 shares	140	139
Additional paid-in capital	25,942	24,371
Retained earnings	402,166	368,053
Accumulated other comprehensive income, net of income taxes of \$887 and \$3,227 at December 31, 2016 and 2015, respectively	<u>1,558</u>	<u>5,664</u>
Total stockholders' equity	<u>429,806</u>	<u>398,227</u>
Total liabilities and stockholders' equity	<u>\$ 4,550,663</u>	<u>\$ 4,104,189</u>



**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2016, 2015 and 2014**  
**(In Thousands, Except Per Share Data)**

	2016	2015	2014
<b>Interest Income</b>			
Loans	\$ 178,883	\$ 177,240	\$ 172,569
Investment securities and other	<u>6,292</u>	<u>7,111</u>	<u>10,793</u>
	<u>185,175</u>	<u>184,351</u>	<u>183,362</u>
<b>Interest Expense</b>			
Deposits	17,387	13,511	11,225
Federal Home Loan Bank advances	1,214	1,707	2,910
Short-term borrowings and repurchase agreements	1,137	65	1,099
Subordinated debentures issued to capital trust	803	714	567
Subordinated notes	<u>1,578</u>	<u>—</u>	<u>—</u>
	<u>22,119</u>	<u>15,997</u>	<u>15,801</u>
<b>Net Interest Income</b>	163,056	168,354	167,561
<b>Provision for Loan Losses</b>	<u>9,281</u>	<u>5,519</u>	<u>4,151</u>
<b>Net Interest Income After Provision for Loan Losses</b>	<u>153,775</u>	<u>162,835</u>	<u>163,410</u>
<b>Noninterest Income</b>			
Commissions	1,097	1,136	1,163
Service charges and ATM fees	21,666	19,841	19,075
Net gains on loan sales	3,941	3,888	4,133
Net realized gains on sales of available-for-sale securities	2,873	2	2,139
Late charges and fees on loans	1,747	2,129	1,400
Gain (loss) on derivative interest rate products	66	(43)	(345)
Gain recognized on business acquisitions	—	—	10,805
Accretion (amortization) of income/expense related to business acquisitions	(6,935)	(18,345)	(27,868)
Other income	<u>4,055</u>	<u>4,973</u>	<u>4,229</u>
	<u>28,510</u>	<u>13,581</u>	<u>14,731</u>
<b>Noninterest Expense</b>			
Salaries and employee benefits	60,377	58,682	56,032
Net occupancy expense	26,077	25,985	23,541
Postage	3,791	3,787	3,578
Insurance	3,482	3,566	3,837
Advertising	2,228	2,317	2,404
Office supplies and printing	1,708	1,333	1,464
Telephone	3,483	3,235	2,866
Legal, audit and other professional fees	3,191	2,713	3,957
Expense on other real estate owned	4,111	2,526	5,636
Partnership tax credit investment amortization	1,681	1,680	1,720
Acquired deposit intangible asset amortization	1,910	1,750	1,519
Other operating expenses	<u>8,388</u>	<u>6,776</u>	<u>14,305</u>
	<u>120,427</u>	<u>114,350</u>	<u>120,859</u>

See Notes to Consolidated Financial Statements

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2016, 2015 and 2014**  
**(In Thousands, Except Per Share Data)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Income Before Income Taxes</b>	\$ 61,858	\$ 62,066	\$ 57,282
<b>Provision for Income Taxes</b>	<u>16,516</u>	<u>15,564</u>	<u>13,753</u>
<b>Net Income</b>	45,342	46,502	43,529
<b>Preferred Stock Dividends</b>	<u>—</u>	<u>554</u>	<u>579</u>
<b>Net Income Available to Common Shareholders</b>	<u>\$ 45,342</u>	<u>\$ 45,948</u>	<u>\$ 42,950</u>
<b>Earnings Per Common Share</b>			
Basic	<u>\$ 3.26</u>	<u>\$ 3.33</u>	<u>\$ 3.14</u>
Diluted	<u>\$ 3.21</u>	<u>\$ 3.28</u>	<u>\$ 3.10</u>

*See Notes to Consolidated Financial Statements*

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2016, 2015 and 2014**  
**(In Thousands)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Net Income</b>	\$ <u>45,342</u>	\$ <u>46,502</u>	\$ <u>43,529</u>
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes (credit) of \$(1,346), \$(528) and \$3,301 for 2016, 2015 and 2014, respectively	(2,363)	(1,321)	6,128
Less: reclassification adjustment for gains included in net income, net of taxes of \$(1,043), \$(1) and \$(749) for 2016, 2015 and 2014, respectively	(1,830)	(1)	(1,390)
Change in fair value of cash flow hedge, net of taxes (credit) of \$50, \$(34) and \$(88) for 2016, 2015 and 2014, respectively	<u>87</u>	<u>(50)</u>	<u>(164)</u>
Other comprehensive income (loss)	<u>(4,106)</u>	<u>(1,372)</u>	<u>4,574</u>
<b>Comprehensive Income</b>	\$ <u><u>41,236</u></u>	\$ <u><u>45,130</u></u>	\$ <u><u>48,103</u></u>

See Notes to Consolidated Financial Statements

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
**Years Ended December 31, 2016, 2015 and 2014**  
**(In Thousands, Except Per Share Data)**

	<b>SBLF Preferred Stock</b>	<b>Common Stock</b>
	<hr/>	<hr/>
<b>Balance, January 1, 2014</b>	\$ 57,943	\$ 137
Net income	—	—
Stock issued under Stock Option Plan	—	—
Common dividends declared, \$.80 per share	—	—
SBLF preferred stock dividends accrued (1.0%)	—	—
Other comprehensive income	—	—
Purchase of the Company's common stock	—	—
Reclassification of treasury stock per Maryland law	<hr/> —	<hr/> 1
<b>Balance, December 31, 2014</b>	57,943	138
Net income	—	—
Stock issued under Stock Option Plan	—	—
Common dividends declared, \$.86 per share	—	—
SBLF preferred stock dividends accrued (1.0%)	—	—
Other comprehensive loss	—	—
Reclassification of treasury stock per Maryland law	—	1
Redemption of SBLF preferred stock	<hr/> (57,943)	<hr/> —
<b>Balance, December 31, 2015</b>	—	139
Net income	—	—
Stock issued under Stock Option Plan	—	—
Common dividends declared, \$.88 per share	—	—
Other comprehensive loss	—	—
Reclassification of treasury stock per Maryland law	<hr/> —	<hr/> 1
<b>Balance, December 31, 2016</b>	<hr/> \$ —	<hr/> \$ 140

See Notes to Consolidated Financial Statements

<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Treasury Stock</b>	<b>Total</b>
\$ 19,567	\$ 300,589	\$ 2,462	\$ —	\$ 380,698
—	43,529	—	—	43,529
2,778	—	—	225	3,003
—	(10,968)	—	—	(10,968)
—	(579)	—	—	(579)
—	—	4,574	—	4,574
—	—	—	(512)	(512)
—	(288)	—	287	—
22,345	332,283	7,036	—	419,745
—	46,502	—	—	46,502
2,026	—	—	1,718	3,744
—	(11,896)	—	—	(11,896)
—	(553)	—	—	(553)
—	—	(1,372)	—	(1,372)
—	1,717	—	(1,718)	—
—	—	—	—	(57,943)
24,371	368,053	5,664	—	398,227
—	45,342	—	—	45,342
1,571	—	—	1,022	2,593
—	(12,250)	—	—	(12,250)
—	—	(4,106)	—	(4,106)
—	1,021	—	(1,022)	—
<u>\$ 25,942</u>	<u>\$ 402,166</u>	<u>\$ 1,558</u>	<u>\$ —</u>	<u>\$ 429,806</u>

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2016, 2015 and 2014**  
**(In Thousands)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Operating Activities</b>			
Net income	\$ 45,342	\$ 46,502	\$ 43,529
Proceeds from sales of loans held for sale	156,835	158,730	156,632
Originations of loans held for sale	(156,036)	(155,680)	(160,074)
Items not requiring (providing) cash			
Depreciation	9,816	10,465	8,747
Amortization	3,656	3,430	3,242
Compensation expense for stock option grants	483	382	565
Provision for loan losses	9,281	5,519	4,151
Net gains on loan sales	(3,941)	(3,888)	(4,133)
Net realized gains on available-for-sale securities	(2,873)	(2)	(2,139)
Gain on sale of non-marketable securities	—	(301)	—
Gain on redemption of trust preferred securities	—	(1,115)	—
(Gain) loss on sale of premises and equipment	(249)	(465)	18
(Gain) loss on sale/write-down of other real estate owned	489	(1,132)	2,996
Gain on purchase of additional business units	—	—	(10,805)
Gain on sale of business units	(368)	—	—
Amortization of deferred income, premiums, discounts and other	4,423	10,595	22,692
(Gain) loss on derivative interest rate products	(66)	43	345
Deferred income taxes	(3,621)	(4,670)	(6,260)
Changes in			
Interest receivable	(535)	289	1,227
Prepaid expenses and other assets	12,655	3,982	8,430
Accrued expenses and other liabilities	(2,720)	3,354	502
Income taxes refundable/payable	<u>7,484</u>	<u>(4,609)</u>	<u>(2,232)</u>
Net cash provided by operating activities	<u>80,055</u>	<u>71,429</u>	<u>67,433</u>

See Notes to Consolidated Financial Statements

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2016, 2015 and 2014**  
**(In Thousands)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Investing Activities</b>			
Net change in loans	\$ (79,891)	\$ (190,154)	\$ (340,135)
Purchase of loans	(210,810)	(117,634)	(101,832)
Proceeds from sale of student loans	368	—	—
Cash received from purchase of additional business units	44,363	—	189,437
Cash received from FDIC loss sharing reimbursements	831	2,599	8,377
Cash paid for sale of business units	(17,821)	—	—
Purchase of premises and equipment	(10,878)	(16,697)	(17,954)
Proceeds from sale of premises and equipment	1,178	1,883	203
Proceeds from sale of foreclosed assets	28,362	23,497	21,706
Capitalized costs on foreclosed assets	(146)	(20)	(199)
Proceeds from sale of non-marketable securities	—	351	—
Proceeds from maturities, calls and repayments of held-to-maturity securities	106	97	355
Proceeds from sale of available-for-sale securities	55,000	56,169	220,169
Proceeds from maturities, calls and repayments of available-for-sale securities	60,827	63,463	103,475
Purchase of available-for-sale securities	(71,904)	(21,339)	(40,661)
(Purchase) redemption of Federal Home Loan Bank stock	<u>2,269</u>	<u>1,590</u>	<u>(7,071)</u>
Net cash provided by (used in) investing activities	<u>(198,146)</u>	<u>(196,195)</u>	<u>35,870</u>

See Notes to Consolidated Financial Statements

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2016, 2015 and 2014**  
**(In Thousands)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Financing Activities</b>			
Net increase (decrease) in certificates of deposit	\$ 162,763	\$ 191,224	\$ (116,139)
Net increase (decrease) in checking and savings accounts	36,126	87,113	(160,144)
Proceeds from Federal Home Loan Bank advances	1,793,000	6,509,500	4,231,000
Repayments of Federal Home Loan Bank advances	(2,025,070)	(6,517,564)	(4,083,315)
Net increase (decrease) in short-term borrowings	168,546	(93,967)	74,768
Proceeds from issuance of subordinated notes	73,472	—	—
Repayments of structured repurchase borrowings	—	—	(50,000)
Advances from (to) borrowers for taxes and insurance	(38)	(248)	580
Redemption of trust preferred securities	—	(3,885)	—
Redemption of preferred stock	—	(57,943)	—
Dividends paid	(12,232)	(12,290)	(11,257)
Purchase of the Company's common stock	—	—	(512)
Stock options exercised	<u>2,110</u>	<u>3,362</u>	<u>2,438</u>
Net cash provided by (used in) financing activities	<u>198,677</u>	<u>105,302</u>	<u>(112,581)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	80,586	(19,464)	(9,278)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>199,183</u>	<u>218,647</u>	<u>227,925</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 279,769</u>	<u>\$ 199,183</u>	<u>\$ 218,647</u>

See Notes to Consolidated Financial Statements



**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations and Operating Segments***

Great Southern Bancorp, Inc. (“GSBC” or the “Company”) operates as a one-bank holding company. GSBC’s business primarily consists of the operations of Great Southern Bank (the “Bank”), which provides a full range of financial services to customers primarily located in Missouri, Iowa, Kansas, Minnesota, Nebraska and Arkansas. The Bank also originates commercial loans from lending offices in Dallas, Texas and Tulsa, Oklahoma. The Company and the Bank are subject to regulation by certain federal and state agencies and undergo periodic examinations by those regulatory agencies.

The Company’s banking operation is its only reportable segment. The banking operation is principally engaged in the business of originating residential and commercial real estate loans, construction loans, commercial business loans and consumer loans and funding these loans by attracting deposits from the general public, accepting brokered deposits and borrowing from the Federal Home Loan Bank and others. The operating results of this segment are regularly reviewed by management to make decisions about resource allocations and to assess performance. Selected information is not presented separately for the Company’s reportable segment, as there is no material difference between that information and the corresponding information in the consolidated financial statements.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, the valuation of loans acquired with indication of impairment, the valuation of the FDIC indemnification asset and other-than-temporary impairments (OTTI) and fair values of financial instruments. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets held for sale, management obtains independent appraisals for significant properties. The valuation of the FDIC indemnification asset is determined in relation to the fair value of assets acquired through FDIC-assisted transactions for which cash flows are monitored on an ongoing basis. In addition, the Company considers that the determination of the carrying value of goodwill and intangible assets involves a high degree of judgment and complexity.

***Principles of Consolidation***

The consolidated financial statements include the accounts of Great Southern Bancorp, Inc., its wholly owned subsidiary, the Bank, and the Bank’s wholly owned subsidiaries, Great Southern Real Estate Development Corporation, GSB One LLC (including its wholly owned subsidiary, GSB Two LLC), Great Southern Financial Corporation, Great Southern Community Development Company, LLC (including its wholly owned subsidiary, Great Southern CDE, LLC), GS, LLC, GSSC, LLC, GSTC Investments, LLC, GS-RE Holding, LLC (including its wholly owned subsidiary, GS RE

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

Management, LLC), GS-RE Holding II, LLC, GS-RE Holding III, LLC, VFP Conclusion Holding, LLC and VFP Conclusion Holding II, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Reclassifications***

Certain prior periods' amounts have been reclassified to conform to the 2016 financial statements presentation. These reclassifications had no effect on net income.

***Federal Home Loan Bank Stock***

Federal Home Loan Bank common stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

***Securities***

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded, net of related income tax effects, in other comprehensive income.

Held-to-maturity securities, which include any security for which the Company has the positive intent and ability to hold until maturity, are carried at historical cost adjusted for amortization of premiums and accretion of discounts.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

For debt securities with fair value below carrying value when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment ("OTTI") of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an OTTI recorded in other comprehensive income for the noncredit portion of a previous OTTI is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

The Company's consolidated statements of income reflect the full impairment (that is, the difference between the security's amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale and held-to-maturity debt securities that management has no intent to sell and believes that it more likely than not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in accumulated other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

For equity securities, if any, when the Company has decided to sell an impaired available-for-sale security and the Company does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed OTTI in the period in which the decision to sell is

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

made. The Company recognizes an impairment loss when the impairment is deemed other-than-temporary even if a decision to sell has not been made.

***Mortgage Loans Held for Sale***

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Write-downs to fair value are recognized as a charge to earnings at the time the decline in value occurs. Nonbinding forward commitments to sell individual mortgage loans are generally obtained to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Fees received from borrowers to guarantee the funding of mortgage loans held for sale and fees paid to investors to ensure the ultimate sale of such mortgage loans are recognized as income or expense when the loans are sold or when it becomes evident that the commitment will not be used.

***Loans Originated by the Company***

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Past due status is based on the contractual terms of a loan. Generally, loans are placed on nonaccrual status at 90 days past due and interest is considered a loss, unless the loan is well secured and in the process of collection. Payments received on nonaccrual loans are applied to principal until the loans are returned to accrual status. Loans are returned to accrual status when all payments contractually due are brought current, payment performance is sustained for a period of time, generally six months, and future payments are reasonably assured. With the exception of consumer loans, charge-offs on loans are recorded when available information indicates a loan is not fully collectible and the loss is reasonably quantifiable. Consumer loans are charged-off at specified delinquency dates consistent with regulatory guidelines.

***Allowance for Loan Losses***

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected loss given default

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for certain loan segments after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that not all of the principal and interest due under the loan agreement will be collected in accordance with contractual terms. For non-homogeneous loans, such as commercial loans, management determines which loans are reviewed for impairment based on information obtained by account officers, weekly past due meetings, various analyses including annual reviews of large loan relationships, calculations of loan debt coverage ratios as financial information is obtained and periodic reviews of all loans over \$1.0 million. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length and reasons for the delay, the borrower's prior payment record and the amount of any collateral shortfall in relation to the principal and interest owed.

Large groups of smaller balance homogenous loans, such as consumer and residential loans, are collectively evaluated for impairment. In accordance with regulatory guidelines, impairment in the consumer and mortgage loan portfolio is primarily identified based on past-due status. Consumer and mortgage loans which are over 90 days past due or specifically identified as troubled debt restructurings will generally be individually evaluated for impairment.

Impairment is measured on a loan-by-loan basis for both homogeneous and non-homogeneous loans by either the present value of expected future cash flows or the fair value of the collateral if the loan is collateral dependent. Payments made on impaired loans are treated in accordance with the accrual status of the loan. If loans are performing in accordance with their contractual terms but the ultimate collectability of principal and interest is questionable, payments are applied to principal only.

***Loans Acquired in Business Combinations***

Loans acquired in business combinations under ASC Topic 805, *Business Combinations*, require the use of the purchase method of accounting. Therefore, such loans are initially recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, *Fair Value Measurements and Disclosures*. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

For loans not acquired in conjunction with an FDIC-assisted transaction that are not considered to be purchased credit-impaired loans, the Company evaluates those loans acquired in accordance with the provisions of ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. The fair value discount on these loans is accreted into interest income over the weighted average life of the loans using a constant yield method. These loans are not considered to be impaired loans. The Company evaluates purchased credit-impaired loans in accordance with the provisions of ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Loans acquired in business combinations with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

Evidence of credit quality deterioration as of the purchase dates may include information such as past-due and nonaccrual status, borrower credit scores and recent loan to value percentages. Acquired credit-impaired loans that are accounted for under the accounting guidance for loans acquired with deteriorated credit quality are initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans.

The Company evaluates all of its loans purchased in conjunction with its FDIC-assisted transactions in accordance with the provisions of ASC Topic 310-30. For purposes of applying ASC 310-30, loans acquired in FDIC-assisted business combinations are aggregated into pools of loans with common risk characteristics. All loans acquired in the FDIC transactions, both covered and not covered by loss sharing agreements, were deemed to be purchased credit-impaired loans as there is general evidence of credit deterioration since origination in the pools and there is some probability that not all contractually required payments will be collected. As a result, related discounts are recognized subsequently through accretion based on changes in the expected cash flows of these acquired loans.

The expected cash flows of the acquired loan pools in excess of the fair values recorded is referred to as the accretable yield and is recognized in interest income over the remaining estimated lives of the loan pools for impaired loans accounted for under ASC Topic 310-30. The Company continues to estimate cash flows expected to be collected on pools of loans sharing common risk characteristics, which are treated in the aggregate when applying various valuation techniques. Increases in the Company's cash flow expectations are recognized as increases to the accretable yield while decreases are recognized as impairments through the allowance for loan losses.

