



GREAT SOUTHERN  
BANCORP, INC.

the process  
of  
progress

2018

ANNUAL REPORT  
FOR STOCKHOLDERS

### **CORPORATE HEADQUARTERS**

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

### **MAILING ADDRESS**

P.O. Box 9009  
Springfield, MO 65808

### **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, L.L.P.  
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

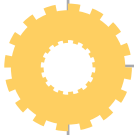
### **TRANSFER AGENT AND REGISTRAR**

Computershare  
Shareholder correspondence:  
Computershare  
P.O. Box 505000  
Louisville, KY 40233-5000

Overnight correspondence:  
Computershare  
462 S. 4th St., Suite 1600  
Louisville, KY 40202

800-368-5948  
781-575-4223 outside of the U.S.  
Hearing Impaired # TDD: 800-952-9245

Questions and inquires via our website  
[computershare.com](http://computershare.com)



## 30th Annual Meeting of Stockholders

May 8, 2019

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



## Corporate Profile

Great Southern Bank was founded in 1923 with a \$5,000 investment, four employees and 936 customers. Today, it has grown to \$4.7 billion in total assets, with more than 1,200 dedicated associates serving 160,000 households.

Headquartered in Springfield, Mo., the Company operates 105 offices in 11 states, including 98 retail banking centers in Missouri, Arkansas, Iowa, Kansas, Nebraska and Minnesota, six commercial loan offices in Dallas, Tex., Tulsa, Okla., Chicago, Ill., Omaha, Neb., Atlanta, Ga., and Denver, Colo., 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, 2018, there were 14,151,198 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, 2018 was \$46.03.

### High/Low Stock Price

|                | 2018    |         | 2017    |         | 2016    |         |
|----------------|---------|---------|---------|---------|---------|---------|
|                | High    | Low     | High    | Low     | High    | Low     |
| First Quarter  | \$53.05 | \$48.10 | \$55.45 | \$47.35 | \$45.00 | \$35.47 |
| Second Quarter | 60.20   | 48.60   | 55.10   | 47.25   | 41.29   | 34.56   |
| Third Quarter  | 61.65   | 54.50   | 56.00   | 47.50   | 43.54   | 34.48   |
| Fourth Quarter | 58.49   | 43.30   | 58.45   | 50.55   | 56.70   | 38.35   |

### Dividend Declarations

|                | 2018  | 2017  | 2016  |
|----------------|-------|-------|-------|
| First Quarter  | \$.28 | \$.22 | \$.22 |
| Second Quarter | .28   | .24   | .22   |
| Third Quarter  | .32   | .24   | .22   |
| Fourth Quarter | .32   | .24   | .22   |

William V. Turner  
Chairman of the Board

Joseph W. Turner  
President and  
Chief Executive Officer



## TO OUR STOCKHOLDERS

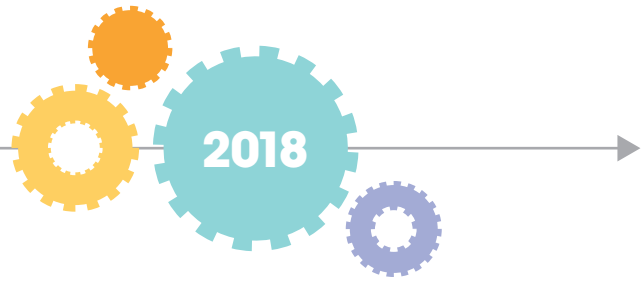
On behalf of our more than 1,200 Great Southern associates, we are pleased to present our 2018 Annual Report. The theme of this year's report, Process of Progress, encapsulates our Company's culture and how we manage for the long term. This guiding principle of managing with a long-term view has been key to our success for 95 years and, if anything, we adhere to it more closely than ever. Put simply, we guard against making short-sighted decisions that deliver only near-term benefit. We engage in practices that we believe will drive sustainability, long-term growth and profitability.

Great Southern became a public company nearly 30 years ago. Since our initial public offering in 1989, the Company has made great progress and delivered long-term value to our stockholders. This was recently highlighted in an August 2018 article published by Bank Director entitled "A Valuable Lesson from the Best Bank You've Never Heard of." Great Southern was featured in this article and recognized for producing the fifth best total all-time shareholder return, nearly 15,000 percent, among every publicly traded bank in the United States. This recognition of our Company's performance was both exciting and humbling, and a direct reflection of the hard work and dedication of Great Southern associates, past and present. It has fueled our already deep motivation for continuous improvement and exceeding the expectations of the constituents that we serve.



Great Southern was recognized for producing the fifth best total all-time shareholder return, nearly **15,000 percent**, among every publicly traded bank in the United States.

In the following pages of the report, you will learn about some of the Company's activities that perpetuate our desire to make Great Southern an even better company for those we serve. You will see that we are optimizing and enhancing our customer access channels to ensure that our customers are served when, where and how they



prefer. One way we are doing this is by looking at all of our operational processes. We are now fully engaged in Process Matters, the Company's ongoing process improvement strategy that focuses all of our activities on improving the customer experience and that utilizes the principles and tested methodology of Lean Six Sigma. For an even more holistic improvement approach, we are implementing Experience Matters, a customer experience initiative that will help us better understand our customers' desires and their perceptions of our service quality. J.D. Power, a leader in consumer satisfaction research, and other leading customer experience organizations are engaged to assist us with this important work. Finally, you will see some Community Matters highlights from 2018 that support our enduring commitment to help make our communities even greater places to live, work and play. We share this information not to be self-promoting, but to showcase just a few of the endless possibilities of how we all can work together to address community needs.

## PROCESS OF PROGRESS HIGHLIGHTS IN 2018

We were pleased with the Company's financial performance in 2018. Our earnings were driven by strong loan growth, an expanding net interest margin, solid credit quality and disciplined expense containment. We invite you to review details of our financial performance in the Annual Report, or in our other Company filings.

In summary, earnings for the year ended December 31, 2018, were \$67.1 million, or \$4.71 per diluted common share. Return on average common equity was 13.46%, return on average assets was 1.49%, and net interest margin was 3.99%. The Company ended the year with assets

of \$4.7 billion. Total stockholders' equity was \$532.0 million, or 11.4% of assets, equivalent to a book value of \$37.59 per common share. Book value increased by \$4.11, or 12.3%, from the end of 2017 to the end of 2018.

The capital position of the Company continues to be strong, significantly exceeding the thresholds established by regulators to be considered "well-capitalized." Tangible common equity increased by 13.4% from the end of 2017, pushing the tangible common equity to tangible assets ratio (a common capital metric) to 11.2%, a high level by industry standards.

Since going public in 1989, Great Southern has declared consecutive quarterly cash dividends to stockholders. In 2018, quarterly cash dividends totaling \$1.20 per common share were declared. In January 2019, the Company declared a special cash dividend of \$0.75 per common share. This special dividend reflected the Company's recent operating performance, solid financial condition and commitment to delivering long-term shareholder value. It also underscored continued efforts to actively manage our capital position while maintaining sufficient capacity for organic growth and other potential corporate initiatives.