***FDIC Indemnification Asset***

Through two FDIC-assisted transactions during 2009, one during 2011 and one during 2012, the Bank acquired certain loans and foreclosed assets which are, or were, covered under loss sharing agreements with the FDIC. These agreements commit the FDIC to reimburse the Bank for a portion of realized losses on these covered assets. Therefore, as of the dates of acquisitions, the Company calculated the amount of such reimbursements it expects to receive from the FDIC using the present value of anticipated cash flows from the covered assets based on the credit adjustments estimated for each pool of loans and the estimated losses on foreclosed assets. In accordance with FASB ASC 805, each FDIC Indemnification Asset was initially recorded at its fair value, and is measured separately from the loan assets and foreclosed assets because the loss sharing agreements are not contractually embedded in them or transferrable with them in the event of disposal. The balance of the FDIC Indemnification Asset increases and decreases as the expected and actual cash flows from the covered assets fluctuate, as loans are paid off or impaired and as loans and foreclosed assets are sold. There are no contractual interest rates on these contractual receivables from the FDIC; however, a discount was recorded against the initial balance of the FDIC Indemnification Asset in conjunction with the fair value measurement as this receivable will be collected over the terms of the loss sharing agreements. This discount has been, and will continue to be, accreted to income over future periods. During 2016, the Company and the FDIC mutually agreed to terminate certain of these loss sharing agreements prior to their contractual termination dates. These acquisitions and agreements are more fully discussed in *Note 4*.

***Other Real Estate Owned***

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated cost to sell at the date of foreclosure, establishing a new cost basis.

# **Great Southern Bancorp, Inc.**

## **Notes to Consolidated Financial Statements**

### **December 31, 2016, 2015 and 2014**

Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expense on foreclosed assets. Other real estate owned also includes bank premises formerly, but no longer, used for banking, as well as property originally acquired for future expansion but no longer intended to be used for that purpose.

#### ***Premises and Equipment***

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line and accelerated methods over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized using the straight-line and accelerated methods over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter.

#### ***Long-Lived Asset Impairment***

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

A valuation allowance of \$1.2 million related to bank premises and furniture, fixtures and equipment was recorded during the year ended December 31, 2015, due to the Company's announced plans to consolidate operations of 14 banking centers into other nearby Great Southern banking center locations. The closing of these 14 facilities occurred at the close of business on January 8, 2016. During 2016, these assets were moved from furniture, fixtures and equipment to other real estate owned. A further valuation allowance of \$430,000 related to these properties in other real estate owned not acquired through foreclosure was recorded during the year ended December 31, 2016, as the Company believes that the market value of some of these properties has declined further. No asset impairment was recognized during the year ended December 31, 2014.

#### ***Goodwill and Intangible Assets***

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. A qualitative assessment is performed to determine whether the existence of events or circumstances leads to a determination that it is more likely than not the fair value is less than the carrying amount, including goodwill. If, based on the evaluation, it is determined to be more likely than not that the fair value is less than the carrying value, then goodwill is tested further for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill fair value are not recognized in the financial statements.

Intangible assets are being amortized on the straight-line basis generally over a period of seven years. Such assets are periodically evaluated as to the recoverability of their carrying value.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

A summary of goodwill and intangible assets is as follows:

	December 31,	
	2016	2015
	(In Thousands)	
Goodwill – Branch acquisitions	\$ 5,396	\$ 1,169
Deposit intangibles		
TeamBank	—	105
Vantus Bank	—	207
Sun Security Bank	613	964
InterBank	327	472
Boulevard Bank	519	641
Valley Bank	1,800	2,200
Fifth Third Bank	<u>3,845</u>	<u>—</u>
	<u>7,104</u>	<u>4,589</u>
	<u>\$ 12,500</u>	<u>\$ 5,758</u>

***Loan Servicing and Origination Fee Income***

Loan servicing income represents fees earned for servicing real estate mortgage loans owned by various investors. The fees are generally calculated on the outstanding principal balances of the loans serviced and are recorded as income when earned. Loan origination fees, net of direct loan origination costs, are recognized as income using the level-yield method over the contractual life of the loan.

***Stockholders' Equity***

At the 2004 Annual Meeting of Stockholders, the Company's stockholders approved the Company's reincorporation to the State of Maryland. This reincorporation was completed in June 2004. Under Maryland law, there is no concept of "Treasury Shares." Instead, shares purchased by the Company constitute authorized but unissued shares under Maryland law. Accounting principles generally accepted in the United States of America state that accounting for treasury stock shall conform to state law. The cost of shares purchased by the Company has been allocated to common stock and retained earnings balances.

***Earnings Per Common Share***

Basic earnings per common share are computed based on the weighted average number of common shares outstanding during each year. Diluted earnings per common share are computed using the weighted average common shares and all potential dilutive common shares outstanding during the period.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

Earnings per common share (EPS) were computed as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<u>(In Thousands, Except Per Share Data)</u>		
Net income	\$ <u>45,342</u>	\$ <u>46,502</u>	\$ <u>43,529</u>
Net income available to common shareholders	\$ <u>45,342</u>	\$ <u>45,948</u>	\$ <u>42,950</u>
Average common shares outstanding	13,912	13,818	13,700
Average common share stock options outstanding	<u>229</u>	<u>182</u>	<u>176</u>
Average diluted common shares	<u>14,141</u>	<u>14,000</u>	<u>13,876</u>
Earnings per common share – basic	\$ <u>3.26</u>	\$ <u>3.33</u>	\$ <u>3.14</u>
Earnings per common share – diluted	\$ <u>3.21</u>	\$ <u>3.28</u>	\$ <u>3.10</u>

Options outstanding at December 31, 2016, 2015 and 2014, to purchase 108,450, 117,600 and 500 shares of common stock, respectively, were not included in the computation of diluted earnings per common share for each of the years because the exercise prices of such options were greater than the average market prices of the common stock for the years ended December 31, 2016, 2015 and 2014, respectively.

**Stock Compensation Plans**

The Company has stock-based employee compensation plans, which are described more fully in *Note 21*. In accordance with FASB ASC 718, *Compensation – Stock Compensation*, compensation cost related to share-based payment transactions is recognized in the Company's consolidated financial statements based on the grant-date fair value of the award using the modified prospective transition method. For the years ended December 31, 2016, 2015 and 2014, share-based compensation expense totaling \$483,000, \$382,000 and \$565,000, respectively, was included in salaries and employee benefits expense in the consolidated statements of income.

**Cash Equivalents**

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, cash equivalents consisted of interest-bearing deposits in other financial institutions. At December 31, 2016, nearly all of the interest-bearing deposits were uninsured with nearly all of these balances held at the Federal Home Loan Bank or the Federal Reserve Bank.

**Income Taxes**

The Company accounts for income taxes in accordance with income tax accounting guidance (FASB ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded



**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term “more likely than not” means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management’s judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. At December 31, 2016 and 2015, no valuation allowance was established.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiaries.

***Derivatives and Hedging Activities***

FASB ASC 815, *Derivatives and Hedging*, provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. Further, qualitative disclosures are required that explain the Company’s objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments. For detailed disclosures on derivatives and hedging activities, see *Note 18*.

As required by FASB ASC 815, the Company records all derivatives in the statement of financial condition at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting.

***Restriction on Cash and Due From Banks***

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2016 and 2015, respectively, was \$53.8 million and \$58.9 million.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

**Recent Accounting Pronouncements**

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09. In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40)*. The guidance in this Update supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the industry topics of the codification. For public companies, the original Update was to be effective for interim and annual periods beginning after December 15, 2016. The current ASU states that the provisions of ASU 2014-09 should be applied to annual reporting periods, including interim periods, beginning after December 15, 2017. The Company does not expect the new standard to result in a material change to our accounting for revenue because the majority of our financial instruments are not within the scope of Topic 606, however, it may result in new disclosure requirements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Topic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The Update requires investments in equity securities, except for those under the equity method of accounting, to be measured at fair value with changes in fair value recognized through net income. In addition, the Update requires separate presentation of financial assets and liabilities by measurement category, such as fair value through net income, fair value through other comprehensive income, or amortized cost on the balance sheet or in the notes to the financial statements. The Update also clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The Update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently assessing the impact that this guidance may have, on its consolidated financial statements, but it is not expected to have a material impact.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The amendments in this Update revise the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The Update is effective for the Company beginning in the first quarter of 2019, with early adoption permitted. Adoption of the standard requires the use of a modified retrospective transition approach for all periods presented at the time of adoption. Based on the Company's leases outstanding at December 31, 2016, we do not expect the new standard to have a material impact on our consolidated statements of financial condition or our consolidated statements of income, although an increase to assets and liabilities will occur at the time of adoption. The Company's new leases and lease modifications and renewals prior to the implementation date could impact the level of materiality.

In March 2016, the FASB issued ASU No. 2016-09, *Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The Update amends several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The Update is effective for the Company for interim and annual periods beginning after December 15, 2016. The guidance is not expected to have a material impact on the Company's consolidated financial statements.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. The Update amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. This Update affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. For public companies, the update is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. All entities may adopt the amendments in this update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is assessing our data and system needs and is evaluating the impact of adopting the new guidance. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment, or the overall impact of the new guidance on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230)*. The Update provides guidance on how certain cash receipts and payments are presented and classified in the statement of cash flows. The amendments in the Update are to be applied retrospectively. The Update is effective for the Company for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740)*. The Update provides guidance on the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Under this guidance, companies will be required to recognize the income tax consequences of an intra-entity asset transfer when the transfer occurs. The Update is effective for the Company for annual and interim periods beginning after December 15, 2017. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but it is not expected to have a material impact.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations - Clarifying the Definition of a Business (Topic 805)*. The amendments in this Update provide a more robust framework to use in determining when a set of assets and activities is a business. The amendments provide more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The amendments in this Update become effective for the Company for annual periods and interim periods beginning after December 15, 2017. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles: Goodwill and Other: Simplifying the Test for Goodwill Impairment (Topic 350)*. To simplify the subsequent measurement of goodwill, the amendments eliminate Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test should be performed by comparing the fair value of a reporting unit with its carrying

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

amount and an impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the qualitative impairment test is necessary. The nature of and reason for the change in accounting principle should be disclosed upon transition. The amendments in this update should be adopted for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted on testing dates after January 1, 2017. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

**Note 2: Investments in Securities**

The amortized cost and fair values of securities classified as available-for-sale were as follows:

<b>December 31, 2016</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
(In Thousands)				
Mortgage-backed securities	\$ 146,491	\$ 1,045	\$ 1,501	\$ 146,035
States and political subdivisions	<u>64,682</u>	<u>3,163</u>	<u>8</u>	<u>67,837</u>
	<u>\$ 211,173</u>	<u>\$ 4,208</u>	<u>\$ 1,509</u>	<u>\$ 213,872</u>
<b>December 31, 2015</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
(In Thousands)				
U.S. government agencies	\$ 20,000	\$ —	\$ 219	\$ 19,781
Mortgage-backed securities	159,777	2,038	601	161,214
States and political subdivisions	72,951	5,081	1	78,031
Other securities	<u>847</u>	<u>2,983</u>	<u>—</u>	<u>3,830</u>
	<u>\$ 253,575</u>	<u>\$ 10,102</u>	<u>\$ 821</u>	<u>\$ 262,856</u>

At December 31, 2016, the Company's mortgage-backed securities portfolio consisted of FHLMC securities totaling \$57.2 million, FNMA securities totaling \$52.1 million and GNMA securities totaling \$36.7 million. At December 31, 2016, \$130.6 million of the Company's mortgage-backed securities had variable rates of interest and \$15.4 million had fixed rates of interest.

The amortized cost and fair value of available-for-sale securities at December 31, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

	<b>Amortized Cost</b>	<b>Fair Value</b>
<b>(In Thousands)</b>		
After one through five years	\$ 633	\$ 642
After five through ten years	7,987	8,189
After ten years	56,062	59,006
Securities not due on a single maturity date	<u>146,491</u>	<u>146,035</u>
	<u>\$ 211,173</u>	<u>\$ 213,872</u>

The amortized cost and fair values of securities classified as held to maturity were as follows:

<b>December 31, 2016</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>(In Thousands)</b>				
States and political subdivisions	\$ <u>247</u>	\$ <u>11</u>	\$ <u>—</u>	\$ <u>258</u>

<b>December 31, 2015</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>(In Thousands)</b>				
States and political subdivisions	\$ <u>353</u>	\$ <u>31</u>	\$ <u>—</u>	\$ <u>384</u>

The held-to-maturity securities at December 31, 2016, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<b>Amortized Cost</b>	<b>Fair Value</b>
<b>(In Thousands)</b>		
After one through five years	\$ <u>247</u>	\$ <u>258</u>

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

The amortized cost and fair values of securities pledged as collateral was as follows at December 31, 2016 and 2015:

	2016		2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Public deposits	\$ 57,841	\$ 59,082	\$ 60,355	\$ 62,288
Collateralized borrowing accounts	98,787	97,498	131,813	131,950
Other	<u>6,599</u>	<u>6,813</u>	<u>5,149</u>	<u>5,330</u>
	<u>\$ 163,227</u>	<u>\$ 163,393</u>	<u>\$ 197,317</u>	<u>\$ 199,568</u>

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2016 and 2015, was approximately \$104.5 million and \$75.2 million, respectively, which is approximately 48.8% and 28.6% of the Company's available-for-sale and held-to-maturity investment portfolio, respectively.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these debt securities are temporary.

The following table shows the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2016 and 2015:

Description of Securities	2016					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Mortgage-backed securities	\$ 102,296	\$ (1,501)	\$ —	\$ —	\$ 102,296	\$ (1,501)
States and political subdivisions	<u>2,164</u>	<u>(8)</u>	<u>—</u>	<u>—</u>	<u>2,164</u>	<u>(8)</u>
	<u>\$ 104,460</u>	<u>\$ (1,509)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 104,460</u>	<u>\$ (1,509)</u>

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

Description of Securities	2015					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
U.S. government agencies	\$ 19,781	\$ (219)	\$ —	\$ —	\$ 19,781	\$ (219)
Mortgage-backed securities	45,146	(348)	9,382	(253)	54,528	(601)
States and political subdivisions	—	—	909	(1)	909	(1)
	<u>\$ 64,927</u>	<u>\$ (567)</u>	<u>\$ 10,291</u>	<u>\$ (254)</u>	<u>\$ 75,218</u>	<u>\$ (821)</u>

***Other-than-Temporary Impairment***

Upon acquisition of a security, the Company decides whether it is within the scope of the accounting guidance for beneficial interests in securitized financial assets or will be evaluated for impairment under the accounting guidance for investments in debt and equity securities.

The accounting guidance for beneficial interests in securitized financial assets provides incremental impairment guidance for a subset of the debt securities within the scope of the guidance for investments in debt and equity securities. For securities where the security is a beneficial interest in securitized financial assets, the Company uses the beneficial interests in securitized financial asset impairment model. For securities where the security is not a beneficial interest in securitized financial assets, the Company uses the debt and equity securities impairment model. The Company does not currently have securities within the scope of this guidance for beneficial interests in securitized financial assets.

The Company routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. The Company considers the length of time a security has been in an unrealized loss position, the relative amount of the unrealized loss compared to the carrying value of the security, the type of security and other factors. If certain criteria are met, the Company performs additional review and evaluation using observable market values or various inputs in economic models to determine if an unrealized loss is other than temporary. The Company uses quoted market prices for marketable equity securities and uses broker pricing quotes based on observable inputs for equity investments that are not traded on a stock exchange. For nonagency collateralized mortgage obligations, to determine if the unrealized loss is other than temporary, the Company projects total estimated defaults of the underlying assets (mortgages) and multiplies that calculated amount by an estimate of realizable value upon sale in the marketplace (severity) in order to determine the projected collateral loss. The Company also evaluates any current credit enhancement underlying these securities to determine the impact on cash flows. If the Company determines that a given security position will be subject to a write-down or loss, the Company records the expected credit loss as a charge to earnings.

During 2016, 2015 and 2014, no securities were determined to have impairment that had become other than temporary.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

***Credit Losses Recognized on Investments***

There were no debt securities that have experienced fair value deterioration due to credit losses, as well as due to other market factors, but are not otherwise other-than-temporarily impaired.

**Note 3: Loans and Allowance for Loan Losses**

Classes of loans at December 31, 2016 and 2015, included:

	<b>2016</b>	<b>2015</b>
	<b>(In Thousands)</b>	
One- to four-family residential construction	\$ 21,737	\$ 23,526
Subdivision construction	17,186	38,504
Land development	50,624	58,440
Commercial construction	780,614	600,794
Owner occupied one- to four-family residential	200,340	110,277
Non-owner occupied one- to four-family residential	136,924	149,874
Commercial real estate	1,186,906	1,043,474
Other residential	663,378	419,549
Commercial business	348,628	357,580
Industrial revenue bonds	25,065	37,362
Consumer auto	494,233	439,895
Consumer other	70,001	74,829
Home equity lines of credit	108,753	83,966
Acquired FDIC-covered loans, net of discounts	134,356	236,071
Acquired loans no longer covered by FDIC loss sharing agreements, net of discounts	72,569	33,338
Acquired non-covered loans, net of discounts	76,234	93,436
	4,387,548	3,800,915
Undisbursed portion of loans in process	(585,313)	(418,702)
Allowance for loan losses	(37,400)	(38,149)
Deferred loan fees and gains, net	(4,869)	(3,528)
	\$ 3,759,966	\$ 3,340,536



**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

Classes of loans by aging were as follows:

	December 31, 2016						
	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days Past Due and Still Accruing
	(In Thousands)						
One- to four-family residential construction	\$ —	\$ —	\$ —	\$ —	\$ 21,737	\$ 21,737	\$ —
Subdivision construction	—	—	109	109	17,077	17,186	—
Land development	413	584	1,718	2,715	47,909	50,624	—
Commercial construction	—	—	—	—	780,614	780,614	—
Owner occupied one- to four-family residential	1,760	388	1,125	3,273	197,067	200,340	—
Non-owner occupied one- to four-family residential	309	278	404	991	135,933	136,924	—
Commercial real estate	1,969	1,988	4,404	8,361	1,178,545	1,186,906	—
Other residential	4,632	—	162	4,794	658,584	663,378	—
Commercial business	1,741	24	3,088	4,853	343,775	348,628	—
Industrial revenue bonds	—	—	—	—	25,065	25,065	—
Consumer auto	8,252	2,451	1,989	12,692	481,541	494,233	—
Consumer other	1,103	278	649	2,030	67,971	70,001	—
Home equity lines of credit	136	158	433	727	108,026	108,753	—
Acquired FDIC-covered loans, net of discounts	4,476	1,201	8,226	13,903	120,453	134,356	301
Acquired loans no longer covered by FDIC loss sharing agreements, net of discounts	1,356	552	1,401	3,309	69,260	72,569	222
Acquired non-covered loans, net of discounts	<u>851</u>	<u>173</u>	<u>2,854</u>	<u>3,878</u>	<u>72,356</u>	<u>76,234</u>	<u>—</u>
	26,998	8,075	26,562	61,635	4,325,913	4,387,548	523
Less FDIC-supported loans, and acquired non-covered loans, net of discounts	<u>6,683</u>	<u>1,926</u>	<u>12,481</u>	<u>21,090</u>	<u>262,069</u>	<u>283,159</u>	<u>523</u>
Total	<u>\$ 20,315</u>	<u>\$ 6,149</u>	<u>\$ 14,081</u>	<u>\$ 40,545</u>	<u>\$ 4,063,844</u>	<u>\$ 4,104,389</u>	<u>\$ —</u>

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

	December 31, 2015						
	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days Past Due and Still Accruing
	(In Thousands)						
One- to four-family residential construction	\$ 649	\$ —	\$ —	\$ 649	\$ 22,877	\$ 23,526	\$ —
Subdivision construction	—	—	—	—	38,504	38,504	—
Land development	2,245	148	139	2,532	55,908	58,440	—
Commercial construction	1	—	—	1	600,793	600,794	—
Owner occupied one- to four-family residential	1,217	345	715	2,277	108,000	110,277	—
Non-owner occupied one- to four-family residential	—	—	345	345	149,529	149,874	—
Commercial real estate	1,035	471	13,488	14,994	1,028,480	1,043,474	—
Other residential	—	—	—	—	419,549	419,549	—
Commercial business	1,020	9	288	1,317	356,263	357,580	—
Industrial revenue bonds	—	—	—	—	37,362	37,362	—
Consumer auto	3,351	891	721	4,963	434,932	439,895	—
Consumer other	943	236	576	1,755	73,074	74,829	—
Home equity lines of credit	212	123	297	632	83,334	83,966	—
Acquired FDIC-covered loans, net of discounts	7,936	603	9,712	18,251	217,820	236,071	—
Acquired loans no longer covered by FDIC loss sharing agreements, net of discounts	989	39	33	1,061	32,277	33,338	—
Acquired non-covered loans, net of discounts	<u>1,081</u>	<u>638</u>	<u>5,914</u>	<u>7,633</u>	<u>85,803</u>	<u>93,436</u>	<u>—</u>
	20,679	3,503	32,228	56,410	3,744,505	3,800,915	—
Less FDIC-supported loans, and acquired non-covered loans, net of discounts	<u>10,006</u>	<u>1,280</u>	<u>15,659</u>	<u>26,945</u>	<u>335,900</u>	<u>362,845</u>	<u>—</u>
Total	<u>\$ 10,673</u>	<u>\$ 2,223</u>	<u>\$ 16,569</u>	<u>\$ 29,465</u>	<u>\$ 3,408,605</u>	<u>\$ 3,438,070</u>	<u>\$ —</u>