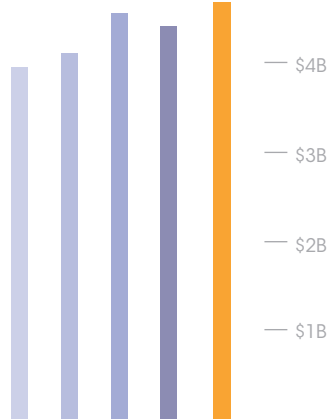
During 2018, overall loan growth was strong. For the third year in a row, our commercial lenders originated more than \$1 billion in new loans. Total gross loans, including the undisbursed portion of loans and excluding FDIC-assisted acquired loans and mortgages held for sale, increased \$472.3 million, or 10.8%, from the end of 2017. This increase was partially offset by expected decreases in the consumer auto loan portfolio (down about \$103.6 million) and the FDIC-acquired loan portfolios (down about \$42.0 million). Outstanding loan balances increased \$262.7 million, from



2018

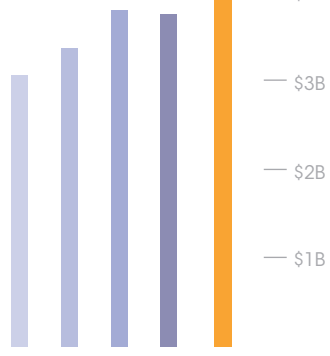
2014 2015 2016 2017 2018

TOTAL ASSETS  
\$4.68 B



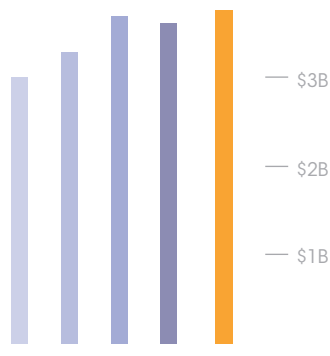
\$3.73 billion at December 31, 2017, to \$3.99 billion at December 31, 2018.

TOTAL LOANS  
\$3.99 B



Total loan production occurred across several loan types, primarily construction loans, commercial real estate loans, one- to four-family residential mortgage loans and multi-family loans and came from most of Great Southern’s primary lending locations, including St. Louis, Kansas City, Kan., Tulsa, Okla., Dallas, Chicago, Minneapolis, and Springfield, Mo. It is important to note that we do not anticipate that our overall loan growth will occur evenly over time. There will be years that economic conditions and the competitive landscape will allow for stronger growth, and years where growth may be slower.

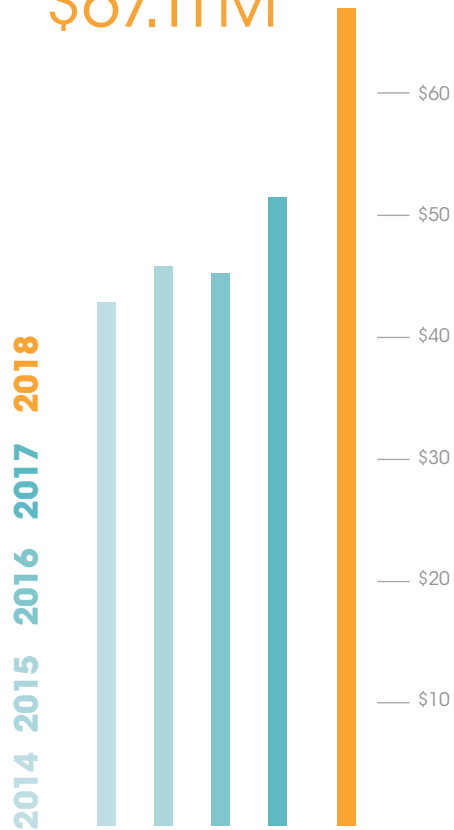
TOTAL DEPOSITS  
\$3.73 B



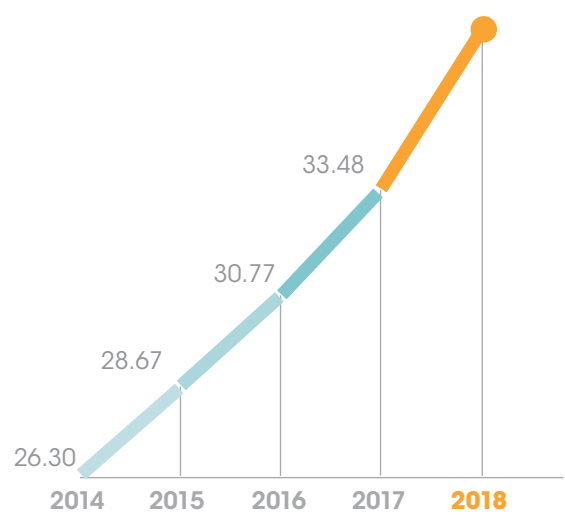
Commercial loan production offices (LPOs) continue to play a significant role in developing the commercial loan portfolio. In 2018, more than 40% of total loan production came from our LPOs, which are located in Chicago, Dallas, Omaha, Neb., and Tulsa. The LPO network was expanded late in the fourth quarter of 2018 with the opening of offices in Atlanta, and Denver. Entering new markets with LPOs has proven to be an effective business model in serving commercial loan customers; in fact, our key St. Louis and Kansas City markets began as LPOs more than a decade ago. The key to a successful LPO is that each office is led by a seasoned commercial lender, who has years of lending experience in the local market. These office leaders are usually teamed with a more junior lender who has several years of tenure with Great Southern. Loan decisions are made through a central loan committee to ensure a consistent credit culture.

To add breadth to our lending capabilities, we welcomed a new Small Business Administration (SBA) lending manager who has many years of experience in SBA lending. The new line of business will focus exclusively on serving loan customers throughout all of our markets who can benefit from SBA-secured loan programs, including 7(a) and 504 loans.

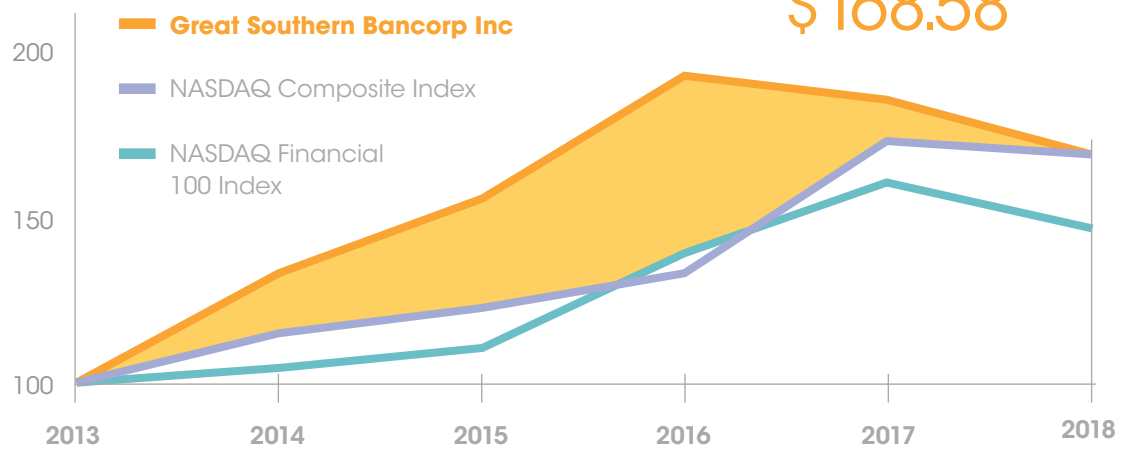
TOTAL NET INCOME  
\$67.11M



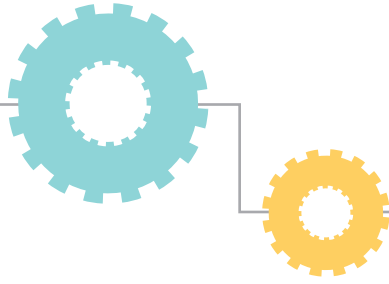
BOOK VALUE  
PER COMMON SHARE  
\$37.59



TOTAL RETURN  
5 YEAR CUMULATIVE\*  
\$168.58



\* 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, 2013, through December 31, 2018. The graph assumes that \$100 was invested in GSBC Common Stock on December 31, 2013, and that all dividends were reinvested.



While loan production was strong in 2018, it was not produced by succumbing to pricing pressures or other competitive forces. Our underwriting criteria remains conservative and we grow the loan portfolio one quality relationship at a time. During 2018, credit quality continued to improve with credit quality metrics at historic positive levels. At December 31, 2018, non-performing assets, excluding FDIC-acquired non-performing assets, were \$11.8 million, a decrease of \$16.0 million from \$27.8 million at December 31, 2017. Non-performing assets as a percentage of total assets were 0.25% at December 31, 2018, compared to 0.63% at December 31, 2017. Total net charge-offs were \$5.2 million during 2018, as compared to \$10.0 million during 2017. In 2018, approximately \$3.9 million of the \$5.2 million of net charge-offs were in the consumer auto category. Six commercial loan relationships made up approximately \$1.3 million of the net charge-off total in 2018.

For the long-term success of our Company, we regularly evaluate the performance of all of our business lines. At times, this leads to making difficult, but necessary, decisions. In the first quarter of 2019, we made the decision to exit the indirect automobile lending business, whereby we provided financing for customers of automobile dealerships. The indirect lending business for us and many banks has been difficult over the last few years. In response to a more challenging consumer credit environment, the Company tightened its underwriting guidelines on automobile lending in the latter part of 2016. Management took this step in an effort to improve credit quality in the portfolio and lower delinquencies and charge-offs. The changes in underwriting guidelines resulted in lower origination volume, and as such, outstanding consumer auto loan balances have decreased significantly since the end of 2016. Market forces, including strong rate competition for well qualified borrowers, have made indirect lending through automobile dealerships a significant barrier to efficient and profitable operations over the long term. Our core business of direct consumer lending through our extensive banking center network remains an important focus.

We still believe that banking centers are the most important delivery channel for developing relationships with our customers, but also the most expensive and dynamic channel. We analyze our system of banking centers to measure performance and to ensure responsiveness to changing customer needs and preferences. Thus, we open banking centers and invest resources where customer demand leads, and from time to time, consolidate banking centers or even exit markets when conditions dictate. As a result, several banking center changes were initiated in 2018.

The Company sold four banking centers in the Omaha, Neb., metropolitan market to a Nebraska-based bank in the third quarter of 2018. Branch deposits of approximately \$56 million and substantially all branch-related real estate, fixed assets and ATMs were sold. As a result, the Company recorded pre-tax income, net of expenses, of \$7.25 million, or \$0.39 (after tax) per diluted common share. A commercial lending office remains in the Omaha market.

In the second quarter of 2018, the Company consolidated operations of a banking center into a nearby office in Paola, Kan. Early in the second quarter of 2019, the Company consolidated the banking center in Fayetteville, Ark., into the Rogers, Ark., office.

## PROCESS OF MORE PROGRESS IN 2019

Our priorities in 2019 are straightforward and consistent with previous years' priorities. We will maintain a sharp focus on developing and expanding customer relationships, sustain a strong credit discipline and drive operational efficiencies. 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. 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 will create a more challenging funding environment. Again, the size and scope of our Company should prove advantageous in deposit gathering.

Economic and market uncertainty and volatility continue to pose challenges for the banking industry. Many believe we are in the very late stages of the current economic expansion. As such, we must be positioned to mitigate risks associated with the present interest rate environment and the real possibility of falling interest rates at any time. Mitigating the risks of fluctuating interest rates is a normal function of our asset and liability management; the uniqueness of current economic conditions makes it more interesting and challenging. The Company's interest rate risk models indicate that, generally, rising interest rates are expected to have a modestly positive impact on the Company's net interest income, while declining interest rates would have a negative impact on net interest income. Strategies for rising and falling rate scenarios are in place and reviewed continually.

In 2019, we already have several major improvement initiatives in motion. We have challenged our management team to analyze all customer access channels to ensure that we are properly positioned for both the current and the next generations of customers. We must stay responsive to continue to meet the demands and expectations of all of our customers, current and future.

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 advance. For our customers, it is our mission to build winning and lasting relationships by providing the right products and services with preferred access channels. For our many communities, we strive to support causes and address needs to help them be even better places to live and work. And, for our stockholders, we desire to provide a superior long-term return on their investment in our Company.

More progress for our customers  
More success for our communities  
More value for our shareholders

Finally, we owe a debt of gratitude to our Board of Directors for their guidance and support over the last year. We extend a special message of appreciation to Mr. William E. Barclay, who is now serving as an advisory board member. Mr. Barclay began serving Great Southern as a Board member in 1975. His business knowledge, leadership skills, deep commitment to Great Southern and humor will forever be appreciated and never forgotten in our Company's rich history.

Thank you for your support of Great Southern. We look to the future with great optimism. We invite your feedback at any time.

Respectfully yours,

William V. Turner

Joseph W. Turner

# the process

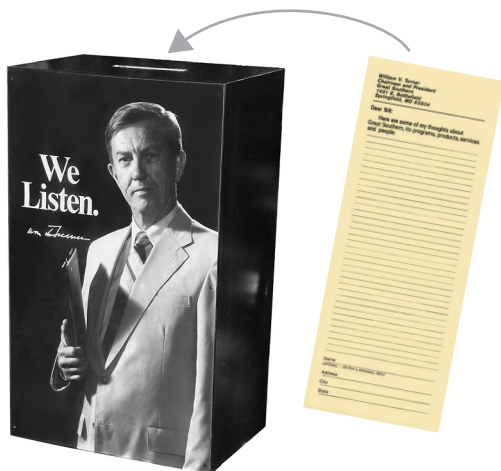
## of understanding what really matters

Our motto, "Understanding what really matters," was formally adopted in 2011, but the concept has been a fundamental piece of our corporate culture for decades. By understanding what really matters, we can fulfill our mission of building winning relationships and gain perspective on how we should invest and prioritize resources.