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

Nonaccruing loans are summarized as follows:

	December 31,	
	2016	2015
	(In Thousands)	
One- to four-family residential construction	\$ —	\$ —
Subdivision construction	109	—
Land development	1,718	139
Commercial construction	—	—
Owner occupied one- to four-family residential	1,125	715
Non-owner occupied one- to four-family residential	404	345
Commercial real estate	4,404	13,488
Other residential	162	—
Commercial business	3,088	288
Industrial revenue bonds	—	—
Consumer auto	1,989	721
Consumer other	649	576
Home equity lines of credit	433	297
Total	\$ 14,081	\$ 16,569

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

The following tables present the activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2016, 2015 and 2014, respectively. Also presented are the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of the years ended December 31, 2016, 2015, and 2014, respectively:

	<b>December 31, 2016</b>						
	<b>One- to Four- Family Residential and Construction</b>	<b>Other Residential</b>	<b>Commercial Real Estate</b>	<b>Commercial Construction</b>	<b>Commercial Business</b>	<b>Consumer</b>	<b>Total</b>
	(In Thousands)						
<b>Allowance for Loan Losses</b>							
Balance, January 1, 2016	\$ 4,900	\$ 3,190	\$ 14,738	\$ 3,019	\$ 4,203	\$ 8,099	\$ 38,149
Provision (benefit) charged to expense	(2,407)	2,260	5,632	(827)	(926)	5,549	9,281
Losses charged off	(229)	(16)	(5,653)	(31)	(589)	(8,751)	(15,269)
Recoveries	<u>58</u>	<u>52</u>	<u>1,221</u>	<u>123</u>	<u>327</u>	<u>3,458</u>	<u>5,239</u>
Balance, December 31, 2016	<u>\$ 2,322</u>	<u>\$ 5,486</u>	<u>\$ 15,938</u>	<u>\$ 2,284</u>	<u>\$ 3,015</u>	<u>\$ 8,355</u>	<u>\$ 37,400</u>
Ending balance:							
Individually evaluated for impairment	<u>\$ 570</u>	<u>\$ —</u>	<u>\$ 2,209</u>	<u>\$ 1,291</u>	<u>\$ 1,295</u>	<u>\$ 997</u>	<u>\$ 6,362</u>
Collectively evaluated for impairment	<u>\$ 1,628</u>	<u>\$ 5,396</u>	<u>\$ 13,507</u>	<u>\$ 953</u>	<u>\$ 1,681</u>	<u>\$ 7,248</u>	<u>\$ 30,413</u>
Loans acquired and accounted for under ASC 310-30	<u>\$ 124</u>	<u>\$ 90</u>	<u>\$ 222</u>	<u>\$ 40</u>	<u>\$ 39</u>	<u>\$ 110</u>	<u>\$ 625</u>
<b>Loans</b>							
Individually evaluated for impairment	<u>\$ 6,015</u>	<u>\$ 3,812</u>	<u>\$ 10,507</u>	<u>\$ 6,023</u>	<u>\$ 4,539</u>	<u>\$ 3,385</u>	<u>\$ 34,281</u>
Collectively evaluated for impairment	<u>\$ 370,172</u>	<u>\$ 659,566</u>	<u>\$ 1,176,399</u>	<u>\$ 825,215</u>	<u>\$ 369,154</u>	<u>\$ 669,602</u>	<u>\$4,070,108</u>
Loans acquired and accounted for under ASC 310-30	<u>\$ 155,378</u>	<u>\$ 29,600</u>	<u>\$ 54,208</u>	<u>\$ 2,191</u>	<u>\$ 6,429</u>	<u>\$ 35,353</u>	<u>\$ 283,159</u>

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

**December 31, 2015**

	<b>One- to Four- Family Residential and Construction</b>	<b>Other Residential</b>	<b>Commercial Real Estate</b>	<b>Commercial Construction</b>	<b>Commercial Business</b>	<b>Consumer</b>	<b>Total</b>
<b>(In Thousands)</b>							
<b>Allowance for Loan Losses</b>							
Balance, January 1, 2015	\$ 3,455	\$ 2,941	\$ 19,773	\$ 3,562	\$ 3,679	\$ 5,025	\$ 38,435
Provision (benefit) charged to expense	1,428	193	(2,753)	(619)	1,450	5,820	5,519
Losses charged off	(80)	(2)	(2,584)	(329)	(1,202)	(5,315)	(9,512)
Recoveries	<u>97</u>	<u>58</u>	<u>302</u>	<u>405</u>	<u>276</u>	<u>2,569</u>	<u>3,707</u>
Balance, December 31, 2015	<u>\$ 4,900</u>	<u>\$ 3,190</u>	<u>\$ 14,738</u>	<u>\$ 3,019</u>	<u>\$ 4,203</u>	<u>\$ 8,099</u>	<u>\$ 38,149</u>
Ending balance:							
Individually evaluated for impairment	<u>\$ 731</u>	<u>\$ —</u>	<u>\$ 2,556</u>	<u>\$ 1,391</u>	<u>\$ 1,115</u>	<u>\$ 300</u>	<u>\$ 6,093</u>
Collectively evaluated for impairment	<u>\$ 3,464</u>	<u>\$ 3,122</u>	<u>\$ 11,888</u>	<u>\$ 1,570</u>	<u>\$ 2,862</u>	<u>\$ 7,647</u>	<u>\$ 30,553</u>
Loans acquired and accounted for under ASC 310-30	<u>\$ 705</u>	<u>\$ 68</u>	<u>\$ 294</u>	<u>\$ 58</u>	<u>\$ 226</u>	<u>\$ 152</u>	<u>\$ 1,503</u>
<b>Loans</b>							
Individually evaluated for impairment	<u>\$ 6,129</u>	<u>\$ 9,533</u>	<u>\$ 34,629</u>	<u>\$ 7,555</u>	<u>\$ 2,365</u>	<u>\$ 1,950</u>	<u>\$ 62,161</u>
Collectively evaluated for impairment	<u>\$ 316,052</u>	<u>\$ 410,016</u>	<u>\$ 1,008,845</u>	<u>\$ 651,679</u>	<u>\$ 392,577</u>	<u>\$ 596,740</u>	<u>\$ 3,375,909</u>
Loans acquired and accounted for under ASC 310-30	<u>\$ 194,697</u>	<u>\$ 35,945</u>	<u>\$ 73,148</u>	<u>\$ 4,981</u>	<u>\$ 10,500</u>	<u>\$ 43,574</u>	<u>\$ 362,845</u>

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

	December 31, 2014						
	One- to Four- Family Residential and Construction	Other Residential	Commercial Real Estate	Commercial Construction	Commercial Business	Consumer	Total
	(In Thousands)						
<b>Allowance for Loan Losses</b>							
Balance, January 1, 2014	\$ 6,235	\$ 2,678	\$ 16,939	\$ 4,464	\$ 6,451	\$ 3,349	\$ 40,116
Provision (benefit) charged to expense	(1,025)	227	1,855	(957)	409	3,642	4,151
Losses charged off	(2,251)	(1)	(2,160)	(126)	(3,286)	(4,005)	(11,829)
Recoveries	496	37	3,139	181	105	2,039	5,997
Balance, December 31, 2014	<u>\$ 3,455</u>	<u>\$ 2,941</u>	<u>\$ 19,773</u>	<u>\$ 3,562</u>	<u>\$ 3,679</u>	<u>\$ 5,025</u>	<u>\$ 38,435</u>
Ending balance:							
Individually evaluated for impairment	<u>\$ 829</u>	<u>\$ —</u>	<u>\$ 1,751</u>	<u>\$ 1,507</u>	<u>\$ 823</u>	<u>\$ 232</u>	<u>\$ 5,142</u>
Collectively evaluated for impairment	<u>\$ 2,532</u>	<u>\$ 2,923</u>	<u>\$ 16,671</u>	<u>\$ 1,905</u>	<u>\$ 2,805</u>	<u>\$ 4,321</u>	<u>\$ 31,157</u>
Loans acquired and accounted for under ASC 310-30	<u>\$ 94</u>	<u>\$ 18</u>	<u>\$ 1,351</u>	<u>\$ 150</u>	<u>\$ 51</u>	<u>\$ 472</u>	<u>\$ 2,136</u>
<b>Loans</b>							
Individually evaluated for impairment	<u>\$ 11,488</u>	<u>\$ 9,804</u>	<u>\$ 28,641</u>	<u>\$ 7,601</u>	<u>\$ 2,725</u>	<u>\$ 1,480</u>	<u>\$ 61,739</u>
Collectively evaluated for impairment	<u>\$ 288,066</u>	<u>\$ 382,610</u>	<u>\$ 917,235</u>	<u>\$ 437,424</u>	<u>\$ 392,348</u>	<u>\$ 466,174</u>	<u>\$ 2,883,857</u>
Loans acquired and accounted for under ASC 310-30	<u>\$ 234,158</u>	<u>\$ 48,470</u>	<u>\$ 107,278</u>	<u>\$ 1,937</u>	<u>\$ 17,789</u>	<u>\$ 48,903</u>	<u>\$ 458,535</u>

The portfolio segments used in the preceding three tables correspond to the loan classes used in all other tables in *Note 3* as follows:

- The one- to four-family residential and construction segment includes the one- to four-family residential construction, subdivision construction, owner occupied one- to four-family residential and non-owner occupied one- to four-family residential classes.
- The other residential segment corresponds to the other residential class.
- The commercial real estate segment includes the commercial real estate and industrial revenue bonds classes.
- The commercial construction segment includes the land development and commercial construction classes.
- The commercial business segment corresponds to the commercial business class.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

- The consumer segment includes the consumer auto, consumer other and home equity lines of credit classes.

The weighted average interest rate on loans receivable at December 31, 2016 and 2015, was 4.58% and 4.56%, respectively.

Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of loans serviced for others were \$266.2 million and \$237.7 million at December 31, 2016 and 2015, respectively. In addition, available lines of credit on these loans were \$60.5 million and \$32.3 million at December 31, 2016 and 2015, respectively.

A loan is considered impaired, in accordance with the impairment accounting guidance (FASB ASC 310-10-35-16) when, based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include not only nonperforming loans but also loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties.

The following summarizes information regarding impaired loans at and during the years ended December 31, 2016, 2015 and 2014:

	December 31, 2016			Year Ended December 31, 2016	
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
(In Thousands)					
One- to four-family residential construction	\$ —	\$ —	\$ —	\$ —	\$ —
Subdivision construction	818	829	131	948	46
Land development	6,023	6,120	1,291	8,020	304
Commercial construction	—	—	—	—	—
Owner occupied one- to four-family residential	3,290	3,555	374	3,267	182
Non-owner occupied one- to four-family residential	1,907	2,177	65	1,886	113
Commercial real estate	10,507	12,121	2,209	23,928	984
Other residential	3,812	3,812	—	6,813	258
Commercial business	4,539	4,652	1,295	2,542	185
Industrial revenue bonds	—	—	—	—	—
Consumer auto	2,097	2,178	629	1,307	141
Consumer other	812	887	244	884	70
Home equity lines of credit	476	492	124	417	32
Total	<u>\$ 34,281</u>	<u>\$ 36,823</u>	<u>\$ 6,362</u>	<u>\$ 50,012</u>	<u>\$ 2,315</u>

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

	December 31, 2015			Year Ended December 31, 2015	
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
	(In Thousands)				
One- to four-family residential construction	\$ —	\$ —	\$ —	\$ 633	\$ 35
Subdivision construction	1,061	1,061	214	3,533	109
Land development	7,555	7,644	1,391	7,432	287
Commercial construction	—	—	—	—	—
Owner occupied one- to four-family residential	3,166	3,427	389	3,587	179
Non-owner occupied one- to four-family residential	1,902	2,138	128	1,769	100
Commercial real estate	34,629	37,259	2,556	28,610	1,594
Other residential	9,533	9,533	—	9,670	378
Commercial business	2,365	2,539	1,115	2,268	138
Industrial revenue bonds	—	—	—	—	—
Consumer auto	791	829	119	576	59
Consumer other	802	885	120	672	74
Home equity lines of credit	<u>357</u>	<u>374</u>	<u>61</u>	<u>403</u>	<u>27</u>
Total	<u>\$ 62,161</u>	<u>\$ 65,689</u>	<u>\$ 6,093</u>	<u>\$ 59,153</u>	<u>\$ 2,980</u>

	December 31, 2014			Year Ended December 31, 2014	
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
	(In Thousands)				
One- to four-family residential construction	\$ 1,312	\$ 1,312	\$ —	\$ 173	\$ 76
Subdivision construction	4,540	4,540	344	2,593	226
Land development	7,601	8,044	1,507	9,691	292
Commercial construction	—	—	—	—	—
Owner occupied one- to four-family residential	3,747	4,094	407	4,808	212
Non-owner occupied one- to four-family residential	1,889	2,113	78	4,010	94
Commercial real estate	28,641	30,781	1,751	29,808	1,253
Other residential	9,804	9,804	—	10,469	407
Commercial business	2,725	2,750	823	2,579	158
Industrial revenue bonds	—	—	—	2,644	—
Consumer auto	420	507	63	219	37
Consumer other	629	765	94	676	71
Home equity lines of credit	<u>431</u>	<u>476</u>	<u>75</u>	<u>461</u>	<u>25</u>
Total	<u>\$ 61,739</u>	<u>\$ 65,186</u>	<u>\$ 5,142</u>	<u>\$ 68,131</u>	<u>\$ 2,851</u>



**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

At December 31, 2016, \$18.1 million of impaired loans had specific valuation allowances totaling \$6.4 million. At December 31, 2015, \$25.1 million of impaired loans had specific valuation allowances totaling \$6.1 million. At December 31, 2014, \$20.0 million of impaired loans had specific valuation allowances totaling \$5.1 million. For impaired loans which were nonaccruing, interest of approximately \$1.5 million, \$1.0 million and \$1.1 million would have been recognized on an accrual basis during the years ended December 31, 2016, 2015 and 2014, respectively.

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired. Troubled debt restructurings are loans that are modified by granting concessions to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. The types of concessions made are factored into the estimation of the allowance for loan losses for troubled debt restructurings primarily using a discounted cash flows or collateral adequacy approach.

The following table presents newly restructured loans during 2016, 2015 and 2014 by type of modification:

	<b>2016</b>			<b>Total Modification</b>
	<b>Interest Only</b>	<b>Term</b>	<b>Combination</b>	
	(In Thousands)			
Mortgage loans on real estate:				
Residential one-to-four family	\$ 60	\$ —	\$ —	\$ 60
Commercial	2,946	—	—	2,946
Construction and land development	429	—	—	429
Commercial business	—	38	—	38
Consumer	—	59	—	59
	<u>\$ 3,435</u>	<u>\$ 97</u>	<u>\$ —</u>	<u>\$ 3,532</u>
	<b>2015</b>			
	<b>Interest Only</b>	<b>Term</b>	<b>Combination</b>	<b>Total Modification</b>
	(In Thousands)			
Mortgage loans on real estate:				
Residential one-to-four family	\$ —	\$ 407	\$ 164	\$ 571
Commercial	—	115	—	115
Commercial business	—	1,095	—	1,095
Consumer	—	97	—	97
	<u>\$ —</u>	<u>\$ 1,714</u>	<u>\$ 164</u>	<u>\$ 1,878</u>

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

	2014			
	Interest Only	Term	Combination	Total Modificati on
	(In Thousands)			
Mortgage loans on real estate:				
One - to four -family				
residential construction	\$ —	\$ —	\$ 223	\$ 223
Subdivision construction	—	250	—	250
Residential one -to-four family	308	426	—	734
Commercial	506	1,928	—	2,434
Other residential	—	1,881	—	1,881
Commercial	—	1,150	—	1,150
Consumer	—	145	—	145
	\$ 814	\$ 5,780	\$ 223	\$ 6,817

At December 31, 2016, the Company had \$21.1 million of loans that were modified in troubled debt restructurings and impaired, as follows: \$5.0 million of construction and land development loans, \$7.4 million of single family and multi-family residential mortgage loans, \$7.1 million of commercial real estate loans, \$1.3 million of commercial business loans and \$296,000 of consumer loans. Of the total troubled debt restructurings at December 31, 2016, \$18.6 million were accruing interest and \$7.9 million were classified as substandard using the Company's internal grading system which is described below. The Company had no troubled debt restructurings which were modified in the previous 12 months and subsequently defaulted during the year ended December 31, 2016. When loans modified as troubled debt restructuring have subsequent payment defaults, the defaults are factored into the determination of the allowance for loan losses to ensure specific valuation allowances reflect amounts considered uncollectible. At December 31, 2015, the Company had \$45.0 million of loans that were modified in troubled debt restructurings and impaired, as follows: \$7.9 million of construction and land development loans, \$13.5 million of single family and multi-family residential mortgage loans, \$21.3 million of commercial real estate loans, \$2.0 million of commercial business loans and \$311,000 of consumer loans. Of the total troubled debt restructurings at December 31, 2015, \$39.0 million were accruing interest and \$12.2 million were classified as substandard using the Company's internal grading system. At December 31, 2014, the Company had \$47.6 million of loans that were modified in troubled debt restructurings and impaired, as follows: \$8.3 million of construction and land development loans, \$13.8 million of single family and multi-family residential mortgage loans, \$23.3 million of commercial real estate loans, \$1.9 million of commercial business loans and \$324,000 of consumer loans. Of the total troubled debt restructurings at December 31, 2014, \$39.2 million were accruing interest and \$18.3 million were classified as substandard using the Company's internal grading system.

During the year ended December 31, 2016, borrowers with loans designated as troubled debt restructurings totaling \$431,000 met the criteria for placement back on accrual status. This criteria is generally a minimum of six months of payment performance under original or modified terms. The \$431,000 was made up of \$235,000 of residential mortgage loans, \$100,000 of commercial real estate loans, \$96,000 of consumer loans.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

The Company reviews the credit quality of its loan portfolio using an internal grading system that classifies loans as “Satisfactory,” “Watch,” “Special Mention,” “Substandard” and “Doubtful.” Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if certain deficiencies are not corrected. Doubtful loans are those having all the weaknesses inherent to those classified Substandard with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Special mention loans possess potential weaknesses that deserve management’s close attention but do not expose the Bank to a degree of risk that warrants substandard classification. Loans classified as watch are being monitored because of indications of potential weaknesses or deficiencies that may require future classification as special mention or substandard. Loans not meeting any of the criteria previously described are considered satisfactory. The acquired FDIC-covered and previously covered loans are evaluated using this internal grading system. These loans are accounted for in pools and the loans acquired in the Inter Savings Bank FDIC transaction are currently substantially covered through loss sharing agreements with the FDIC. The acquired non-covered loans are also evaluated using this internal grading system, and are also accounted for in pools. Minimal adverse classification in these acquired loan pools was identified as of December 31, 2016 and 2015, respectively. See *Note 4* for further discussion of the acquired loan pools and remaining loss sharing agreements.

The Company evaluates the loan risk internal grading system definitions and allowance for loan loss methodology on an ongoing basis. In the fourth quarter of 2014, the Company began using a three-year average of historical losses for the general component of the allowance for loan loss calculation. The Company had previously used a five-year average. The Company believes that the three-year average provides a better representation of the current risks in the loan portfolio. This change was made after consultation with our regulators and other third-party consultants, as well as a review of the practices used by the Company’s peers. This change did not materially affect the level of the allowance for loan losses. The general component of the allowance for loan losses is affected by several factors, including, but not limited to, average historical losses, the current composition of the loan portfolio, current and expected economic conditions, collateral values and internal risk ratings. Management considers all these factors in determining the adequacy of its allowance for loan losses. No other significant changes were made to the loan risk grading system definitions and allowance for loan loss methodology during the past year.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

The loan grading system is presented by loan class below:

	December 31, 2016					Total
	Satisfactory	Watch	Special Mention	Substandard	Doubtful	
	(In Thousands)					
One- to four-family residential construction	\$ 20,771	\$ 966	\$ —	\$ —	\$ —	\$ 21,737
Subdivision construction	14,059	2,729	—	398	—	17,186
Land development	39,925	5,140	—	5,559	—	50,624
Commercial construction	780,614	—	—	—	—	780,614
Owner occupied one- to-four-family residential	198,835	67	—	1,438	—	200,340
Non-owner occupied one- to-four-family residential	135,930	465	—	529	—	136,924
Commercial real estate	1,160,280	20,154	—	6,472	—	1,186,906
Other residential	658,846	4,370	—	162	—	663,378
Commercial business	342,685	2,651	—	3,292	—	348,628
Industrial revenue bonds	25,065	—	—	—	—	25,065
Consumer auto	492,165	—	—	2,068	—	494,233
Consumer other	69,338	—	—	663	—	70,001
Home equity lines of credit	108,290	—	—	463	—	108,753
Acquired FDIC-covered loans, net of discounts	134,356	—	—	—	—	134,356
Acquired loans no longer covered by FDIC loss sharing agreements, net of discounts	72,552	—	—	17	—	72,569
Acquired non-covered loans, net of discounts	<u>76,234</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>76,234</u>
Total	<u>\$ 4,329,945</u>	<u>\$ 36,542</u>	<u>\$ —</u>	<u>\$ 21,061</u>	<u>\$ —</u>	<u>\$ 4,387,548</u>

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

	December 31, 2015					Total
	Satisfactory	Watch	Special Mention	Substandard	Doubtful	
	(In Thousands)					
One- to four-family residential construction	\$ 22,798	\$ —	\$ 728	\$ —	\$ —	\$ 23,526
Subdivision construction	34,370	263	3,407	464	—	38,504
Land development	47,357	6,992	—	4,091	—	58,440
Commercial construction	600,794	—	—	—	—	600,794
Owner occupied one- to-four-family residential	108,584	587	—	1,106	—	110,277
Non-owner occupied one- to-four-family residential	144,744	516	3,827	787	—	149,874
Commercial real estate	1,005,894	18,805	—	18,775	—	1,043,474
Other residential	409,172	8,422	—	1,955	—	419,549
Commercial business	355,370	1,303	438	469	—	357,580
Industrial revenue bonds	37,362	—	—	—	—	37,362
Consumer auto	439,157	—	—	738	—	439,895
Consumer other	74,167	—	—	662	—	74,829
Home equity lines of credit	83,627	—	—	339	—	83,966
Acquired FDIC-covered loans, net of discounts	236,055	—	—	16	—	236,071
Acquired loans no longer covered by FDIC loss sharing agreements, net of discounts	33,237	—	—	101	—	33,338
Acquired non-covered loans, net of discounts	<u>91,614</u>	<u>—</u>	<u>—</u>	<u>1,822</u>	<u>—</u>	<u>93,436</u>
Total	<u>\$ 3,724,302</u>	<u>\$ 36,888</u>	<u>\$ 8,400</u>	<u>\$ 31,325</u>	<u>\$ —</u>	<u>\$ 3,800,915</u>

Certain of the Bank's real estate loans are pledged as collateral for borrowings as set forth in *Notes 9 and 11*.

Certain directors and executive officers of the Company and the Bank are customers of and had transactions with the Bank in the ordinary course of business. Except for the interest rates on loans secured by personal residences, in the opinion of management, all loans included in such transactions were made on substantially the same terms as those prevailing at the time for comparable transactions with unrelated parties. Generally, residential first mortgage loans and home equity lines of credit to all employees and directors have been granted at interest rates equal to the Bank's cost of funds, subject to annual adjustments in the case of residential first mortgage loans and monthly adjustments in the case of home equity lines of credit. At December 31, 2016 and 2015, loans outstanding to these directors and executive officers are summarized as follows:

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

	2016	2015
	(In Thousands)	
Balance, beginning of year	\$ 14,287	\$ 16,028
New loans	14,299	3,390
Payments	(3,793)	(5,131)
Balance, end of year	\$ 24,793	\$ 14,287

**Note 4: Acquired Loans, Loss Sharing Agreements and FDIC Indemnification Assets**

***TeamBank***

On March 20, 2009, Great Southern Bank entered into a purchase and assumption agreement with loss share with the Federal Deposit Insurance Corporation (FDIC) to assume all of the deposits (excluding brokered deposits) and acquire certain assets of TeamBank, N.A., a full service commercial bank headquartered in Paola, Kansas.

The loans, commitments and foreclosed assets purchased in the TeamBank transaction were covered by a loss sharing agreement between the FDIC and Great Southern Bank. Under the loss sharing agreement, the Bank shared in the losses on assets covered under the agreement (referred to as covered assets). On losses up to \$115.0 million, the FDIC agreed to reimburse the Bank for 80% of the losses. On losses exceeding \$115.0 million, the FDIC agreed to reimburse the Bank for 95% of the losses. Realized losses covered by the loss sharing agreement included loan contractual balances (and related unfunded commitments that were acquired), accrued interest on loans for up to 90 days, the book value of foreclosed real estate acquired, and certain direct costs, less cash or other consideration received by Great Southern. This agreement originally was to extend for ten years for 1-4 family real estate loans and for five years for other loans. The five-year period ended March 31, 2014 and the ten-year period was terminated early, effective April 26, 2016, by mutual agreement of Great Southern Bank and the FDIC. See "Loss Sharing Agreements" below. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded.

***Vantus Bank***

On September 4, 2009, Great Southern Bank entered into a purchase and assumption agreement with loss share with the FDIC to assume all of the deposits and acquire certain assets of Vantus Bank, a full service thrift headquartered in Sioux City, Iowa.

The loans, commitments and foreclosed assets purchased in the Vantus Bank transaction were covered by a loss sharing agreement between the FDIC and Great Southern Bank. Under the loss sharing agreement, the Bank shared in the losses on assets covered under the agreement (referred to as covered assets). On losses up to \$102.0 million, the FDIC agreed to reimburse the Bank for 80% of the losses. On losses exceeding \$102.0 million, the FDIC agreed to reimburse the Bank for 95% of the losses. Realized losses covered by the loss sharing agreement included loan contractual balances (and related unfunded commitments that were acquired), accrued interest on loans for up to 90 days, the book value of foreclosed real estate acquired, and certain direct costs, less cash or other consideration received by Great Southern. This agreement originally was to extend for ten years for

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

1-4 family real estate loans and for five years for other loans. The five-year period ended September 30, 2014 and the ten-year period was terminated early, effective April 26, 2016, by mutual agreement of Great Southern Bank and the FDIC. See “Loss Sharing Agreements” below. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded.

***Sun Security Bank***

On October 7, 2011, Great Southern Bank entered into a purchase and assumption agreement with loss share with the FDIC to assume all of the deposits and acquire certain assets of Sun Security Bank, a full service bank headquartered in Ellington, Missouri.

The loans and foreclosed assets purchased in the Sun Security Bank transaction are covered by a loss sharing agreement between the FDIC and Great Southern Bank. Under the loss sharing agreement, the FDIC agreed to cover 80% of the losses on the loans (excluding approximately \$4 million of consumer loans) and foreclosed assets purchased subject to certain limitations. Realized losses covered by the loss sharing agreement include loan contractual balances (and related unfunded commitments that were acquired), accrued interest on loans for up to 90 days, the book value of foreclosed real estate acquired, and certain direct costs, less cash or other consideration received by Great Southern. This agreement originally was to extend for ten years for 1-4 family real estate loans and for five years for other loans but was terminated early, effective April 26, 2016, by mutual agreement of Great Southern Bank and the FDIC. See “Loss Sharing Agreements” below. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded. A discount was recorded in conjunction with the fair value of the acquired loans and the amount accreted to yield during 2016, 2015 and 2014 was \$-0-, \$-0- and \$105,000, respectively.

***InterBank***

On April 27, 2012, Great Southern Bank entered into a purchase and assumption agreement with loss share with the FDIC to assume all of the deposits and acquire certain assets of Inter Savings Bank, FSB (“InterBank”), a full service bank headquartered in Maple Grove, Minnesota.

The loans and foreclosed assets purchased in the InterBank transaction are covered by a loss sharing agreement between the FDIC and Great Southern Bank. Under the loss sharing agreement, the FDIC has agreed to cover 80% of the losses on the loans (excluding approximately \$60,000 of consumer loans) and foreclosed assets purchased subject to certain limitations. Realized losses covered by the loss sharing agreement include loan contractual balances (and related unfunded commitments that were acquired), accrued interest on loans for up to 90 days, the book value of foreclosed real estate acquired, and certain direct costs, less cash or other consideration received by Great Southern. This agreement extends for ten years for 1-4 family real estate loans and for five years for other loans. The value of this loss sharing agreement was considered in determining fair values of loans and foreclosed assets acquired. The loss sharing agreement is subject to the Bank following servicing procedures as specified in the agreement with the FDIC. The expected reimbursements under the loss sharing agreement were recorded as an indemnification asset at their preliminary estimated fair value on the acquisition date. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded. The Bank recorded the fair value of the acquired loans at their estimated fair value of \$285.5 million and the related FDIC indemnification asset was recorded at its estimated fair value of \$84.0 million. A premium was

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

recorded in conjunction with the fair value of the acquired loans and the amount amortized to yield during 2016, 2015 and 2014 was \$359,000, \$459,000 and \$544,000, respectively.

**Valley Bank**

On June 20, 2014, Great Southern Bank entered into a purchase and assumption agreement with the FDIC to purchase a substantial portion of the loans and investment securities, as well as certain other assets, and assume all of the deposits, as well as certain other liabilities, of Valley Bank, a full-service bank headquartered in Moline, Illinois, with significant operations in Iowa. This transaction did not include a loss sharing agreement.

In this transaction, the Company acquired assets with a fair value of approximately \$378.7 million (approximately 10.0% of the Company's total consolidated assets at acquisition) and assumed liabilities with a fair value of approximately \$367.9 million (approximately 9.8% of the Company's total consolidated assets at acquisition). Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded. The transaction resulted in a one-time gain of \$10.8 million, which was included in Noninterest Income in the Company's Consolidated Statement of Income for the year ended December 31, 2014. During 2014, the Company continued to analyze its estimates of the fair values of the assets acquired and liabilities assumed. The Company finalized its analysis of these assets and liabilities without adjustments to the initial fair value estimates. The Bank recorded the fair value of the acquired loans at their estimated fair value of \$165.1 million. A premium was recorded in conjunction with the fair value of the acquired loans and the amount amortized to yield during 2016, 2015 and 2014 was \$491,000, \$794,000 and \$501,000, respectively.

**Loss Sharing Agreements**

On April 26, 2016, Great Southern Bank executed an agreement with the FDIC to terminate the loss sharing agreements for TeamBank, Vantus Bank and Sun Security Bank, effective immediately. The agreement required the FDIC to pay \$4.4 million to settle all outstanding items related to the terminated loss sharing agreements. As a result of entering into the agreement, assets that were covered by the terminated loss sharing agreements, including covered loans in the amount of \$61.5 million and covered other real estate owned in the amount of \$468,000 as of March 31, 2016, were reclassified as non-covered assets effective April 26, 2016. In anticipation of terminating the loss sharing agreements, an impairment of the related indemnification assets was recorded during the three months ended March 31, 2016 in the amount of \$584,000. On the date of the termination, the indemnification asset balances (and certain other receivables from the FDIC) related to TeamBank, Vantus Bank and Sun Security Bank, which totaled \$4.4 million, net of impairment, at March 31, 2016, became \$-0- as a result of the receipt of funds from the FDIC as outlined in the termination agreement. There will be no future effects on non-interest income (expense) related to adjustments or amortization of the indemnification assets for TeamBank, Vantus Bank or Sun Security Bank; however, adjustments and amortization related to the InterBank indemnification asset and loss sharing agreement will continue. The remaining accretable yield adjustments that affect interest income are not changed by this transaction and will continue to be recognized for all FDIC-assisted transactions in the same manner as they have been previously.

The termination of the loss sharing agreements for the TeamBank, Vantus Bank and Sun Security Bank transactions have no impact on the yields for the loans that were previously covered under



**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

these agreements. All post-termination recoveries, gains, losses and expenses related to these previously covered assets are recognized entirely by Great Southern Bank since the FDIC no longer shares in such gains or losses. Accordingly, the Company's earnings are positively impacted to the extent the Company recognizes gains on any sales or recoveries in excess of the carrying value of such assets. Similarly, the Company's future earnings will be negatively impacted to the extent the Company recognizes expenses, losses or charge-offs related to such assets.

***Fair Value and Expected Cash Flows***

At the time of these acquisitions, the Company determined the fair value of the loan portfolios based on several assumptions. Factors considered in the valuations were projected cash flows for the loans, type of loan and related collateral, classification status, fixed or variable interest rate, term of loan, current discount rates and whether or not the loan was amortizing. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques. Management also estimated the amount of credit losses that were expected to be realized for the loan portfolios. The discounted cash flow approach was used to value each pool of loans. For non-performing loans, fair value was estimated by calculating the present value of the recoverable cash flows using a discount rate based on comparable corporate bond rates. This valuation of the acquired loans is a significant component leading to the valuation of the loss sharing assets recorded.

The amount of the estimated cash flows expected to be received from the acquired loan pools in excess of the fair values recorded for the loan pools is referred to as the accretable yield. The accretable yield is recognized as interest income over the estimated lives of the loans. The Company continues to evaluate the fair value of the loans including cash flows expected to be collected. Increases in the Company's cash flow expectations are recognized as increases to the accretable yield while decreases are recognized as impairments through the allowance for loan losses. During the years ended December 31, 2016, 2015 and 2014, increases in expected cash flows related to the acquired loan portfolios resulted in adjustments to the accretable yield to be spread over the estimated remaining lives of the loans on a level-yield basis. The increases in expected cash flows also reduced the amount of expected reimbursements under the loss sharing agreements, when applicable. This resulted in corresponding adjustments during the years ended December 31, 2016, 2015 and 2014, to the indemnification assets to be amortized on a level-yield basis over the remainder of the loss sharing agreements or the remaining expected lives of the loan pools, whichever is shorter. The amounts of these adjustments were as follows:

	Year Ended December 31,		
	2016	2015	2014
	(In Thousands)		
Increase in accretable yield due to increased cash flow expectations	\$ 10,598	\$ 13,720	\$ 31,461
Decrease in FDIC indemnification asset as a result of accretable yield increase	(2,744)	(5,056)	(23,129)

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

The adjustments, along with those made in previous years, impacted the Company's Consolidated Statements of Income as follows:

	Year Ended December 31,		
	2016	2015	2014
	(In Thousands)		
Interest income	\$ 16,393	\$ 28,531	\$ 34,974
Noninterest income	<u>(7,033)</u>	<u>(19,534)</u>	<u>(28,740)</u>
Net impact to pre-tax income	<u>\$ 9,360</u>	<u>\$ 8,997</u>	<u>\$ 6,234</u>

On an on-going basis the Company estimates the cash flows expected to be collected from the acquired loan pools. For each of the loan portfolios acquired, the cash flow estimates have increased, based on payment histories and reduced loss expectations of the loan pools. This resulted in increased income that was spread on a level-yield basis over the remaining expected lives of the loan pools (and, therefore, has decreased over time). The increases in expected cash flows also reduced the amount of expected reimbursements under the loss sharing agreements with the FDIC (to the extent such an agreement was in place), which were recorded as indemnification assets. Therefore, the expected indemnification assets had also been reduced each quarter since the fourth quarter of 2010, resulting in adjustments to be amortized on a comparable basis over the remainder of the loss sharing agreements or the remaining expected lives of the loan pools, whichever is shorter. Since the early terminations of all other loss sharing agreements on April 26, 2016, only the loans and other real estate owned acquired in the InterBank transaction have been covered by a loss sharing agreement and have indemnification assets remaining. Additional estimated cash flows totaling approximately \$10.6 million were recorded in the year ended December 31, 2016 related to these loan pools, with a corresponding reduction in expected reimbursement from the FDIC (solely related to the InterBank transaction) of approximately \$2.7 million in the year ended December 31, 2016.

Because these adjustments will be recognized over the remaining lives of the loan pools and the remainder of the loss sharing agreement, respectively, they will impact future periods as well. The remaining accretable yield adjustment that will affect interest income is \$6.3 million and the remaining adjustment to the indemnification asset, including the effects of the clawback liability, that will affect non-interest income (expense) is \$(2.5) million. The \$6.3 million of accretable yield adjustment relates to TeamBank, Vantus Bank, Sun Security Bank, InterBank and Valley Bank. The expense, as noted, is only related to InterBank, as there is no longer, nor will there be in the future, indemnification asset amortization expense related to TeamBank, Vantus Bank or Sun Security Bank due to the early termination of the remaining related loss sharing agreements for those transactions in April 2016. Of the remaining adjustments, we expect to recognize \$4.3 million of interest income and \$(1.7) million of non-interest income (expense) during 2017. Additional adjustments may be recorded in future periods from the FDIC-assisted acquisitions, as the Company continues to estimate expected cash flows from the acquired loan pools.

The loss sharing asset is measured separately from the loan portfolio because it is not contractually embedded in the loans and is not transferable with the loans should the Bank choose to dispose of them. Fair value was estimated using projected cash flows available for loss sharing based on the credit adjustments estimated for each loan pool (as discussed above) and the loss sharing

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

percentages outlined in the applicable Purchase and Assumption Agreement with the FDIC. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. The loss sharing asset is also separately measured from the related foreclosed real estate.

The loss sharing agreement on the InterBank transaction includes a clawback provision whereby if credit loss performance is better than certain pre-established thresholds, then a portion of the monetary benefit is shared with the FDIC. The pre-established threshold for credit losses is \$115.7 million for this transaction. The monetary benefit required to be paid to the FDIC under the clawback provision, if any, will occur shortly after the termination of the loss sharing agreement, which in the case of InterBank is 10 years from the acquisition date.

At December 31, 2016, 2015 and 2014, the Bank's internal estimate of credit performance was expected to be better than the threshold set by the FDIC in the loss sharing agreement. Therefore, a separate clawback liability totaling \$6.6 million, \$6.6 million and \$6.1 million was recorded at of December 31, 2016, 2015 and 2014, respectively. As changes in the fair values of the loans and foreclosed assets are determined due to changes in expected cash flows, changes in the amount of the clawback liability will occur.