We've made great progress by establishing initiatives that focus on what we know matters: better serving our customers, promoting efficiency for our associates, creating long-term value for our shareholders, and supporting the communities where we do business.

## EXPERIENCE MATTERS

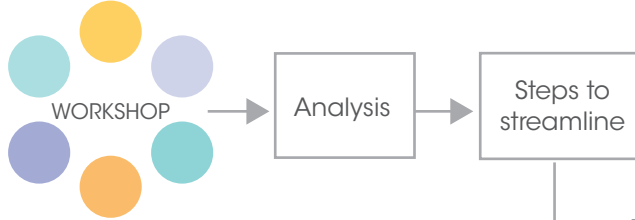
A customer feedback box established in the late eighties by our Chairman, Bill Turner, was the Company's initial formal approach for obtaining feedback from our customers and making changes to improve their experience. Customers were invited to share their thoughts about Great Southern, its programs, products, services and people. While we have evolved since the eighties in our ways of asking for customer feedback, this box still stands at our E. Battlefield banking center as a reminder of our commitment to provide an excellent customer experience.



We are even furthering our feedback efforts by making a significant investment to understand our customers' desires and experiences by partnering with leading customer experience organizations like J.D. Power. Through electronic surveying and other techniques, we're establishing a dialogue with our customers by asking for candid feedback in several critical areas around their banking experience. Using the platform's analytics, we can predict customer behavior and guide future enhancements to the overall customer experience.

The J.D. Power platform intelligently analyzes what we, and our competitors, are getting right and where improvements could be made in the future. This strategic competitive benchmarking will help us stay ahead as the banking industry and our customers' preferences evolve.

Identify area for improvement



# PROCESS MATTERS

Last year, we introduced Process Matters, our company-wide process improvement initiative. Using the proven Lean Six Sigma methodology, we assess current processes in week-long workshops to identify gaps that create inefficiencies or delays in serving our customers. Each associate involved in the workshop has an equal voice, regardless of title, and is empowered to suggest changes.

We evaluated a number of key processes in both lending and deposit operations during 2018, and each workshop led to improvements in the customer experience, reduced costs and increased efficiency for the Company. Process Matters has become part of our corporate culture and is championed by our associates. Their commitment to this initiative is reflected in the successful outcomes of each workshop.

A Process Matters Steering Committee, comprised of associates from various departments and roles, was established at the beginning of 2019. The committee will meet quarterly to evaluate and recommend future Process Matters workshops.

Estimated results going forward:

## STOP PAYMENTS SIMPLIFIED



reviews reduced by **80-90%**

Changes will reduce manual review of false positives and eliminate data re-entry.

## DOCUMENT SCANNING IMPROVED



errors down by **75%**

Improvements in delivery of customer documents will make processing faster.

## COLLECTIONS STREAMLINED



eliminated **40%** of steps

Unnecessary steps were removed to create a more efficient process.

## WIRE TRANSFERS MADE FASTER



**8 minutes** saved per wire

**101 hours** saved per month

By reducing hands-on time for each wire, wait time has been shortened, saving customers valuable time.

# community matters

Great Southern understands that our Company is only as strong as the communities we serve. Our Community Matters program was established to address the needs of each of our communities and make them better, more prosperous places to live, work and do business.

Our regional Community Matters Teams, which represent the entire Company's footprint, fulfill this philosophy by developing action plans that address local needs. They build strong partnerships with the community and encourage associates at all levels to get involved with organizations and projects that align with their passions.



## creating a PATH FORWARD

The Bill and Ann Turner Distinguished Community Service Award recognizes and honors an outstanding Great Southern Bank associate who demonstrates excellence in volunteer service to their community. The award exemplifies the community leadership and civic engagement of our Chairman, Bill Turner, and his wife Ann. Their spirit of giving has resonated throughout our Company, creating a culture of always doing what is right and a desire to help our neighbors.

The 2019 recipient was Eric Mitchell, Assistant Regional Banking Center Manager in St. Louis, Mo. Eric is passionate about empowering those around him to succeed and uses his financial knowledge to teach educational workshops focused on budgeting, credit and the benefits of a traditional banking relationship. His involvement in several community organizations focused on reducing poverty rates in the St. Louis area is a true reflection of our Community Matters philosophy – always doing what is right and helping our neighbors.



Volunteerism shines a light not only on the Bank, but also on the people and groups we're trying to support. I think it's huge and brings hope to the community.

*Eric Mitchell*

Eric is a member of many organizations, including the Pathways to Progress Initiative, which is dedicated to strengthening families by creating a pathway to live safe, productive and sustainable lives.

# A NEW APPROACH

## Eden Village

One of many impactful partnerships throughout our footprint is Eden Village. This tiny home community, established by the Springfield-based nonprofit, The Gathering Tree, was designed to address homelessness among chronically disabled individuals. The tiny homes measure approximately 400 square feet and provide dignified housing at a fraction of the cost of traditional options; positioning these individuals to address the root causes of homelessness from a positive position.

Great Southern was honored to purchase and donate a home to the Eden Village community. Our home was named Sunrise Cottage – a subtle nod to the four suns that form our logo and representative of warmth and a new day.

Associates throughout our footprint donated money and purchased new household items to furnish the tiny home; ensuring the resident, Nancy, would have everything needed for a new beginning before she moved into the home in September.

Our commitment to this project extends well beyond merely purchasing the home and furnishing it; our associates formed a "Home Team" to maintain an ongoing relationship with Nancy and spend time with her each month.