***TeamBank Loans, Foreclosed Assets and Indemnification Asset***

The following tables present the balances of the loans, discount and FDIC indemnification asset related to the TeamBank transaction at December 31, 2016 and 2015. Through December 31, 2016, gross loan balances (due from the borrower) were reduced approximately \$417.3 million since the transaction date because of \$284.5 million of repayments by the borrower, \$61.7 million of transfers to foreclosed assets and \$71.1 million of charge-downs to customer loan balances. Based upon the collectability analyses performed at the time of the acquisition, we expected certain levels of foreclosures and charge-offs and actual results have been better than our expectations. As a result, cash flows expected to be received from the acquired loan pools have increased, resulting in adjustments that were made to the related accretable yield as described above.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

	<b>December 31, 2016</b>	
	<b>Loans</b>	<b>Foreclosed Assets</b>
	<b>(In Thousands)</b>	
Initial basis for loss sharing determination, net of activity since acquisition date	\$ 18,838	\$ 14
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(846)	—
Original estimated fair value of assets, net of activity since acquisition date	<u>(17,833)</u>	<u>(14)</u>
Expected loss remaining	<u>\$ 159</u>	<u>\$ —</u>
	<b>December 31, 2015</b>	
	<b>Loans</b>	<b>Foreclosed Assets</b>
	<b>(In Thousands)</b>	
Initial basis for loss sharing determination, net of activity since acquisition date	\$ 29,115	\$ —
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(1,285)	—
Original estimated fair value of assets, net of activity since acquisition date	<u>(27,660)</u>	<u>—</u>
Expected loss remaining	170	—
Assumed loss sharing recovery percentage	<u>90%</u>	<u>0%</u>
Expected loss sharing value	154	—
Indemnification asset to be amortized resulting from change in expected losses	<u>241</u>	<u>—</u>
FDIC indemnification asset	<u>\$ 395</u>	<u>\$ —</u>

**Vantus Bank Loans, Foreclosed Assets and Indemnification Asset**

The following tables present the balances of the loans, discount and FDIC indemnification asset related to the Vantus Bank transaction at December 31, 2016 and 2015. Through December 31, 2016, gross loan balances (due from the borrower) were reduced approximately \$307.8 million since the transaction date because of \$262.0 million of repayments by the borrower, \$16.7 million of transfers to foreclosed assets and \$29.1 million of charge-downs to customer loan balances. Based upon the collectability analyses performed at the time of the acquisition, we expected certain levels of foreclosures and charge-offs and actual results have been better than our expectations. As a result, cash flows expected to be received from the acquired loan pools have increased, resulting in adjustments that were made to the related accretable yield as described above.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

	<b>December 31, 2016</b>	
	<b>Loans</b>	<b>Foreclosed Assets</b>
	<b>(In Thousands)</b>	
Initial basis for loss sharing determination, net of activity since acquisition date	\$ 23,712	\$ 15
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(239)	—
Original estimated fair value of assets, net of activity since acquisition date	<u>(23,232)</u>	<u>(15)</u>
Expected loss remaining	<u>\$ 241</u>	<u>\$ —</u>

	<b>December 31, 2015</b>	
	<b>Loans</b>	<b>Foreclosed Assets</b>
	<b>(In Thousands)</b>	
Initial basis for loss sharing determination, net of activity since acquisition date	\$ 31,818	\$ 608
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(470)	—
Original estimated fair value of assets, net of activity since acquisition date	<u>(31,092)</u>	<u>(418)</u>
Expected loss remaining	256	190
Assumed loss sharing recovery percentage	<u>61%</u>	<u>0%</u>
Expected loss sharing value	156	—
Indemnification asset to be amortized resulting from change in expected losses	<u>319</u>	<u>—</u>
FDIC indemnification asset	<u>\$ 475</u>	<u>\$ —</u>

***Sun Security Bank Loans, Foreclosed Assets and Indemnification Asset***

The following tables present the balances of the loans, discount and FDIC indemnification asset related to the Sun Security Bank transaction at December 31, 2016 and 2015. Through December 31, 2016, gross loan balances (due from the borrower) were reduced approximately \$200.9 million since the transaction date because of \$141.6 million of repayments by the borrower, \$28.4 million of transfers to foreclosed assets and \$30.9 million of charge-downs to customer loan balances. Based upon the collectability analyses performed at the time of the acquisition, we expected certain levels of foreclosures and charge-offs and actual results have been better than our expectations. As a result, cash flows expected to be received from the acquired loan pools have increased, resulting in adjustments that were made to the related accretable yield as described above.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

	<b>December 31, 2016</b>	
	<b>Loans</b>	<b>Foreclosed Assets</b>
	<b>(In Thousands)</b>	
Initial basis for loss sharing determination, net of activity since acquisition date	\$ 33,579	\$ 365
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(1,086)	—
Original estimated fair value of assets, net of activity since acquisition date	(31,499)	(286)
Expected loss remaining	\$ 994	\$ 79
	<b>December 31, 2015</b>	
	<b>Loans</b>	<b>Foreclosed Assets</b>
	<b>(In Thousands)</b>	
Initial basis for loss sharing determination, net of activity since acquisition date	\$ 43,855	\$ 557
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(2,171)	—
Original estimated fair value of assets, net of activity since acquisition date	(40,349)	(461)
Expected loss remaining	1,335	96
Assumed loss sharing recovery percentage	34%	80%
Expected loss sharing value	456	77
Indemnification asset to be amortized resulting from change in expected losses	1,725	—
Accretable discount on FDIC indemnification asset	(36)	(63)
FDIC indemnification asset	\$ 2,145	\$ 14

***InterBank Loans, Foreclosed Assets and Indemnification Asset***

The following tables present the balances of the loans, discount and FDIC indemnification asset related to the InterBank transaction at December 31, 2016 and 2015. Through December 31, 2016, gross loan balances (due from the borrower) were reduced approximately \$243.6 million since the transaction date because of \$204.0 million of repayments by the borrower, \$16.6 million of transfers to foreclosed assets and \$23.0 million of charge-offs to customer loan balances. Based upon the collectability analyses performed at the time of the acquisition, we expected certain levels of foreclosures and charge-offs and actual results have been better than our expectations. As a result, cash flows expected to be received from the acquired loan pools have increased, resulting in adjustments that were made to the related accretable yield as described above.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

	<b>December 31, 2016</b>	
	<b>Loans</b>	<b>Foreclosed Assets</b>
	<b>(In Thousands)</b>	
Initial basis for loss sharing determination, net of activity since acquisition date	\$ 149,657	\$ 1,417
Noncredit premium/(discount), net of activity since acquisition date	543	—
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(1,984)	—
Original estimated fair value of assets, net of activity since acquisition date	<u>(134,355)</u>	<u>(1,417)</u>
Expected loss remaining	13,861	—
Assumed loss sharing recovery percentage	<u>84%</u>	<u>—</u>
Expected loss sharing value	11,644	—
FDIC loss share clawback	953	—
Indemnification asset to be amortized resulting from change in expected losses	1,586	—
Accretable discount on FDIC indemnification asset	<u>(1,038)</u>	<u>—</u>
FDIC indemnification asset	<u>\$ 13,145</u>	<u>\$ —</u>
	<b>December 31, 2015</b>	
	<b>Loans</b>	<b>Foreclosed Assets</b>
	<b>(In Thousands)</b>	
Initial basis for loss sharing determination, net of activity since acquisition date	\$ 193,654	\$ 2,110
Noncredit premium/(discount), net of activity since acquisition date	902	—
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(4,901)	—
Original estimated fair value of assets, net of activity since acquisition date	<u>(170,308)</u>	<u>(1,392)</u>
Expected loss remaining	19,347	718
Assumed loss sharing recovery percentage	<u>83%</u>	<u>80%</u>
Expected loss sharing value	16,032	575
FDIC loss share clawback	2,360	—
Indemnification asset to be amortized resulting from change in expected losses	3,920	—
Accretable discount on FDIC indemnification asset	<u>(1,801)</u>	<u>(33)</u>
FDIC indemnification asset	<u>\$ 20,511</u>	<u>\$ 542</u>

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

**Valley Bank Loans and Foreclosed Assets**

The following tables present the balances of the loans and discount related to the Valley Bank transaction at December 31, 2016 and 2015. Through December 31, 2016, gross loan balances (due from the borrower) were reduced approximately \$108.9 million since the transaction date because of \$98.5 million of repayments by the borrower, \$3.0 million of transfers to foreclosed assets and \$7.4 million of charge-offs to customer loan balances. The Valley Bank transaction did not include a loss sharing agreement; however, the loans were recorded at a discount, which is accreted to yield over the life of the loans. Based upon the collectability analyses performed at the time of the acquisition, we expected certain levels of foreclosures and charge-offs and actual results have been better than our expectations. As a result, cash flows expected to be received from the acquired loan pools have increased, resulting in adjustments that were made to the related accretable yield as described above.

	<b>December 31, 2016</b>	
	<b>Loans</b>	<b>Foreclosed Assets</b>
	<b>(In Thousands)</b>	
Initial basis, net of activity since acquisition date	\$ 84,283	\$ 1,973
Noncredit premium/(discount), net of activity since acquisition date	228	—
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(2,121)	—
Original estimated fair value of assets, net of activity since acquisition date	<u>(76,231)</u>	<u>(1,952)</u>
Expected loss remaining	<u>\$ 6,159</u>	<u>\$ 21</u>

	<b>December 31, 2015</b>	
	<b>Loans</b>	<b>Foreclosed Assets</b>
	<b>(In Thousands)</b>	
Initial basis, net of activity since acquisition date	\$ 109,791	\$ 1,017
Noncredit premium/(discount), net of activity since acquisition date	719	—
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(3,213)	—
Original estimated fair value of assets, net of activity since acquisition date	<u>(93,436)</u>	<u>(995)</u>
Expected loss remaining	<u>\$ 13,861</u>	<u>\$ 22</u>



**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

Changes in the accretable yield for acquired loan pools were as follows for the years ended December 31, 2016, 2015 and 2014:

	<u>TeamBank</u>	<u>Vantus Bank</u>	<u>Sun Security Bank</u> (In Thousands)	<u>InterBank</u>	<u>Valley Bank</u>
Balance, January 1, 2014	\$ 7,402	\$ 5,725	\$ 11,113	\$ 40,095	\$ —
Additions	—	—	—	—	22,976
Accretion	(4,138)	(3,835)	(10,590)	(37,994)	(4,788)
Reclassification from nonaccretable difference <sup>(1)</sup>	<u>3,601</u>	<u>2,563</u>	<u>7,429</u>	<u>33,991</u>	<u>(7,056)</u>
Balance, December 31, 2014	6,865	4,453	7,952	36,092	11,132
Accretion	(3,265)	(2,541)	(5,487)	(28,767)	(10,975)
Reclassification from nonaccretable difference <sup>(1)</sup>	<u>205</u>	<u>1,448</u>	<u>3,459</u>	<u>9,022</u>	<u>8,159</u>
Balance, December 31, 2015	3,805	3,360	5,924	16,347	8,316
Accretion	(1,834)	(1,877)	(3,832)	(13,964)	(11,933)
Reclassification from nonaccretable difference <sup>(1)</sup>	<u>506</u>	<u>1,064</u>	<u>2,185</u>	<u>6,129</u>	<u>8,414</u>
Balance, December 31, 2016	<u>\$ 2,477</u>	<u>\$ 2,547</u>	<u>\$ 4,277</u>	<u>\$ 8,512</u>	<u>\$ 4,797</u>

- (1) Represents increases in estimated cash flows expected to be received from the acquired loan pools, primarily due to lower estimated credit losses. The numbers also include changes in expected accretion of the loan pools for TeamBank, Vantus Bank, Sun Security Bank, InterBank and Valley Bank for the year ended December 31, 2016, totaling \$506,000, \$1.0 million, \$1.8 million, \$2.7 million and \$1.6 million, respectively; for TeamBank, Vantus Bank, Sun Security Bank, InterBank and Valley Bank for the year ended December 31, 2015, totaling \$40,000, \$1.1 million, \$2.0 million, \$4.8 million and \$759,000, respectively; and for TeamBank, Vantus Bank, Sun Security Bank, InterBank and Valley Bank for the year ended December 31, 2014, totaling \$3.2 million, \$2.4 million, \$3.9 million, \$9.2 million and \$(9.6 million), respectively.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

**Note 5: Other Real Estate Owned**

Major classifications of other real estate owned at December 31, 2016 and 2015, were as follows:

	2016	2015
	(In Thousands)	
Foreclosed assets held for sale		
One- to four-family construction	\$ —	\$ —
Subdivision construction	6,360	7,016
Land development	10,886	12,133
Commercial construction	—	—
One- to four-family residential	1,217	1,375
Other residential	954	2,150
Commercial real estate	3,841	3,608
Commercial business	—	—
Consumer	<u>1,991</u>	<u>1,109</u>
	25,249	27,391
FDIC-supported foreclosed assets, net of discounts	1,426	1,834
Acquired foreclosed assets no longer covered by FDIC loss sharing agreements, net of discounts	316	460
Acquired foreclosed assets not covered by FDIC loss sharing agreements, net of discounts (Valley Bank)	<u>1,952</u>	<u>995</u>
Foreclosed assets held for sale, net	28,943	30,680
Other real estate owned not acquired through foreclosure	<u>3,715</u>	<u>1,213</u>
Other real estate owned	<u>\$ 32,658</u>	<u>\$ 31,893</u>

As of December 31, 2016, other real estate owned not acquired through foreclosure included 17 properties, 16 of which were branch locations that have been closed and are held for sale, and one of which is land which was acquired for a potential branch location.

During the year ended December 31, 2016, 15 former branch locations were added to other real estate owned not acquired through foreclosure due to the closing of those branches. Seven former branch locations have been sold during the year at a net gain of \$858,000, which is included in the gain of sales of other real estate owned amount in the table below.

At December 31, 2016, residential mortgage loans totaling \$3.6 million were in the process of foreclosure, \$3.5 million of which were acquired loans. Of the \$3.5 million of acquired loans, \$2.6 million are covered by loss sharing agreements, \$275,000 were previously covered by loss sharing agreements and \$662,000 were acquired in the Valley Bank transaction.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

Expenses applicable to other real estate owned for the years ended December 31, 2016, 2015 and 2014, included the following:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(In Thousands)</b>		
Net gain on sales of real estate	\$ (68)	\$ (397)	\$ (91)
Valuation write-downs	431	890	3,343
Operating expenses, net of rental income	3,748	2,033	2,384
	\$ 4,111	\$ 2,526	\$ 5,636

**Note 6: Premises and Equipment**

Major classifications of premises and equipment at December 31, 2016 and 2015, stated at cost, were as follows:

	<b>2016</b>	<b>2015</b>
	<b>(In Thousands)</b>	
Land	\$ 43,582	\$ 39,395
Buildings and improvements	95,169	87,333
Furniture, fixtures and equipment	57,217	56,051
	195,968	182,779
Less accumulated depreciation	55,372	53,124
	\$ 140,596	\$ 129,655

**Note 7: Investments in Limited Partnerships**

***Investments in Affordable Housing Partnerships***

The Company has invested in certain limited partnerships that were formed to develop and operate apartments and single-family houses designed as high-quality affordable housing for lower income tenants throughout Missouri and contiguous states. At December 31, 2016, the Company had thirteen investments, with a net carrying value of \$21.8 million. At December 31, 2015, the Company had thirteen investments, with a net carrying value of \$25.1 million. Due to the Company's inability to exercise any significant influence over any of the investments in Affordable Housing Partnerships, they all are accounted for using the proportional amortization method. Each of the partnerships must meet the regulatory requirements for affordable housing for a minimum 15-year compliance period to fully utilize the tax credits. If the partnerships cease to qualify during the compliance period, the credits may be denied for any period in which the projects are not in compliance and a portion of the credits previously taken may be subject to recapture with interest.

The remaining federal affordable housing tax credits to be utilized over a maximum of 15 years were \$27.1 million as of December 31, 2016, assuming no tax credit recapture events occur and all projects currently under construction are completed as planned. Amortization of the investments in partnerships is expected to be approximately \$21.0 million, assuming all projects currently under construction are completed and funded as planned. The Company's usage of federal affordable housing tax credits approximated \$6.2 million, \$6.3 million and \$6.0 million during 2016, 2015 and

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

2014, respectively. Investment amortization amounted to \$4.4 million, \$4.9 million and \$4.7 million for the years ended December 31, 2016, 2015 and 2014, respectively.

***Investments in Community Development Entities***

The Company has invested in certain limited partnerships that were formed to develop and operate business and real estate projects located in low-income communities. At December 31, 2016, the Company had two investments, with a net carrying value of \$1.9 million. At December 31, 2015, the Company had four investments, with a net carrying value of \$3.5 million. Due to the Company's inability to exercise any significant influence over any of the investments in qualified Community Development Entities, they are all accounted for using the cost method. Each of the partnerships provides federal New Market Tax Credits over a seven-year credit allowance period. In each of the first three years, credits totaling five percent of the original investment are allowed on the credit allowance dates and for the final four years, credits totaling six percent of the original investment are allowed on the credit allowance dates. Each of the partnerships must be invested in a qualified Community Development Entity on each of the credit allowance dates during the seven-year period to utilize the tax credits. If the Community Development Entities cease to qualify during the seven-year period, the credits may be denied for any credit allowance date and a portion of the credits previously taken may be subject to recapture with interest. The investments in the Community Development Entities cannot be redeemed before the end of the seven-year period.

The remaining federal New Market Tax Credits to be utilized over a maximum of seven years were \$2.2 million as of December 31, 2016. Amortization of the investments in partnerships is expected to be approximately \$1.6 million. The Company's usage of federal New Market Tax Credits approximated \$2.3 million, \$2.3 million and \$2.3 million during 2016, 2015 and 2014, respectively. Investment amortization amounted to \$1.7 million, \$1.7 million and \$1.7 million for the years ended December 31, 2016, 2015 and 2014, respectively.

***Investments in Limited Partnerships for Federal Rehabilitation/Historic Tax Credits***

From time to time, the Company has invested in certain limited partnerships that were formed to provide certain federal rehabilitation/historic tax credits. The Company utilizes these credits in their entirety in the year the project is placed in service and the impact to the Consolidated Statements of Income has not been material.

***Investments in Limited Partnerships for State Tax Credits***

From time to time, the Company has invested in certain limited partnerships that were formed to provide certain state tax credits. The Company has primarily syndicated these tax credits and the impact to the Consolidated Statements of Income has not been material.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

**Note 8: Deposits**

Deposits at December 31, 2016 and 2015, are summarized as follows:

	<b>Weighted Average Interest Rate</b>	<b>2016</b>	<b>2015</b>
<b>(In Thousands, Except Interest Rates)</b>			
Noninterest-bearing accounts	—	\$ 653,288	\$ 571,629
Interest-bearing checking and savings accounts	0.26% - 0.24%	<u>1,539,216</u>	<u>1,408,850</u>
		<u>2,192,504</u>	<u>1,980,479</u>
Certificate accounts	0% - 0.99%	695,738	863,865
	1% - 1.99%	737,649	381,956
	2% - 2.99%	48,777	39,592
	3% - 3.99%	1,119	1,137
	4% - 4.99%	1,171	1,304
	5% and above	<u>272</u>	<u>293</u>
		<u>1,484,726</u>	<u>1,288,147</u>
		<u>\$ 3,677,230</u>	<u>\$ 3,268,626</u>

The weighted average interest rate on certificates of deposit was 1.01% and 0.85% at December 31, 2016 and 2015, respectively.

The aggregate amount of certificates of deposit originated by the Bank in denominations greater than \$100,000 was approximately \$634.7 million and \$493.6 million at December 31, 2016 and 2015, respectively. The Bank utilizes brokered deposits as an additional funding source. The aggregate amount of brokered deposits was approximately \$324.3 million and \$283.7 million at December 31, 2016 and 2015, respectively.

At December 31, 2016, scheduled maturities of certificates of deposit were as follows:

	<b>Retail</b>	<b>Brokered</b>	<b>Total</b>
<b>(In Thousands)</b>			
2017	\$ 726,594	\$ 310,364	\$ 1,036,958
2018	262,625	13,910	276,535
2019	70,408	—	70,408
2020	49,427	—	49,427
2021	47,574	—	47,574
Thereafter	<u>3,824</u>	<u>—</u>	<u>3,824</u>
	<u>\$ 1,160,452</u>	<u>\$ 324,274</u>	<u>\$ 1,484,726</u>

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

A summary of interest expense on deposits for the years ended December 31, 2016, 2015 and 2014, is as follows:

	2016	2015	2014
	(In Thousands)		
Checking and savings accounts	\$ 3,888	\$ 2,858	\$ 3,088
Certificate accounts	13,598	10,739	8,264
Early withdrawal penalties	(99)	(86)	(127)
	\$ 17,387	\$ 13,511	\$ 11,225

**Note 9: Advances From Federal Home Loan Bank**

Advances from the Federal Home Loan Bank at December 31, 2016 and 2015, consisted of the following:

	December 31, 2016		December 31, 2015	
		Weighted Average Interest Rate		Weighted Average Interest Rate
Due In	Amount	Rate	Amount	Rate
(In Thousands)				
2016	\$ —	—%	\$ 232,071	0.42%
2017	30,826	3.26	30,826	3.26
2018	81	5.14	81	5.14
2019	28	5.14	28	5.14
2020	—	—	—	—
2021	—	—	—	—
2022 and thereafter	500	5.54	500	5.54
	31,435	3.30	263,506	0.76
Unamortized fair value adjustment	17		40	
	\$ 31,452		\$ 263,546	

Also included in the Bank's FHLB advances at December 31, 2016 and December 31, 2015, was a \$30.0 million advance with a maturity date of November 24, 2017. The interest rate on this advance is 3.20%. The advance has a call provision that allows the Federal Home Loan Bank of Des Moines to call the advance quarterly.

In June 2014 the Company prepaid a total of \$80 million of its Federal Home Loan Bank advances and \$50 million of structured repurchase agreements (see *Note 12*) as part of a strategy to utilize the Bank's liquidity and improve net interest margin. As a result, the Company incurred one-time prepayment penalties totaling \$7.4 million, which were included in other operating expenses in 2014.

The Bank has pledged FHLB stock, investment securities and first mortgage loans free of pledges, liens and encumbrances as collateral for outstanding advances. No investment securities were

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

specifically pledged as collateral for advances at December 31, 2016 and 2015. Loans with carrying values of approximately \$1.12 billion and \$1.21 billion were pledged as collateral for outstanding advances at December 31, 2016 and 2015, respectively. The Bank had potentially available \$551.0 million remaining on its line of credit under a borrowing arrangement with the FHLB of Des Moines at December 31, 2016.

**Note 10: Short-Term Borrowings**

Short-term borrowings at December 31, 2016 and 2015, are summarized as follows:

	<b>2016</b>	<b>2015</b>
	<b>(In Thousands)</b>	
Notes payable – Community Development		
Equity Funds	\$ 1,323	\$ 1,295
Overnight borrowings from the Federal Home Loan Bank	171,000	—
Securities sold under reverse repurchase agreements	113,700	116,182
	\$ 286,023	\$ 117,477

The Bank enters into sales of securities under agreements to repurchase (reverse repurchase agreements). Reverse repurchase agreements are treated as financings, and the obligations to repurchase securities sold are reflected as a liability in the statements of financial condition. The dollar amount of securities underlying the agreements remains in the asset accounts. Securities underlying the agreements are being held by the Bank during the agreement period. All agreements are written on a term of one-month or less.

Short-term borrowings had weighted average interest rates of 0.50% and 0.04% at December 31, 2016 and 2015, respectively. Short-term borrowings averaged approximately \$327.7 million and \$192.1 million for the years ended December 31, 2016 and 2015, respectively. The maximum amounts outstanding at any month end were \$523.1 million and \$219.5 million, respectively, during those same periods.

The following table represents the Company's securities sold under reverse repurchase agreements, by collateral type and remaining contractual maturity at December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
	<b>Overnight and Continuous</b>	<b>Overnight and Continuous</b>
	<b>(In Thousands)</b>	
FHLBank CD	\$ 16,202	\$ —
Mortgage-backed securities – GNMA, FNMA, FHLMC	97,498	116,182
	\$ 113,700	\$ 116,182

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

**Note 11: Federal Reserve Bank Borrowings**

At December 31, 2016 and 2015, the Bank had \$602.0 million and \$633.7 million, respectively, available under a line-of-credit borrowing arrangement with the Federal Reserve Bank. The line is secured primarily by commercial loans. There were no amounts borrowed under this arrangement at December 31, 2016 or 2015.

**Note 12: Structured Repurchase Agreements**

In September 2008, the Company entered into a structured repurchase borrowing transaction for \$50 million. This borrowing bore interest at a fixed rate of 4.34%, was scheduled to mature September 15, 2015, and had a call provision that allowed the repurchase counterparty to call the borrowing quarterly. The Company pledged investment securities to collateralize this borrowing.

In June 2014, the Company elected to repay this structured repurchase borrowing and incurred a one-time prepayment penalty (see *Note 9*).

**Note 13: Subordinated Debentures Issued to Capital Trusts**

In November 2006, Great Southern Capital Trust II (Trust II), a statutory trust formed by the Company for the purpose of issuing the securities, issued a \$25.0 million aggregate liquidation amount of floating rate cumulative trust preferred securities. The Trust II securities bear a floating distribution rate equal to 90-day LIBOR plus 1.60%. The Trust II securities are redeemable at the Company's option beginning in February 2012, and if not sooner redeemed, mature on February 1, 2037. The Trust II securities were sold in a private transaction exempt from registration under the Securities Act of 1933, as amended. The gross proceeds of the offering were used to purchase Junior Subordinated Debentures from the Company totaling \$25.8 million and bearing an interest rate identical to the distribution rate on the Trust II securities. The initial interest rate on the Trust II debentures was 6.98%. The interest rate was 2.49% and 1.93% at December 31, 2016 and 2015, respectively.

In July 2007, Great Southern Capital Trust III (Trust III), a statutory trust formed by the Company for the purpose of issuing the securities, issued a \$5.0 million aggregate liquidation amount of floating rate cumulative trust preferred securities. The Trust III securities bore a floating distribution rate equal to 90-day LIBOR plus 1.40%. The Trust III securities were redeemable at the Company's option beginning October 2012, and if not sooner redeemed, matured on October 1, 2037. The Trust III securities were sold in a private transaction exempt from registration under the Securities Act of 1933, as amended. The gross proceeds of the offering were used to purchase Junior Subordinated Debentures from the Company totaling \$5.2 million and bearing an interest rate identical to the distribution rate on the Trust III securities.

In July 2015, the Company was the successful bidder in an auction of the \$5.0 million aggregate liquidation amount of floating rate cumulative trust preferred securities issued in 2007 by Great Southern Capital Trust III. The Company purchased the trust preferred securities at a discount, which resulted in a pre-tax gain of approximately \$1.1 million. Subsequent to the purchase, which resulted in the Company's ownership of all of the outstanding common and preferred securities of Great Southern Capital Trust III, such securities were canceled and the principal amount of the Company's related debentures, which had equaled the aggregate liquidation amount of the



**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

outstanding common and preferred securities of Great Southern Capital Trust III, was reduced to zero.

At December 31, 2016 and 2015, subordinated debentures issued to capital trusts are summarized as follows:

	<b>2016</b>	<b>2015</b>
	<b>(In Thousands)</b>	
Subordinated debentures	\$ <u>25,774</u>	\$ <u>25,774</u>

**Note 14: Subordinated Notes**

On August 8, 2016, the Company completed the public offering and sale of \$75.0 million of its subordinated notes. The notes are due August 15, 2026, and have a fixed interest rate of 5.25% until August 15, 2021, at which time the rate becomes floating at a rate equal to three-month LIBOR plus 4.087%. The Company may call the notes at par beginning on August 15, 2021, and on any scheduled interest payment date thereafter. The notes were sold at par, resulting in net proceeds, after underwriting discounts and commissions, legal, accounting and other professional fees, of approximately \$73.5 million. Total debt issuance costs, totaling approximately \$1.5 million, were deferred and are being amortized over the expected life of the notes, which is 10 years. Amortization of the debt issuance costs during the year ended December 31, 2016 totaled \$64,000, and is included in interest expense on subordinated notes in the consolidated statements of income, resulting in an imputed interest rate of 5.47%.

At December 31, 2016 and, 2015, subordinated notes are summarized as follows:

	<b>2016</b>	<b>2015</b>
	<b>(In Thousands)</b>	
Subordinated notes	\$ 75,000	\$ —
Less: unamortized debt issuance costs	<u>1,463</u>	<u>—</u>
	<u>\$ 73,537</u>	<u>\$ —</u>

**Note 15: Income Taxes**

The Company files a consolidated federal income tax return. As of December 31, 2016 and 2015, retained earnings included approximately \$17.5 million for which no deferred income tax liability had been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only for tax years prior to 1988. If the Bank were to liquidate, the entire amount would have to be recaptured and would create income for tax purposes only, which would be subject to the then-current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately \$6.5 million at December 31, 2016 and 2015.

During the years ended December 31, 2016, 2015 and 2014, the provision for income taxes included these components:

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(In Thousands)</b>		
Taxes currently payable	\$ 20,137	\$ 20,234	\$ 20,013
Deferred income taxes	<u>(3,621)</u>	<u>(4,670)</u>	<u>(6,260)</u>
Income taxes	<u>\$ 16,516</u>	<u>\$ 15,564</u>	<u>\$ 13,753</u>

The tax effects of temporary differences related to deferred taxes shown on the statements of financial condition were:

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(In Thousands)</b>	
Deferred tax assets		
Allowance for loan losses	\$ 13,576	\$ 13,848
Interest on nonperforming loans	364	259
Accrued expenses	1,288	1,302
Write-down of foreclosed assets	3,300	4,056
Write-down of fixed assets	535	417
Difference in basis for acquired assets and liabilities	<u>4,533</u>	<u>—</u>
	<u>23,596</u>	<u>19,882</u>
Deferred tax liabilities		
Tax depreciation in excess of book depreciation	(6,425)	(6,483)
FHLB stock dividends	(1,805)	(1,549)
Partnership tax credits	(1,651)	(1,991)
Prepaid expenses	(728)	(515)
Unrealized gain on available-for-sale securities	(980)	(3,369)
Difference in basis for acquired assets and liabilities	—	(435)
Other	<u>(318)</u>	<u>(185)</u>
	<u>(11,907)</u>	<u>(14,527)</u>
Net deferred tax asset	<u>\$ 11,689</u>	<u>\$ 5,355</u>

Reconciliations of the Company's effective tax rates from continuing operations to the statutory corporate tax rates were as follows:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Tax at statutory rate	35.0%	35.0%	35.0%
Nontaxable interest and dividends	(2.1)	(2.4)	(3.0)
Tax credits	(7.3)	(8.1)	(9.5)
State taxes	1.1	1.4	1.5
Other	<u>—</u>	<u>(0.8)</u>	<u>—</u>
	<u>26.7%</u>	<u>25.1%</u>	<u>24.0%</u>

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

The Company and its consolidated subsidiaries have not been audited recently by the Internal Revenue Service (IRS) and, as such, tax years through December 31, 2005, have been closed without audit. The Company, through one of its subsidiaries, is a partner in two partnerships currently under Internal Revenue Service examination for 2006 and 2007. As a result, the Company's 2006 and subsequent tax years remain open for examination. The examinations of the partnerships have been advanced during 2016. One of the partnerships has advanced to Tax Court and has entered a Motion for Entry of Decision with an agreed upon settlement. The other partnership is at the IRS appeals level. The Company does not currently expect significant adjustments to its financial statements from these partnership examinations.

The Company is currently under State of Missouri income and franchise tax examinations for its 2013 through 2015 tax years and is in administrative appeals with the State of Kansas for its 2010 through 2012 tax years. The Company protested the initial assessment of the State of Kansas and is having ongoing discussions with the Kansas Department of Revenue. The Company does not currently expect significant adjustments to its financial statements from these state examinations.

**Note 16: Disclosures About Fair Value of Financial Instruments**

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Quoted prices in active markets for identical assets or liabilities (Level 1): Inputs that are quoted unadjusted prices in active markets for identical assets that the Company has the ability to access at the measurement date. An active market for the asset is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Other observable inputs (Level 2): Inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity including quoted prices for similar assets, quoted prices for securities in inactive markets and inputs derived principally from or corroborated by observable market data by correlation or other means.
- Significant unobservable inputs (Level 3): Inputs that reflect assumptions of a source independent of the reporting entity or the reporting entity's own assumptions that are supported by little or no market activity or observable inputs.

Financial instruments are broken down as follows by recurring or nonrecurring measurement status. Recurring assets are initially measured at fair value and are required to be remeasured at fair value in the financial statements at each reporting date. Assets measured on a nonrecurring basis are assets that, due to an event or circumstance, were required to be remeasured at fair value after initial recognition in the financial statements at some time during the reporting period.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

The Company considers transfers between the levels of the hierarchy to be recognized at the end of related reporting periods.

**Recurring Measurements**

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
(In Thousands)				
<u>December 31, 2016</u>				
Mortgage-backed securities	\$ 146,035	\$ —	\$ 146,035	\$ —
States and political subdivisions	67,837	—	67,837	—
Interest rate derivative asset	1,663	—	1,663	—
Interest rate derivative liability	(1,699)	—	(1,699)	—
<u>December 31, 2015</u>				
U.S. government agencies	\$ 19,781	\$ —	\$ 19,781	\$ —
Mortgage-backed securities	161,214	—	161,214	—
States and political subdivisions	78,031	—	78,031	—
Other securities	3,830	—	—	—
Interest rate derivative asset	2,711	—	2,711	—
Interest rate derivative liability	(2,725)	—	(2,725)	—

The following is a description of inputs and valuation methodologies used for assets recorded at fair value on a recurring basis and recognized in the accompanying statements of financial condition at December 31, 2016 and 2015, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2016. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

**Available-for-Sale Securities**

Investment securities available for sale are recorded at fair value on a recurring basis. The fair values used by the Company are obtained from an independent pricing service, which represent either quoted market prices for the identical asset or fair values determined by pricing models, or other model-based valuation techniques, that consider observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market makers and live trading systems. Recurring Level 1 securities include exchange traded equity securities. Recurring Level 2 securities include U.S. government agency securities, mortgage-backed securities, state and municipal bonds and certain other investments. Inputs used for valuing Level 2 securities include observable data that may include dealer quotes, benchmark yields, market spreads, live trading levels and market consensus prepayment speeds, among other things. Additional inputs include indicative

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

values derived from the independent pricing service's proprietary computerized models. There were no recurring Level 3 securities at both December 31, 2016 and 2015.

**Interest Rate Derivatives**

The fair value is estimated using forward-looking interest rate curves and is determined using observable market rates and, therefore, are classified within Level 2 of the valuation hierarchy.

**Nonrecurring Measurements**

The following tables present the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In Thousands)				
<u>December 31, 2016</u>				
Impaired loans	\$ 8,280	\$ —	\$ —	\$ 8,280
Foreclosed assets held for sale	\$ 1,604	\$ —	\$ —	\$ 1,604
<u>December 31, 2015</u>				
Impaired loans	\$ 13,896	\$ —	\$ —	\$ 13,896
Foreclosed assets held for sale	\$ 1,722	\$ —	\$ —	\$ 1,722

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying statements of financial condition, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

**Loans Held for Sale**

Mortgage loans held for sale are recorded at the lower of carrying value or fair value. The fair value of mortgage loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Company classifies mortgage loans held for sale as Nonrecurring Level 2. Write-downs to fair value typically do not occur as the Company generally enters into commitments to sell individual mortgage loans at the time the loan is originated to reduce market risk. The Company typically does not have commercial loans held for sale. At December 31, 2016 and 2015, the aggregate fair value of mortgage loans held for sale exceeded their cost. Accordingly, no mortgage loans held for sale were marked down and reported at fair value.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

***Impaired Loans***

A loan is considered to be impaired when it is probable that all of the principal and interest due may not be collected according to its contractual terms. Generally, when a loan is considered impaired, the amount of reserve required under FASB ASC 310, *Receivables*, is measured based on the fair value of the underlying collateral. The Company makes such measurements on all material loans deemed impaired using the fair value of the collateral for collateral dependent loans. The fair value of collateral used by the Company is determined by obtaining an observable market price or by obtaining an appraised value from an independent, licensed or certified appraiser, using observable market data. This data includes information such as selling price of similar properties and capitalization rates of similar properties sold within the market, expected future cash flows or earnings of the subject property based on current market expectations, and other relevant factors. All appraised values are adjusted for market-related trends based on the Company's experience in sales and other appraisals of similar property types as well as estimated selling costs. Each quarter management reviews all collateral dependent impaired loans on a loan-by-loan basis to determine whether updated appraisals are necessary based on loan performance, collateral type and guarantor support. At times, the Company measures the fair value of collateral dependent impaired loans using appraisals with dates prior to one year from the date of review. These appraisals are discounted by applying current, observable market data about similar property types such as sales contracts, estimations of value by individuals familiar with the market, other appraisals, sales or collateral assessments based on current market activity until updated appraisals are obtained. Depending on the length of time since an appraisal was performed and the data provided through our reviews, these appraisals are typically discounted 10-40%. The policy described above is the same for all types of collateral dependent impaired loans.

The Company records impaired loans as Nonrecurring Level 3. If a loan's fair value as estimated by the Company is less than its carrying value, the Company either records a charge-off for the portion of the loan that exceeds the fair value or establishes a reserve within the allowance for loan losses specific to the loan. Loans for which such charge-offs or reserves were recorded during the years ended December 31, 2016 and 2015, are shown in the table above (net of reserves).

***Foreclosed Assets Held for Sale***

Foreclosed assets held for sale are initially recorded at fair value less estimated cost to sell at the date of foreclosure. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell. Foreclosed assets held for sale are classified within Level 3 of the fair value hierarchy. The foreclosed assets represented in the table above have been re-measured during the years ended December 31, 2016 and 2015, subsequent to their initial transfer to foreclosed assets.

The following disclosure relates to financial assets for which it is not practicable for the Company to estimate the fair value at December 31, 2016 and 2015.

***FDIC Indemnification Asset***

As part of certain Purchase and Assumption Agreements, the Bank and the FDIC entered into loss sharing agreements. These agreements cover realized losses on loans and foreclosed real estate subject to certain limitations which are more fully described in *Note 4*. Certain of these loss sharing agreements were mutually terminated by the Company and the FDIC during 2016.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

Under the TeamBank agreement, the FDIC agreed to reimburse the Bank for 80% of the first \$115 million in realized losses and 95% for realized losses that exceed \$115 million. The indemnification asset was originally recorded at fair value on the acquisition date (March 20, 2009) and at December 31, 2016 and 2015, the carrying value was \$-0- and \$395,000, respectively.

Under the Vantus Bank agreement, the FDIC agreed to reimburse the Bank for 80% of the first \$102 million in realized losses and 95% for realized losses that exceed \$102 million. The indemnification asset was originally recorded at fair value on the acquisition date (September 4, 2009) and at December 31, 2016 and 2015, the carrying value of the FDIC indemnification asset was \$-0- and \$475,000, respectively.

Under the Sun Security Bank agreement, the FDIC agreed to reimburse the Bank for 80% of realized losses. The indemnification asset was originally recorded at fair value on the acquisition date (October 7, 2011) and at December 31, 2016 and 2015, the carrying value of the FDIC indemnification asset was \$-0- and \$2.2 million, respectively.

Under the InterBank agreement, the FDIC agreed to reimburse the Bank for 80% of realized losses. The indemnification asset was originally recorded at fair value on the acquisition date (April 27, 2012) and at December 31, 2016 and 2015, the carrying value of the FDIC indemnification asset was \$13.1 million and \$21.1 million, respectively.

From the dates of acquisition, each of the four loss sharing agreements were scheduled to extend ten years for 1-4 family real estate loans and five years for other loans. The loss sharing assets are measured separately from the loan portfolios because they are not contractually embedded in the loans and are not transferable with the loans should the Bank choose to dispose of them. Fair values on the acquisition dates were estimated using projected cash flows available for loss sharing based on the credit adjustments estimated for each loan pool and the loss sharing percentages. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursements from the FDIC. The loss sharing assets are also separately measured from the related foreclosed real estate. Although the assets are contractual receivables from the FDIC, they do not have effective interest rates. The Bank will collect the assets over the next several years. The amount ultimately collected will depend on the timing and amount of collections and charge-offs on the acquired assets covered by the loss sharing agreements. While the assets were recorded at their estimated fair values on the acquisition dates, it is not practicable to complete fair value analyses on a quarterly or annual basis. Estimating the fair value of the FDIC indemnification asset would involve preparing fair value analyses of the entire portfolios of loans and foreclosed assets covered by the loss sharing agreements from all four acquisitions on a quarterly or annual basis. The loss sharing agreements for TeamBank, Vantus Bank and Sun Security Bank were terminated on April 26, 2016, and the carrying value of the related indemnification assets became \$0. The termination of the loss sharing agreements is discussed in *Note 4*.

***Fair Value of Financial Instruments***

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statements of financial condition at amounts other than fair value.