### TAKING STEPS TO ADDRESS CHRONIC HOMELESSNESS



**PERMANENT HOUSING**  
residents no longer have the stress of finding shelter



**STABLE ENVIRONMENT**  
makes it easier to manage health and disabilities, find work, and establish routines



**ONGOING SUPPORT SYSTEM**  
provides assistance, connections and a sense of community



**BETTER OUTCOMES**  
for residents and the community

# 2018

**VOLUNTEER HOURS**



8,200+

**ASSOCIATE DONATIONS**



\$81,000

**CORPORATE DONATIONS**



\$1,000,000+

**ORGANIZATIONS SUPPORTED**

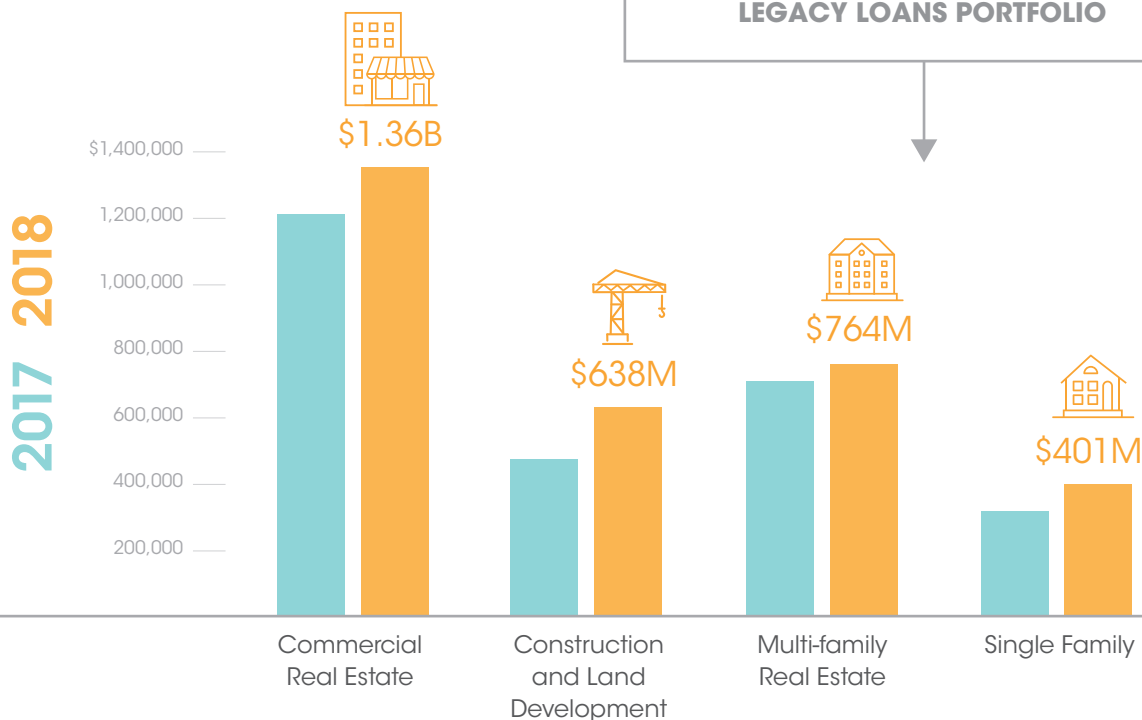
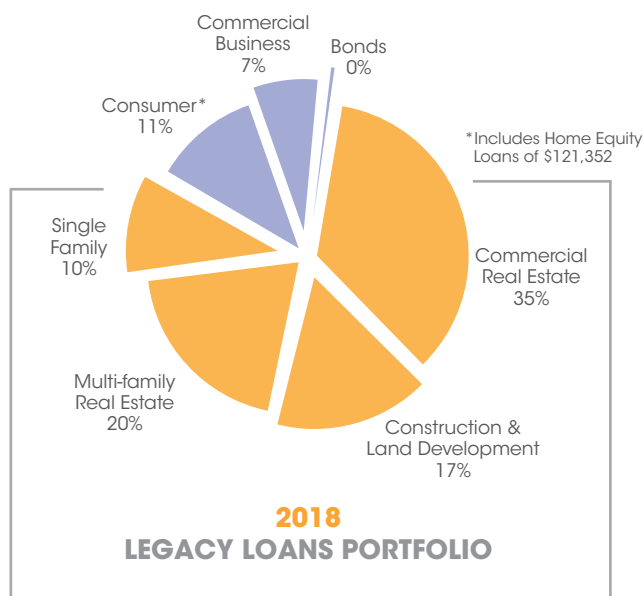


700+

# progress in commercial lending

## BUILDING our portfolio

For the third consecutive year, our commercial lending team achieved record production, originating more than \$1 billion in loans. Commercial lending is a driver of results for the Company and has been an area of expertise for decades. Our portfolio remains diversified by type and region, and we saw positive growth in many areas including commercial construction, commercial real estate and single family real estate.



# REVIVING good places to live



Of the many projects we financed throughout 2018, one of the most unique is Bishop Highline, a 118-unit apartment building in Dallas, Texas. The building is located in the heart of the Bishop Arts District and has become a work of art itself, featuring an exterior mural painted by local artists.

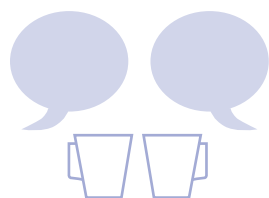
The first phase of this development took a vacant block and revitalized it to offer affordable living options near downtown Dallas. The location, amenities of the building, and close proximity to more than 60 nearby businesses are incredibly attractive to future tenants. Within a one-mile radius, Bishop Highline residents can access gyms, yoga studios, art galleries, restaurants, a theatre and more.

# EXPANDING our footprint

We expanded our commercial lending presence to Atlanta, Ga. and Denver, Colo. in 2018. Led by local banking veterans, these markets offer stable, attractive commercial real estate opportunities.

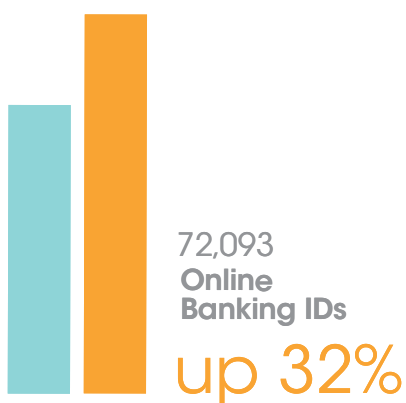


# the process of reaching our customers



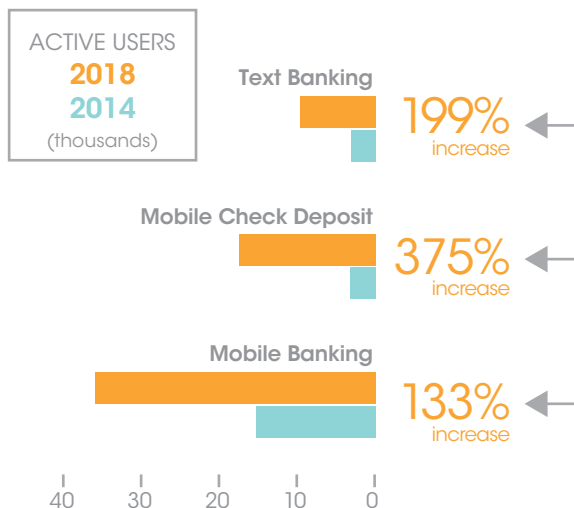
## discovering what matters **IN PERSON**

Our banking center network plays a vital role in reaching our customers. Speaking with banking experts face-to-face remains a critical part of the banking experience. Whether they need to open a new account, apply for a loan or plan for retirement, customers want to sit down in person with their trusted banker to discuss options. Our banking center associates build valuable relationships with our customers every day; they know how to uncover and identify needs by learning who our customers are, who their families are, and their financial goals. Once they've uncovered a customer need, they take the time to recommend products and services we offer to fulfill it.



## enhancing **ONLINE & MOBILE**

Customer adoption of convenient Mobile and Online Banking services continues to grow year after year. It's important that we remain accessible no matter which channel a customer uses to bank with us. We're mindful of optimizing our banking channels as technology and customer needs evolve.



We're developing a new, customized Online Banking platform. The enhancements will bolster our online capabilities and provide more information and services to our Online Banking users. We updated our online account opening system in January 2019, which allows us to reach consumers outside of our brick-and-mortar footprint and competitively promote product offerings in specific markets. As we know the desire to bank on-the-go is important to many customers, we've optimized both of these systems for mobile devices.





## improving **THE CALL**

It's important that we make it convenient and easy for our customers to contact their bank and get the information they need in a timely manner. As part of a Process Matters workshop, the Company merged several department-specific call centers into our Customer Service Department to form one, full-service call center.

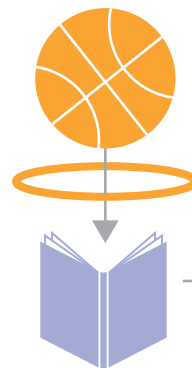
We established a very thorough training program for each new representative to help make them experts in all topics they could encounter. This change has been positive for our customers. When contacting us with any banking need, whether it be a balance inquiry, a lost or stolen debit card or a loan payment, Customer Service can now assist the customer without having to transfer them to various departments.

## bringing it to **THE GAME**

One way we reach current and potential customers is through various sponsorships and events. We make a significant investment, for example, in sports marketing assets. Sporting events act as a hub for many communities; they bring people together from all different backgrounds to support a common interest. Our support of athletics at many universities is an investment in higher education and our communities, and also an innovative way to reach audiences. The Great Southern logo can be seen in arenas and stadiums throughout our footprint.

We established a new relationship with the St. Louis University Men's Basketball team in 2018. This partnership not only increases our visibility in an important market, but also includes a charitable aspect that aligns with our Community Matters philosophy. During the 2018-2019 season, we sponsored the Assist to Literacy program. For each assist the men's basketball team made, Great Southern agreed to purchase and donate a book to a school in need. We selected Yeatman Middle School in St. Louis City, a school we have a relationship with through another volunteer program, to receive the books.

We participated in a unique advertising opportunity with Fox Sports Midwest during baseball season. We created short commercial spots that aired during split-screen breaks in game play instead of full commercial breaks. We focused our message on connecting with fans by showing them how our Mobile Banking services make their lives more convenient, even at the ballpark. The partnership was positively received and we plan to advertise again this season with Fox Sports Midwest for both baseball and hockey.



→ **400 Books donated**



150 in-game ads  
x 307,000 avg. viewers per game  
= **46,050,000 impressions**



## Great Southern Bancorp, Inc. directors

Left to right:

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

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

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

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

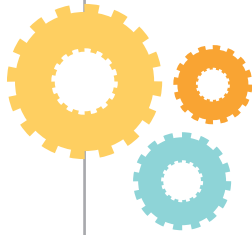
**William V. Turner** Chairman of the Board

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

**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

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



Great Southern Bank

# leadership team

**Kevin Baker\*** Chief Credit Officer

**Tammy Baurichter** Controller

**John Bugh\*** Chief 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

**Kelly Polonus** Director of Communications and Marketing

**Matt Snyder** Director of Human Resources

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

**Bryan Tiede** Director of Risk Management

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

\*Denotes Executive Officer

# Selected Financial Data

The tables on pages 18, 19 and 20 set forth selected consolidated financial information and other financial data of the Company. The summary statement of financial condition information and statement of income information are derived from our consolidated financial statements, which have been audited by BKD, LLP. See Item 6. "Selected 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.

|   | <b>December 31,</b>    |             |             |             |             |
|---|------------------------|-------------|-------------|-------------|-------------|
|   | <b>2018</b>            | <b>2017</b> | <b>2016</b> | <b>2015</b> | <b>2014</b> |
| <b>Summary Statement of Financial Condition Information:</b>      | (Dollars in Thousands) |             |             |             |             |
| Assets  | \$4,676,200            | \$4,414,521 | \$4,550,663 | \$4,104,189 | \$3,951,334 |
| Loans receivable, net   | 3,990,651              | 3,734,505   | 3,776,411   | 3,352,797   | 3,053,427   |
| Allowance for loan losses   | 38,409                 | 36,492      | 37,400      | 38,149      | 38,435      |
| Available-for-sale securities                                     | 243,968                | 179,179     | 213,872     | 262,856     | 365,506     |
| Other real estate and repossessions, net                          | 8,440                  | 22,002      | 32,658      | 31,893      | 45,838      |
| Deposits  | 3,725,007              | 3,597,144   | 3,677,230   | 3,268,626   | 2,990,840   |
| Total borrowings  | 397,594                | 324,097     | 416,786     | 406,797     | 514,014     |
| Stockholders' equity (retained earnings substantially restricted) | 531,977                | 471,662     | 429,806     | 398,227     | 419,745     |
| Common stockholders' equity                                       | 531,977                | 471,662     | 429,806     | 398,227     | 361,802     |
| Average loans receivable  | 3,910,819              | 3,814,560   | 3,659,360   | 3,235,787   | 2,784,106   |
| Average total assets  | 4,503,326              | 4,460,196   | 4,370,793   | 4,067,399   | 3,824,493   |
| Average deposits  | 3,556,240              | 3,598,579   | 3,475,887   | 3,203,262   | 3,007,588   |
| Average stockholders' equity                                      | 498,508                | 455,704     | 414,799     | 438,683     | 402,670     |
| Number of deposit accounts  | 227,240                | 230,456     | 231,272     | 217,139     | 217,877     |
| Number of full-service offices                                    | 99                     | 104         | 104         | 110         | 108         |