***Cash and Cash Equivalents and Federal Home Loan Bank Stock***

The carrying amount approximates fair value.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

***Loans and Interest Receivable***

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying amount of accrued interest receivable approximates its fair value.

***Deposits and Accrued Interest Payable***

The fair value of demand deposits and savings accounts is the amount payable on demand at the reporting date, *i.e.*, their carrying amounts. The fair value of fixed maturity certificates of deposit is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

***Federal Home Loan Bank Advances***

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing advances.

***Short-Term Borrowings***

The carrying amount approximates fair value.

***Subordinated Debentures Issued to Capital Trusts***

The subordinated debentures have floating rates that reset quarterly. The carrying amount of these debentures approximates their fair value.

***Subordinated Notes***

The fair values used by the Company are obtained from quoted market prices and recent live trades of the Company's subordinated notes.

***Commitments to Originate Loans, Letters of Credit and Lines of Credit***

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which method involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.



**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

	December 31, 2016			December 31, 2015		
	Carrying Amount	Fair Value	Hierarchy Level	Carrying Amount	Fair Value	Hierarchy Level
<b>Financial assets</b>						
Cash and cash equivalents	\$ 279,769	\$ 279,769	1	\$ 199,183	\$ 199,183	1
Held-to-maturity securities	247	258	2	353	384	2
Mortgage loans held for sale	16,445	16,445	2	12,261	12,261	2
Loans, net of allowance for loan losses	3,759,966	3,766,709	3	3,340,536	3,355,924	3
Accrued interest receivable	11,875	11,875	3	10,930	10,930	3
Investment in FHLB stock	13,034	13,034	3	15,303	15,303	3
<b>Financial liabilities</b>						
Deposits	3,677,230	3,683,751	3	3,268,626	3,271,318	3
FHLB advances	31,452	32,379	3	263,546	264,331	3
Short-term borrowings	286,023	286,023	3	117,477	117,477	3
Subordinated debentures	25,774	25,774	3	25,774	25,774	3
Subordinated notes	73,537	76,031	2	—	—	-
Accrued interest payable	2,723	2,723	3	1,080	1,080	3
<b>Unrecognized financial instruments (net of contractual value)</b>						
Commitments to originate loans	—	—	3	—	—	3
Letters of credit	92	92	3	145	145	3
Lines of credit	—	—	3	—	—	3

**Note 17: Operating Leases**

The Company has entered into various operating leases at several of its locations. Some of the leases have renewal options.

At December 31, 2016, future minimum lease payments were as follows (in thousands):

2017	\$ 819
2018	581
2019	405
2020	323
2021	149
Thereafter	72
	\$ 2,349

Rental expense was \$973,000, \$1.2 million and \$1.1 million for the years ended December 31, 2016, 2015 and 2014, respectively.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

**Note 18: Derivatives and Hedging Activities**

***Risk Management Objective of Using Derivatives***

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of its assets and liabilities. In the normal course of business, the Company may use derivative financial instruments (primarily interest rate swaps) from time to time to assist in its interest rate risk management. The Company has interest rate derivatives that result from a service provided to certain qualifying loan customers that are not used to manage interest rate risk in the Company's assets or liabilities and are not designated in a qualifying hedging relationship. The Company manages a matched book with respect to its derivative instruments in order to minimize its net risk exposure resulting from such transactions. In addition, the Company has interest rate derivatives that are designated in a qualified hedging relationship.

***Nondesignated Hedges***

The Company has interest rate swaps that are not designated in a qualifying hedging relationship. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain loan customers, which the Company began offering during 2011. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings.

As part of the Valley Bank FDIC-assisted acquisition, the Company acquired seven loans with related interest rate swaps. Valley's swap program differed from the Company's in that Valley did not have back to back swaps with the customer and a counterparty. Two of the seven acquired loans with interest rate swaps have paid off. The notional amount of the five remaining Valley swaps is \$3.7 million at December 31, 2016. As of December 31, 2016, the Company had 26 interest rate swaps totaling \$110.7 million in notional amount with commercial customers, and 26 interest rate swaps with the same notional amount with third parties related to its program. As of December 31, 2015, the Company had 28 interest rate swaps totaling \$123.0 million in notional amount with commercial customers, and 28 interest rate swaps with the same notional amount with third parties related to its program. During the years ended December 31, 2016 and 2015, the Company recognized net gains and (losses) of \$66,000 and \$(43,000), respectively, in noninterest income related to changes in the fair value of these swaps.

***Cash Flow Hedges***

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company entered into two interest rate cap agreements for a portion of its floating rate debt associated with its trust preferred securities. One agreement, with a notional amount of \$25 million, states that the Company will pay interest on its trust preferred debt in accordance with the original debt terms at a rate of 3-month LIBOR + 1.60%. Should interest rates rise above a certain threshold, the counterparty will reimburse the Company for interest paid such that the Company will have an effective interest rate on that portion of its trust preferred securities no

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

higher than 2.37%. The agreement became effective on August 1, 2013 and has a term of four years. The other agreement, with a notional amount of \$5 million, was terminated when the Company purchased the related trust preferred securities in July 2015. See Item 8, Financial Statements and Supplementary Information, in the Company's December 31, 2015 Annual Report on Form 10-K for more information on the trust preferred securities purchase transaction. The terminated agreement stated that the Company paid interest on its trust preferred debt in accordance with the original debt terms at a rate of 3-month LIBOR + 1.40%. Should interest rates have risen above a certain threshold, the counterparty would reimburse the Company for interest paid such that the Company would have an effective interest rate on that portion of its trust preferred securities no higher than 2.17%.

The effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. During the years ended December 31, 2016, 2015 and 2014, the Company recognized \$-0- in noninterest income related to changes in the fair value of these derivatives. During the years ended December 31, 2016, 2015 and 2014, the Company recognized \$225,000, \$187,000 and \$19,000, respectively, in interest expense related to the amortization of the cost of these interest rate caps. During the year ended December 31, 2015, one of the agreements was terminated as noted above. As part of this termination, the remaining cost of the cash flow hedge, \$95,000, was recognized as interest expense in 2015 (included in the \$187,000 discussed here).

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Statements of Financial Condition:

	Location in Consolidated Statements of Financial Condition	Fair Value	
		December 31, 2016	December 31, 2015
(In Thousands)			
<b>Derivatives designated as hedging instruments</b>			
Interest rate caps	Prepaid expenses and other assets	\$ <u>40</u>	\$ <u>128</u>
Total derivatives designated as hedging instruments		\$ <u>40</u>	\$ <u>128</u>
<b>Derivatives not designated as hedging instruments</b>			
<u>Asset Derivatives</u>			
Derivatives not designated as hedging instruments			
Interest rate products	Prepaid expenses and other assets	\$ <u>1,623</u>	\$ <u>2,583</u>
Total derivatives not designated as hedging instruments		\$ <u>1,623</u>	\$ <u>2,583</u>
<u>Liability Derivatives</u>			
Derivatives not designated as hedging instruments			
Interest rate products	Accrued expenses and other liabilities	\$ <u>1,699</u>	\$ <u>2,725</u>
Total derivatives not designated as hedging instruments		\$ <u>1,699</u>	\$ <u>2,725</u>

The following tables present the effect of derivative instruments on the statements of comprehensive income:

Cash Flow Hedges	Year Ended December 31 Amount of Gain (Loss) Recognized in AOCI		
	2016	2015	2014
(In Thousands)			
Interest rate cap, net of income taxes	\$ <u>87</u>	\$ <u>(50)</u>	\$ <u>(164)</u>

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

***Agreements with Derivative Counterparties***

The Company has agreements with its derivative counterparties. If the Company defaults on any of its indebtedness, including a default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. If the Bank fails to maintain its status as a well-capitalized institution, then the counterparty could terminate the derivative positions and the Company would be required to settle its obligations under the agreements. Similarly, the Company could be required to settle its obligations under certain of its agreements if certain regulatory events occurred, such as the issuance of a formal directive, or if the Company's credit rating is downgraded below a specified level.

As of December 31, 2016, the termination value of derivatives in a net liability position, which included accrued interest but excluded any adjustment for nonperformance risk, related to these agreements was \$1.6 million. The Company has minimum collateral posting thresholds with its derivative counterparties. At December 31, 2016, the Company's activity with its derivative counterparties had met the level at which the minimum collateral posting thresholds take effect and the Company had posted \$6.0 million of collateral to satisfy the agreement. As of December 31, 2015, the termination value of derivatives in a net liability position, which included accrued interest but excluded any adjustment for nonperformance risk, related to these agreements was \$2.8 million. At December 31, 2015, the Company's activity with its derivative counterparties had met the level at which the minimum collateral posting thresholds take effect and the Company had posted \$4.5 million of collateral to satisfy the agreement. If the Company had breached any of these provisions at December 31, 2016 and 2015, it could have been required to settle its obligations under the agreements at the termination value.

**Note 19: Commitments and Credit Risk**

***Commitments to Originate Loans***

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a significant portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, commercial real estate and residential real estate.

At December 31, 2016 and 2015, the Bank had outstanding commitments to originate loans and fund commercial construction loans aggregating approximately \$126.1 million and \$120.8 million, respectively. The commitments extend over varying periods of time with the majority being disbursed within a 30- to 180-day period.

Mortgage loans in the process of origination represent amounts that the Bank plans to fund within a normal period of 60 to 90 days, many of which are intended for sale to investors in the secondary market. Total mortgage loans in the process of origination amounted to approximately \$15.9 million and \$13.4 million at December 31, 2016 and 2015, respectively.

# **Great Southern Bancorp, Inc.**

## **Notes to Consolidated Financial Statements**

### **December 31, 2016, 2015 and 2014**

#### ***Letters of Credit***

Standby letters of credit are irrevocable conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Fees for letters of credit issued are initially recorded by the Bank as deferred revenue and are included in earnings at the termination of the respective agreements. Should the Bank be obligated to perform under the standby letters of credit, the Bank may seek recourse from the customer for reimbursement of amounts paid.

The Company had total outstanding standby letters of credit amounting to approximately \$26.4 million and \$32.1 million at December 31, 2016 and 2015, respectively, with \$25.1 million and \$29.5 million, respectively, of the letters of credit having terms up to five years and \$1.3 million and \$2.6 million, respectively, of the letters of credit having terms over five years. Of the amount having terms over five years, \$1.3 million and \$1.7 million at December 31, 2016 and 2015, respectively, consisted of an outstanding letter of credit to guarantee the payment of principal and interest on a Multifamily Housing Refunding Revenue Bond Issue.

#### ***Purchased Letters of Credit***

The Company has purchased letters of credit from the Federal Home Loan Bank as security for certain public deposits. The amount of the letters of credit was \$2.1 million and \$2.1 million at December 31, 2016 and 2015, respectively, and they expire in less than one year from issuance.

#### ***Lines of Credit***

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, commercial real estate and residential real estate. The Bank uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2016, the Bank had granted unused lines of credit to borrowers aggregating approximately \$658.4 million and \$123.4 million for commercial lines and open-end consumer lines, respectively. At December 31, 2015, the Bank had granted unused lines of credit to borrowers aggregating approximately \$485.9 million and \$105.4 million for commercial lines and open-end consumer lines, respectively.

#### ***Credit Risk***

The Bank grants collateralized commercial, real estate and consumer loans primarily to customers in its market areas. Although the Bank has a diversified portfolio, loans (excluding those covered by loss sharing agreements) aggregating approximately \$677.3 million and \$555.7 million at December 31, 2016 and 2015, respectively, are secured primarily by apartments, condominiums, residential and

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

commercial land developments, industrial revenue bonds and other types of commercial properties in the St. Louis, Missouri, area.

**Note 20: Additional Cash Flow Information**

	2016	2015	2014
	(In Thousands)		
<b>Noncash Investing and Financing Activities</b>			
Real estate acquired in settlement of loans	\$26,076	\$12,185	\$19,975
Sale and financing of foreclosed assets	3,334	3,316	1,805
Conversion of premises and equipment to foreclosed assets	6,985	—	202
Dividends declared but not paid	3,073	3,055	2,896
<b>Additional Cash Payment Information</b>			
Interest paid	20,476	15,984	15,833
Income taxes paid	9,554	13,096	8,510

**Note 21: Employee Benefits**

The Company participates in the Pentegra Defined Benefit Plan for Financial Institutions (Pentegra DB Plan), a multiemployer defined benefit pension plan covering all employees who have met minimum service requirements. Effective July 1, 2006, this plan was closed to new participants. Employees already in the plan continue to accrue benefits. The Pentegra DB Plan's Employer Identification Number is 13-5645888 and the Plan Number is 333. The Company's policy is to fund pension cost accrued. Employer contributions charged to expense for this plan for the years ended December 31, 2016, 2015 and 2014, were approximately \$725,000, \$742,000 and \$731,000, respectively. The Company's contributions to the Pentegra DB Plan were not more than 5% of the total contributions to the plan. The funded status of the plan as of July 1, 2016 and 2015, was 98.50% and 101.58%, respectively. The funded status was calculated by taking the market value of plan assets, which reflected contributions received through June 30, 2016 and 2015, respectively, divided by the funding target. No collective bargaining agreements are in place that require contributions to the Pentegra DB Plan.

The Company has a defined contribution retirement plan covering substantially all employees. The Company matches 100% of the employee's contribution on the first 3% of the employee's compensation and also matches an additional 50% of the employee's contribution on the next 2% of the employee's compensation. Employer contributions charged to expense for this plan for the years ended December 31, 2016, 2015 and 2014, were approximately \$1.2 million, \$951,000 and \$1.1 million, respectively.

**Note 22: Stock Compensation Plans**

The Company established the 2003 Stock Option and Incentive Plan (the "2003 Plan") for employees and directors of the Company and its subsidiaries. Under the plan, stock options or other awards could be granted with respect to 598,224 shares of common stock. On May 15, 2013, the Company's stockholders approved the Great Southern Bancorp, Inc. 2013 Equity Incentive Plan (the "2013 Plan"). Upon the stockholders' approval of the 2013 Plan, the Company's 2003 Plan was frozen. As a result, no new stock options or other awards may be granted under the 2003 Plan; however, existing

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

outstanding awards under the 2003 Plan were not affected. At December 31, 2016, 198,259 options were outstanding under the 2003 Plan.

The 2013 Plan provides for the grant from time to time to directors, emeritus directors, officers, employees and advisory directors of stock options, stock appreciation rights and restricted stock awards. The number of shares of Common Stock available for awards under the 2013 Plan is 700,000, all of which may be utilized for stock options and stock appreciation rights and no more than 100,000 of which may be utilized for restricted stock awards. At December 31, 2016, 462,944 options were outstanding under the 2013 Plan.

Stock options may be either incentive stock options or nonqualified stock options, and the option price must be at least equal to the fair value of the Company's common stock on the date of grant. Options generally are granted for a 10-year term and generally become exercisable in four cumulative annual installments of 25% commencing two years from the date of grant. The Stock Option Committee may accelerate a participant's right to purchase shares under the plan.

Stock awards may be granted to key officers and employees upon terms and conditions determined solely at the discretion of the Stock Option Committee.

The table below summarizes transactions under the Company's stock option plans:

	<b>Available to Grant</b>	<b>Shares Under Option</b>	<b>Weighted Average Exercise Price</b>
Balance, January 1, 2014	583,500	699,707	\$ 25.597
Granted from 2013 plan	(147,400)	147,400	32.450
Exercised	—	(153,287)	27.088
Forfeited from terminated plan(s)	—	(22,022)	27.387
Forfeited from current plan(s)	<u>10,700</u>	<u>(10,700)</u>	30.204
Balance, December 31, 2014	446,800	661,098	26.560
Granted from 2013 plan	(129,350)	129,350	49.199
Exercised	—	(134,263)	25.403
Forfeited from terminated plan(s)	—	(8,453)	24.941
Forfeited from current plan(s)	<u>14,000</u>	<u>(14,000)</u>	33.389
Balance, December 31, 2015	331,450	633,732	31.297
Granted from 2013 Plan	(131,000)	131,000	41.228
Exercised	—	(81,812)	26.472
Forfeited from terminated plan(s)	—	(2,692)	22.654
Forfeited from current plan(s)	<u>19,025</u>	<u>(19,025)</u>	39.123
Balance, December 31, 2016	<u><u>219,475</u></u>	<u><u>661,203</u></u>	\$ 33.672

The Company's stock option grants contain terms that provide for a graded vesting schedule whereby portions of the options vest in increments over the requisite service period. These options typically vest one-fourth at the end of years two, three, four and five from the grant date. As provided for under FASB ASC 718, the Company has elected to recognize compensation expense for options with graded vesting schedules on a straight-line basis over the requisite service period for the entire option grant.



**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

In addition, ASC 718 requires companies to recognize compensation expense based on the estimated number of stock options for which service is expected to be rendered. The Company's historical forfeitures of its share-based awards have not been material.

The fair value of each option award is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions for the years ended December 31, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Expected dividends per share	\$0.88	\$0.88	\$0.80
Risk-free interest rate	1.27%	1.66%	1.40%
Expected life of options	5 years	5 years	5 years
Expected volatility	22.08%	24.42%	18.95%
Weighted average fair value of options granted during year	\$6.59	\$9.59	\$4.20

Expected volatilities are based on the historical volatility of the Company's stock, based on the monthly closing stock price. The expected term of options granted is based on actual historical exercise behavior of all employees and directors and approximates the graded vesting period of the options. Expected dividends are based on the annualized dividends declared at the time of the option grant. The risk-free interest rate is based on the five-year treasury rate on the grant date of the options.

The following table presents the activity related to options under all plans for the year ended December 31, 2016:

	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>
Options outstanding, January 1, 2016	633,732	\$31.297	7.22 years
Granted	131,000	41.228	
Exercised	(81,812)	26.472	
Forfeited	<u>(21,717)</u>	37.082	
Options outstanding, December 31, 2016	<u>661,203</u>	33.672	7.23 years
Options exercisable, December 31, 2016	<u>247,920</u>	24.367	5.13 years

For the years ended December 31, 2016, 2015 and 2014, options granted were 131,000, 129,350, and 147,400, respectively. The total intrinsic value (amount by which the fair value of the underlying stock exceeds the exercise price of an option on exercise date) of options exercised during the years ended December 31, 2016, 2015 and 2014, was \$1.4 million, \$2.3 million and \$932,000, respectively. Cash received from the exercise of options for the years ended December 31, 2016, 2015 and 2014, was \$2.1 million, \$3.4 million and \$2.4 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled \$1.3 million, \$2.1 million and \$858,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

The following table presents the activity related to nonvested options under all plans for the year ended December 31, 2016.

	<b>Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested options, January 1, 2016	412,164	\$35.479	\$6.039
Granted	131,000	41.228	6.592
Vested this period	(109,744)	27.770	4.337
Nonvested options forfeited	<u>(20,137)</u>	38.248	6.779
Nonvested options, December 31, 2016	<u>413,283</u>	39.253	6.631

At December 31, 2016, there was \$2.5 million of total unrecognized compensation cost related to nonvested options granted under the Company's plans. This compensation cost is expected to be recognized through 2021, with the majority of this expense recognized in 2017 and 2018.

The following table further summarizes information about stock options outstanding at December 31, 2016:

<b>Range of Exercise Prices</b>	<b>Options Outstanding</b>			<b>Options Exercisable</b>	
	<b>Number Outstanding</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Weighted Average Exercise Price</b>	<b>Number Exercisable</b>	<b>Weighted Average Exercise Price</b>
\$8.360 to \$19.530	65,559	4.54 years	\$17.911	65,559	\$17.911
\$21.320 to \$24.820	111,650	5.01 years	23.683	88,540	23.408
\$25.480 to \$29.860	115,672	5.83 years	28.767	63,229	28.151
\$32.590 to \$39.050	133,772	7.85 years	32.997	28,592	32.590
\$41.300 to \$50.710	<u>234,550</u>	9.38 years	45.635	<u>2,000</u>	41.300
	<u>661,203</u>	7.23 years	33.672	<u>247,920</u>	24.367

**Note 23: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in *Note 3*. Estimates used in valuing acquired loans, loss sharing agreements and FDIC indemnification assets and in continuing to monitor related cash flows of acquired loans are discussed in *Note 4*. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnotes on loans, deposits and on commitments and credit risk.