|  | <b>For the Year Ended December 31,</b> |                  |                  |                  |                  |
|--|--|------------------|------------------|------------------|------------------|
|  | <b>2018</b>                            | <b>2017</b>      | <b>2016</b>      | <b>2015</b>      | <b>2014</b>      |
|  | (In Thousands)                         |                  |                  |                  |                  |
| <b>Summary Statement of Income Information:</b>                |  |                  |                  |                  |                  |
| Interest income:   |  |                  |                  |                  |                  |
| Loans  | \$ 198,226                             | \$ 176,654       | \$ 178,883       | \$ 177,240       | \$ 172,569       |
| Investment securities and other                                | 7,723                                  | 6,407            | 6,292            | 7,111            | 10,793           |
|  | <u>205,949</u>                         | <u>183,061</u>   | <u>185,175</u>   | <u>184,351</u>   | <u>183,362</u>   |
| Interest expense:  |  |                  |                  |                  |                  |
| Deposits   | 27,957                                 | 20,595           | 17,387           | 13,511           | 11,225           |
| Federal Home Loan Bank advances                                | 3,985                                  | 1,516            | 1,214            | 1,707            | 2,910            |
| Short-term borrowings and repurchase agreements                | 765                                    | 747              | 1,137            | 65               | 1,099            |
| Subordinated debentures issued to capital trust                | 953                                    | 949              | 803              | 714              | 567              |
| Subordinated notes   | 4,097                                  | 4,098            | 1,578            | —                | —                |
|  | <u>37,757</u>                          | <u>27,905</u>    | <u>22,119</u>    | <u>15,997</u>    | <u>15,801</u>    |
| Net interest income  | 168,192                                | 155,156          | 163,056          | 168,354          | 167,561          |
| Provision for loan losses                                      | 7,150                                  | 9,100            | 9,281            | 5,519            | 4,151            |
| Net interest income after provision for loan losses            | <u>161,042</u>                         | <u>146,056</u>   | <u>153,775</u>   | <u>162,835</u>   | <u>163,410</u>   |
| Noninterest income:  |  |                  |                  |                  |                  |
| Commissions  | 1,137                                  | 1,041            | 1,097            | 1,136            | 1,163            |
| Service charges and ATM fees                                   | 21,695                                 | 21,628           | 21,666           | 19,841           | 19,075           |
| Net realized gains on sales of loans                           | 1,788                                  | 3,150            | 3,941            | 3,888            | 4,133            |
| Net realized gains on sales of available-for-sale securities   | 2                                      | —                | 2,873            | 2                | 2,139            |
| Late charges and fees on loans                                 | 1,622                                  | 2,231            | 1,747            | 2,129            | 1,400            |
| Gain (loss) on derivative interest rate products               | 25                                     | 28               | 66               | (43)             | (345)            |
| Gain recognized on sale of business units                      | 7,414                                  | —                | —                | —                | —                |
| Gain recognized on business acquisitions                       | —                                      | —                | —                | —                | 10,805           |
| Gain (loss) on termination of loss sharing agreements          | —                                      | 7,705            | (584)            | —                | —                |
| Amortization of income/expense related to business acquisition | —                                      | (486)            | (6,351)          | (18,345)         | (27,868)         |
| Other income   | 2,535                                  | 3,230            | 4,055            | 4,973            | 4,229            |
|  | <u>36,218</u>                          | <u>38,527</u>    | <u>28,510</u>    | <u>13,581</u>    | <u>14,731</u>    |
| Noninterest expense:   |  |                  |                  |                  |                  |
| Salaries and employee benefits                                 | 60,215                                 | 60,034           | 60,377           | 58,682           | 56,032           |
| Net occupancy expense  | 25,628                                 | 24,613           | 26,077           | 25,985           | 23,541           |
| Postage  | 3,348                                  | 3,461            | 3,791            | 3,787            | 3,578            |
| Insurance  | 2,674                                  | 2,959            | 3,482            | 3,566            | 3,837            |
| Advertising  | 2,460                                  | 2,311            | 2,228            | 2,317            | 2,404            |
| Office supplies and printing                                   | 1,047                                  | 1,446            | 1,708            | 1,333            | 1,464            |
| Telephone  | 3,272                                  | 3,188            | 3,483            | 3,235            | 2,866            |
| Legal, audit and other professional fees                       | 3,423                                  | 2,862            | 3,191            | 2,713            | 3,957            |
| Expense on other real estate and repossessions                 | 4,919                                  | 3,929            | 4,111            | 2,526            | 5,636            |
| Partnership tax credit investment amortization                 | 575                                    | 930              | 1,681            | 1,680            | 1,720            |
| Acquired deposit intangible asset amortization                 | 1,562                                  | 1,650            | 1,910            | 1,750            | 1,519            |
| Other operating expenses                                       | 6,187                                  | 6,878            | 8,388            | 6,776            | 14,305           |
|  | <u>115,310</u>                         | <u>114,261</u>   | <u>120,427</u>   | <u>114,350</u>   | <u>120,859</u>   |
| Income before income taxes                                     | 81,950                                 | 70,322           | 61,858           | 62,066           | 57,282           |
| Provision for income taxes                                     | 14,841                                 | 18,758           | 16,516           | 15,564           | 13,753           |
| Net income   | 67,109                                 | 51,564           | 45,342           | 46,502           | 43,529           |
| Preferred stock dividends and discount accretion               | —                                      | —                | —                | 554              | 579              |
| Net income available to common shareholders                    | <u>\$ 67,109</u>                       | <u>\$ 51,564</u> | <u>\$ 45,342</u> | <u>\$ 45,948</u> | <u>\$ 42,950</u> |

**At or For the Year Ended December 31,**

|   | <b>2018</b>                     | <b>2017</b> | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|---|---------------------------------|-------------|-------------|-------------|-------------|
|   | (Number of shares in thousands) |             |             |             |             |
| <b>Per Common Share Data:</b>   |                                 |             |             |             |             |
| Basic earnings per common share   | \$ 4.75                         | \$ 3.67     | \$ 3.26     | \$ 3.33     | \$ 3.14     |
| Diluted earnings per common share   | 4.71                            | 3.64        | 3.21        | 3.28        | 3.10        |
| Cash dividends declared   | 1.20                            | 0.94        | 0.88        | 0.86        | 0.80        |
| Book value per common share   | 37.59                           | 33.48       | 30.77       | 28.67       | 26.30       |
| Average shares outstanding  | 14,132                          | 14,032      | 13,912      | 13,818      | 13,700      |
| Year-end actual shares outstanding  | 14,151                          | 14,088      | 13,968      | 13,888      | 13,755      |
| Average fully diluted shares outstanding  | 14,260                          | 14,180      | 14,141      | 14,000      | 13,876      |
| <b>Earnings Performance Ratios:</b>   |                                 |             |             |             |             |
| Return on average assets(1)   | 1.49%                           | 1.16%       | 1.04%       | 1.14%       | 1.14%       |
| Return on average stockholders' equity(2)   | 13.46                           | 11.32       | 10.93       | 12.13       | 12.63       |
| Non-interest income to average total assets   | 0.80                            | 0.86        | 0.65        | 0.33        | 0.39        |
| Non-interest expense to average total assets  | 2.56                            | 2.56        | 2.76        | 2.81        | 3.16        |
| Average interest rate spread(3)   | 3.75                            | 3.59        | 3.93        | 4.44        | 4.74        |
| Year-end interest rate spread   | 3.60                            | 3.67        | 3.60        | 3.80        | 3.86        |
| Net interest margin(4)  | 3.99                            | 3.74        | 4.05        | 4.53        | 4.84        |
| Efficiency ratio(5)   | 56.41                           | 58.99       | 62.86       | 62.85       | 66.30       |
| Net overhead ratio(6)   | 1.76                            | 1.70        | 2.10        | 2.48        | 2.77        |
| Common dividend pay-out ratio(7)  | 25.48                           | 25.82       | 27.41       | 26.22       | 25.81       |
| <b>Asset Quality Ratios (8):</b>  |                                 |             |             |             |             |
| Allowance for loan losses/year-end loans  | 0.98%                           | 1.01%       | 1.04%       | 1.20%       | 1.34%       |
| Non-performing assets/year-end loans and foreclosed assets                              | 0.29                            | 0.73        | 1.02        | 1.28        | 1.39        |
| Allowance for loan losses/non-performing loans  | 609.67                          | 324.23      | 265.60      | 230.24      | 471.77      |
| Net charge-offs/average loans   | 0.13                            | 0.26        | 0.29        | 0.20        | 0.24        |
| Gross non-performing assets/year end assets   | 0.25                            | 0.63        | 0.86        | 1.07        | 1.11        |
| Non-performing loans/year-end loans   | 0.16                            | 0.30        | 0.37        | 0.49        | 0.26        |
| <b>Balance Sheet Ratios:</b>  |                                 |             |             |             |             |
| Loans to deposits   | 106.76%                         | 103.82%     | 102.70%     | 102.58%     | 102.09%     |
| Average interest-earning assets as a percentage of average interest-bearing liabilities | 126.47                          | 123.74      | 121.33      | 121.60      | 120.95      |
| <b>Capital Ratios:</b>  |                                 |             |             |             |             |
| Average common stockholders' equity to average assets                                   | 11.1%                           | 10.2%       | 9.5%        | 9.4%        | 9.0%        |
| Year-end tangible common stockholders' equity to tangible assets(9)                     | 11.2                            | 10.5        | 9.2         | 9.6         | 9.0         |
| Great Southern Bancorp, Inc.:   |                                 |             |             |             |             |
| Tier 1 capital ratio  | 11.9                            | 11.4        | 10.8        | 11.5        | 13.3        |
| Total capital ratio   | 14.4                            | 14.1        | 13.6        | 12.6        | 14.5        |
| Tier 1 leverage ratio   | 11.7                            | 10.9        | 9.9         | 10.2        | 11.1        |
| Common equity Tier 1 ratio  | 11.4                            | 10.9        | 10.2        | 10.8        | —           |
| Great Southern Bank:  |                                 |             |             |             |             |
| Tier 1 capital ratio  | 12.4                            | 12.3        | 11.8        | 11.0        | 11.4        |
| Total capital ratio   | 13.3                            | 13.2        | 12.7        | 12.1        | 12.6        |
| Tier 1 leverage ratio   | 12.2                            | 11.7        | 10.8        | 9.8         | 9.5         |
| Common equity Tier 1 ratio  | 12.4                            | 12.3        | 11.8        | 11.0        | —           |