Other significant estimates not discussed in those footnotes include valuations of foreclosed assets held for sale. The carrying value of foreclosed assets reflects management's best estimate of the amount to be realized from the sales of the assets. While the estimate is generally based on a valuation by an independent appraiser or recent sales of similar properties, the amount that the

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

Company realizes from the sales of the assets could differ materially in the near term from the carrying value reflected in these financial statements.

**Note 24: Accumulated Other Comprehensive Income**

The components of accumulated other comprehensive income (AOCI), included in stockholders' equity, are as follows:

	<b>2016</b>	<b>2015</b>
	<b>(In Thousands)</b>	
Net unrealized gain on available-for-sale securities	\$ 2,699	\$ 9,282
Net unrealized loss on derivatives used for cash flow hedges	(254)	(391)
	2,445	8,891
Tax effect	(887)	(3,227)
Net-of-tax amount	\$ 1,558	\$ 5,664

Amounts reclassified from AOCI and the affected line items in the statements of income during the years ended December 31, 2016, 2015 and 2014, were as follows:

	<b>Amounts Reclassified from AOCI</b>			<b>Affected Line Item in the Statements of Income</b>
	<b>2016</b>	<b>2015</b>	<b>2014</b>	
	<b>(In Thousands)</b>			
Unrealized gains on available-for-sale securities	\$ 2,873	\$ 2	\$ 2,139	Net realized gains on available-for-sale securities (total reclassified amount before tax)
Income taxes	(1,043)	(1)	(749)	Total reclassified amount before tax Tax (expense) benefit
Total reclassifications out of AOCI	\$ 1,830	\$ 1	\$ 1,390	

**Note 25: Regulatory Matters**

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct and material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting practices, and regulatory capital standards. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

Quantitative measures established by regulatory reporting standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below as of December 31, 2016) of Total and Tier I Capital (as defined) to risk-weighted assets (as defined), of Tier I Capital (as defined) to adjusted tangible assets (as defined) and of Common Equity Tier 1 Capital (as defined) to risk-weighted assets (as defined). Management believes, as of December 31, 2016, that the Bank met all capital adequacy requirements to which it was then subject.

As of December 31, 2016, the most recent notification from the Bank's regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized as of December 31, 2016, the Bank must have maintained minimum Total capital, Tier I capital, Tier 1 Leverage capital and Common Equity Tier 1 capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

The Company's and the Bank's actual capital amounts and ratios are presented in the following table. No amount was deducted from capital for interest-rate risk.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars In Thousands)						
As of December 31, 2016						
Total capital						
Great Southern Bancorp, Inc.	\$556,106	13.6%	≥ \$327,610	≥ 8.0%	N/A	N/A
Great Southern Bank	\$520,989	12.7%	≥ \$327,505	≥ 8.0%	≥ \$409,382	≥ 10.0%
Tier I capital						
Great Southern Bancorp, Inc.	\$443,706	10.8%	≥ \$245,707	≥ 6.0%	N/A	N/A
Great Southern Bank	\$483,589	11.8%	≥ \$245,629	≥ 6.0%	≥ \$327,505	≥ 8.0%
Tier I leverage capital						
Great Southern Bancorp, Inc.	\$443,706	9.9%	≥ \$178,693	≥ 4.0%	N/A	N/A
Great Southern Bank	\$483,589	10.8%	≥ \$178,643	≥ 4.0%	≥ \$223,304	≥ 5.0%
Common equity Tier I capital						
Great Southern Bancorp, Inc.	\$418,687	10.2%	≥ \$184,280	≥ 4.5%	N/A	N/A
Great Southern Bank	\$483,569	11.8%	≥ \$184,222	≥ 4.5%	≥ \$266,098	≥ 6.5%
As of December 31, 2015						
Total capital						
Great Southern Bancorp, Inc.	\$452,637	12.6%	≥ \$288,279	≥ 8.0%	N/A	N/A
Great Southern Bank	\$434,334	12.1%	≥ \$288,180	≥ 8.0%	≥ \$360,225	≥ 10.0%
Tier I capital						
Great Southern Bancorp, Inc.	\$414,488	11.5%	≥ \$216,209	≥ 6.0%	N/A	N/A
Great Southern Bank	\$396,185	11.0%	≥ \$216,135	≥ 6.0%	≥ \$288,180	≥ 8.0%
Tier I leverage capital						
Great Southern Bancorp, Inc.	\$414,488	10.2%	≥ \$162,576	≥ 4.0%	N/A	N/A
Great Southern Bank	\$396,185	9.8%	≥ \$161,986	≥ 4.0%	≥ \$202,482	≥ 5.0%
Common equity Tier I capital						
Great Southern Bancorp, Inc.	\$389,460	10.8%	≥ \$162,157	≥ 4.5%	N/A	N/A
Great Southern Bank	\$396,157	11.0%	≥ \$162,101	≥ 4.5%	≥ \$234,146	≥ 6.5%

The Company and the Bank are subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2016 and 2015, the Company and the Bank exceeded their minimum capital requirements then in effect. The entities may not pay dividends which would reduce capital below the minimum requirements shown above. In addition to the minimum capital ratios, the new capital rules include a capital conservation buffer, under which a banking organization must have CET1 more than 2.5% above each of its minimum risk-based capital

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

ratios in order to avoid restrictions on paying dividends, repurchasing shares, and paying certain discretionary bonuses, phased in at an additional 0.625% per year beginning January 1, 2016. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

**Note 26: Litigation Matters**

In the normal course of business, the Company and its subsidiaries are subject to pending and threatened legal actions, some of which seek substantial relief or damages. While the ultimate outcome of such legal proceedings cannot be predicted with certainty, after reviewing pending and threatened litigation with counsel, management believes at this time that, except as noted below, the outcome of such litigation will not have a material adverse effect on the Company's business, financial condition or results of operations.

On November 22, 2010, a suit was filed against the Bank in the Circuit Court of Greene County, Missouri by a customer alleging that the fees associated with the Bank's automated overdraft program in connection with its debit cards and ATM cards constitute unlawful interest in violation of Missouri's usury laws. The Court has certified a class of Bank customers who have paid overdraft fees on their checking accounts pursuant to the Bank's automated overdraft program. The Bank intends to contest this case vigorously. A judgment was issued in favor of a defendant bank in a similar lawsuit where the lawsuit alleged that overdraft fees violate Missouri's usury laws. The Court has entered a stay in the Bank's litigation pending a decision on appeal in the other usury litigation. At this stage of the litigation, it is not possible for management of the Bank to determine the probability of a material adverse outcome or reasonably estimate the amount of any potential loss.

**Note 27: Summary of Unaudited Quarterly Operating Results**

Following is a summary of unaudited quarterly operating results for the years 2016, 2015 and 2014:

	<b>2016</b>			
	<b>Three Months Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
<b>(In Thousands, Except Per Share Data)</b>				
Interest income	\$ 45,746	\$ 45,636	\$ 46,856	\$ 46,937
Interest expense	4,627	4,974	5,828	6,690
Provision for loan losses	2,101	2,300	2,500	2,380
Net realized gains (losses) and impairment on available-for-sale securities	3	2,735	144	(9)
Noninterest income	4,974	8,916	7,090	7,530
Noninterest expense	30,920	29,807	30,657	29,043
Provision (credit) for income taxes	3,279	4,937	3,740	4,560
Net income	9,793	12,534	11,221	11,794
Net income available to common shareholders	9,793	12,534	11,221	11,794
Earnings per common share – diluted	0.70	0.89	0.80	0.83

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

	<b>2015</b>			
	<b>Three Months Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
	<b>(In Thousands, Except Per Share Data)</b>			
Interest income	\$ 47,906	\$ 45,734	\$ 45,755	\$ 44,956
Interest expense	3,781	3,725	4,230	4,261
Provision for loan losses	1,300	1,300	1,703	1,216
Net realized gains (losses) and impairment on available-for-sale securities	—	—	2	—
Noninterest income	(56)	3,457	5,120	5,060
Noninterest expense	27,242	27,949	30,014	29,145
Provision (credit) for income taxes	3,874	4,214	3,732	3,744
Net income	11,653	12,003	11,196	11,650
Net income available to common shareholders	11,508	11,858	11,051	11,531
Earnings per common share – diluted	0.83	0.85	0.79	0.81

	<b>2014</b>			
	<b>Three Months Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
	<b>(In Thousands, Except Per Share Data)</b>			
Interest income	\$ 42,294	\$ 44,384	\$ 47,607	\$ 49,077
Interest expense	4,328	4,413	3,501	3,559
Provision for loan losses	1,691	1,462	945	53
Net realized gains (losses) and impairment on available-for-sale securities	73	569	321	1,176
Noninterest income	924	10,631	1,778	1,398
Noninterest expense	25,894	34,399	29,398	31,168
Provision (credit) for income taxes	2,487	3,687	3,951	3,628
Net income	8,818	11,054	11,590	12,067
Net income available to common shareholders	8,673	10,909	11,445	11,923
Earnings per common share – diluted	0.63	0.79	0.83	0.86

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

**Note 28: Condensed Parent Company Statements**

The condensed statements of financial condition at December 31, 2016 and 2015, and statements of income, comprehensive income and cash flows for the years ended December 31, 2016, 2015 and 2014, for the parent company, Great Southern Bancorp, Inc., were as follows:

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(In Thousands)</b>	
<b>Statements of Financial Condition</b>		
<b>Assets</b>		
Cash	\$ 37,716	\$ 20,009
Available-for-sale securities	—	3,830
Investment in subsidiary bank	494,947	403,174
Deferred income taxes	89	—
Prepaid expenses and other assets	1,214	1,335
	<b>\$ 533,966</b>	<b>\$ 428,348</b>
<b>Liabilities and Stockholders' Equity</b>		
Accounts payable and accrued expenses	\$ 4,849	\$ 3,403
Deferred income taxes	—	944
Subordinated debentures issued to capital trust	25,774	25,774
Subordinated notes	73,537	—
Common stock	140	139
Additional paid-in capital	25,942	24,371
Retained earnings	402,166	368,053
Accumulated other comprehensive income	1,558	5,664
	<b>\$ 533,966</b>	<b>\$ 428,348</b>



**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(In Thousands)		
<b>Statements of Income</b>			
Income			
Dividends from subsidiary bank	\$ 12,000	\$ 27,000	\$ 36,000
Interest and dividend income	—	5	22
Gain on redemption of trust preferred securities and sale of non-marketable securities	2,735	1,416	—
Other income (loss)	<u>2</u>	<u>(7)</u>	<u>(20)</u>
	<u>14,737</u>	<u>28,414</u>	<u>36,002</u>
Expense			
Operating expenses	1,322	1,139	1,198
Interest expense	<u>2,381</u>	<u>714</u>	<u>567</u>
	<u>3,703</u>	<u>1,853</u>	<u>1,765</u>
Income before income tax and equity in undistributed earnings of subsidiaries	11,034	26,561	34,237
Credit for income taxes	<u>(241)</u>	<u>(91)</u>	<u>(388)</u>
Income before equity in earnings of subsidiaries	11,275	26,652	34,625
Equity in undistributed earnings of subsidiaries	<u>34,067</u>	<u>19,850</u>	<u>8,904</u>
Net income	<u>\$ 45,342</u>	<u>\$ 46,502</u>	<u>\$ 43,529</u>

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

	2016	2015	2014
	(In Thousands)		
<b>Statements of Cash Flows</b>			
<b>Operating Activities</b>			
Net income	\$ 45,342	\$ 46,502	\$ 43,529
Items not requiring (providing) cash			
Equity in undistributed earnings of subsidiary	(34,067)	(19,850)	(8,904)
Compensation expense for stock option grants	483	382	565
Net realized gains on redemption of trust preferred securities	—	(1,115)	—
Net realized gains on sales of non-marketable securities	—	(301)	—
Net realized gains on sales of available-for-sale securities	(2,735)	—	—
Amortization of interest rate derivative	289	204	19
Changes in			
Prepaid expenses and other assets	175	(27)	(3)
Accounts payable and accrued expenses	1,495	63	(67)
Income taxes	(206)	55	43
Net cash provided by operating activities	<u>10,776</u>	<u>25,913</u>	<u>35,182</u>
<b>Investing Activities</b>			
Proceeds from sales of available-for-sale securities	3,583	—	—
Investment in subsidiary	(60,000)	—	—
(Investment)/Return of principal - other investments	(2)	16	20
Net cash provided by (used in) investing activities	<u>(56,419)</u>	<u>16</u>	<u>20</u>
<b>Financing Activities</b>			
Proceeds from issuance of subordinated notes	73,472	—	—
Redemption of preferred stock	—	(57,943)	—
Redemption of trust preferred securities	—	(3,885)	—
Purchases of the Company's common stock	—	—	(512)
Dividends paid	(12,232)	(12,290)	(11,257)
Stock options exercised	2,110	3,362	2,438
Net cash provided by (used in) financing activities	<u>63,350</u>	<u>(70,756)</u>	<u>(9,331)</u>
<b>Increase (Decrease) in Cash</b>	17,707	(44,827)	25,871
<b>Cash, Beginning of Year</b>	<u>20,009</u>	<u>64,836</u>	<u>38,965</u>
<b>Cash, End of Year</b>	<u>\$ 37,716</u>	<u>\$ 20,009</u>	<u>\$ 64,836</u>
<b>Additional Cash Payment Information</b>			
Interest paid	\$ 846	\$ 730	\$ 570

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

	2016	2015	2014
	(In Thousands)		
<b>Statements of Comprehensive Income</b>			
<b>Net Income</b>	\$ 45,342	\$ 46,502	\$ 43,529
Unrealized appreciation on available-for-sale securities, net of taxes (credit) of \$(90), \$273 and \$100, for 2016, 2015 and 2014, respectively	(158)	400	185
Reclassification adjustment for gains included in net income, net of (taxes) credit of \$(993), \$0 and \$0, for 2016, 2015 and 2014, respectively	(1,742)	—	—
Change in fair value of cash flow hedge, net of taxes (credit) of \$50, \$(34) and \$(88) for 2016, 2015 and 2014, respectively	87	(50)	(164)
Comprehensive income (loss) of subsidiaries	<u>(2,293)</u>	<u>(1,722)</u>	<u>4,553</u>
<b>Comprehensive Income</b>	<u>\$ 41,236</u>	<u>\$ 45,130</u>	<u>\$ 48,103</u>

**Note 29: Preferred Stock**

On August 18, 2011, the Company entered into a Small Business Lending Fund-Securities Purchase Agreement (the “SBLF Purchase Agreement”) with the Secretary of the Treasury, pursuant to which the Company sold 57,943 shares of the Company’s Senior Non-Cumulative Perpetual Preferred Stock, Series A (the “SBLF Preferred Stock”) to the Secretary of the Treasury for a purchase price of \$57.9 million. The SBLF Preferred Stock was issued pursuant to Treasury’s SBLF program, a \$30 billion fund established under the Small Business Jobs Act of 2010 that was created to encourage lending to small businesses by providing Tier 1 capital to qualified community banks and holding companies with assets of less than \$10 billion. As required by the SBLF Purchase Agreement, the proceeds from the sale of the SBLF Preferred Stock were used in connection with the redemption of all 58,000 shares of the Company’s preferred stock, issued to Treasury in December 2008 pursuant to Treasury’s TARP Capital Purchase Program (the “CPP Preferred Stock”). The shares of CPP Preferred Stock were redeemed at their liquidation amount of \$1,000 per share plus the accrued but unpaid dividends to the redemption date.

The SBLF Preferred Stock qualified as Tier 1 capital. The holders of SBLF Preferred Stock were entitled to receive noncumulative dividends, payable quarterly, on each January 1, April 1, July 1 and October 1. The dividend rate, as a percentage of the liquidation amount, could fluctuate between one percent (1%) and five percent (5%) per annum on a quarterly basis during the first 10 quarters during which the SBLF Preferred Stock was outstanding, based upon changes in the level of “Qualified Small Business Lending” or “QSBL” (as defined in the SBLF Purchase Agreement) by the Bank over the adjusted baseline level calculated under the terms of the SBLF Preferred Stock \$(249.7 million). Based upon the increase in the Bank’s level of QSBL over the adjusted baseline level, the dividend rate had been 1.0%. For the tenth calendar quarter through four and one-half years after issuance, the

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

dividend rate was fixed at between one percent (1%) and seven percent (7%) based upon the level of qualifying loans. The Company's dividend rate was 1.0% during 2015, and was expected to remain at 1% until four and one half years after the issuance, which is March 2016. After four and one half years from issuance, the dividend rate would have increased to 9% (including a quarterly lending incentive fee of 0.5%).

On December 15, 2015, the Company (with the approval of its federal banking regulator) redeemed all 57,943 shares of the SBLF Preferred Stock at their liquidation amount of \$1,000 per share plus accrued but unpaid dividends to the redemption date. The redemption of the SBLF Preferred Stock was completed using internally available funds.

**Note 30: Consolidation of Banking Centers**

On September 24, 2015, the Company announced plans to consolidate operations of 16 banking centers into other nearby Great Southern banking center locations. As part of an ongoing performance review of its entire banking center network, Great Southern evaluated each location for a number of criteria, including access and availability of services to affected customers, the proximity of other Great Southern banking centers, profitability and transaction volumes, and market dynamics. This review culminated in the approval of the consolidation of these banking centers by the Great Southern Board of Directors. Subsequent to this announcement, the Bank entered into separate definitive agreements to sell two of the 16 banking centers, including all of the associated deposits (totaling approximately \$20 million), to separate bank purchasers. The sale of one of the banking centers was completed on February 19, 2016 and the sale of the other banking center was completed on March 18, 2016. The closing of the remaining 14 facilities, which resulted in the transfer of approximately \$127 million in deposits and banking center operations to other Great Southern locations, occurred at the close of business on January 8, 2016.

**Note 31: Acquisition of Loans, Deposits and Branches**

On September 30, 2015, the Company announced that it entered into a purchase and assumption agreement to acquire 12 branches and related deposits and loans in the St. Louis, Mo., area from Cincinnati-based Fifth Third Bank. The acquisition was completed at the close of business on January 29, 2016.

The deposits assumed totaled approximately \$228 million and had a weighted average rate of approximately 0.28%, the composition of which was: demand deposits and NOW accounts – 42%; money market accounts – 40%; and time deposits and IRAs – 18%.

The loans acquired totaled approximately \$159 million and had a weighted average yield of approximately 3.92%, the composition of which was: one- to four-family residential – 75%; commercial real estate – 8%; home equity lines – 10%; commercial business – 5%; and consumer and other – 2%. The one- to four-family residential loans are primarily loans made to professional individuals in the St. Louis market, such as doctors and persons working in the field of medicine. Approximately 55% of the total balance of these loans have fixed rates of interest for varying terms up to 30 years. Approximately 45% of the total balance of these loans have rates of interest that are fixed for varying terms (generally three to seven years), with rates that adjust annually thereafter.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016, 2015 and 2014**

The fair values of the assets acquired and liabilities assumed in the transaction were as follows:

	<b>January 29, 2016</b>
	<b>(In Thousands)</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 44,363
Loans receivable	157,524
Premises and equipment	17,990
Accrued interest receivable	410
Core deposit intangible	4,424
Deferred income taxes	100
Total assets acquired	224,811
<b>Liabilities</b>	
Total deposits	228,528
Accrued interest payable	50
Advances from borrowers for taxes and insurance	403
Accounts payable and accrued expenses	58
Total liabilities assumed	229,039
Goodwill recognized on business acquisition	\$ 4,228

This acquisition was determined to constitute a business combination in accordance with FASB ASC 805. Based upon the acquisition date fair values of the net liabilities acquired, goodwill of \$4.2 million was recorded. The goodwill is deductible for tax purposes. Details related to the purchase accounting adjustments are as follows:

	<b>January 29, 2016</b>
	<b>(In Thousands)</b>
Deposit premium per Purchase and Assumption Agreement	\$ (7,135)
<b>Purchase accounting adjustments</b>	
Deposits	(277)
Loans	(1,340)
Deferred income taxes	100
Core deposit intangible	4,424
Goodwill recognized on business acquisition	\$ 4,228



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