(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 FDIC-acquired assets.

(9) Non-GAAP Financial Measure. For additional information, including a reconciliation to GAAP, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures" in the Company's Annual Report on Form 10-K.



2018  
Financial Information

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

### Forward-looking Statements

When used in this Annual Report and in other documents filed or furnished by Great Southern Bancorp, Inc. (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) the possibility that the changes in non-interest income, non-interest expense and interest expense actually resulting from Great Southern Bank's recently completed transaction with West Gate Bank might be materially different from estimated amounts; (ii) the possibility that the actual reduction in the Company's effective tax rate expected to result from H. R. 1, formerly known as the "Tax Cuts and Jobs Act" (the "Tax Reform Legislation") might be different from the reduction estimated by the Company; (iii) expected revenues, cost savings, earnings accretion, synergies and other benefits from the Company's 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; (iv) changes in economic conditions, either nationally or in the Company's market areas; (v) fluctuations in interest rates; (vi) 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; (vii) the possibility of other-than-temporary impairments of securities held in the Company's securities portfolio; (viii) the Company's ability to access cost-effective funding; (ix) fluctuations in real estate values and both residential and commercial real estate market conditions; (x) demand for loans and deposits in the Company's market areas; (xi) the ability to adapt successfully to technological changes to meet customers' needs and developments in the marketplace; (xii) 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; (xiii) legislative or regulatory changes that adversely affect the Company's business, including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and its implementing regulations, the overdraft protection regulations and customers' responses thereto and the Tax Reform Legislation; (xiv) changes in accounting principles, policies or guidelines; (xv) monetary and fiscal policies of the Federal Reserve Board and the U.S. Government and other governmental initiatives affecting the financial services industry; (xvi) results of examinations of the Company and Great Southern Bank by their regulators, including the possibility that the regulators may, among other things, require the Company to limit its business activities, changes its business mix, increase its allowance for loan losses, write-down assets or increase its capital levels, or affect its ability to borrow funds or maintain or increase deposits, which could adversely affect its liquidity and earnings; (xvii) costs and effects of litigation, including settlements and judgments; and (xviii) 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 2018 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 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, prior to June 30, 2017, the FDIC indemnification asset reflect management's best ongoing estimates of the amounts to be realized on each of these assets. The Company has now terminated all loss sharing agreements with the FDIC and, accordingly, no longer has an indemnification asset. 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 its acquired loan 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 did not expect to 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 was generally 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 for changes in estimated cash flows projected for the loan pools, anticipated credit losses and changes in the accretable 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, 2018, 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, 2018, 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, 2018, the amortizable intangible assets consisted of core deposit intangibles of \$3.9 million, including \$2.6 million related to the Fifth Third Bank transaction in January 2016, \$1.0 million related to the Valley Bank transaction in June 2014 and \$275,000 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, 2018. While the Company believes no impairment existed at December 31, 2018, 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 housing and mortgage crisis and correction beginning in mid-2007, the United States entered a 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 significantly improved since then, as indicated by consumer confidence levels, increased economic activity and low unemployment levels.

The national unemployment rate rose to 3.9% in December 2018 from a 49-year low of 3.7% the previous month. The rate compares to an employment rate of 4.1% at December 2017. Total nonfarm payroll employment increased by 312,000 in December 2018 with employment increases in health care, food services and drinking places, construction, manufacturing and retail trade. In December 2018, the U.S. labor force participation rate (the share of working-age Americans who are either employed or are actively looking for a job) was 63.1% and the employment population ratio was 60.6%, with both ratios changing little since November 2018. The unemployment rate for the Midwest, where most of the Company's business is conducted, was at 3.7% in December 2018, which is slightly better than the national unemployment rate of 3.9%. Unemployment rates for December 2018 were: Missouri at 3.1%, Arkansas at 3.6%, Kansas at 3.3%, Iowa at 2.4%, Minnesota at 2.8%, Illinois at 4.3%, Oklahoma at 3.2%, Texas at 3.7%, Georgia at 3.6% and Colorado at 3.5%. Of the metropolitan areas in which the Company does business, the Chicago area had the highest unemployment level at 4.0% as of December 2018. This rate had improved significantly since the 4.7% rate reported as of December 2017. The unemployment rates for the Springfield and St. Louis market areas at 2.6% and 3.4%, respectively, were well below the national average. Metropolitan areas in Iowa, Missouri, Arkansas and Minnesota continued to boast unemployment levels amongst the lowest in the nation.

Sales of newly built single-family homes for November 2018 were at a seasonally adjusted annual rate of 657,000 according to U.S. Census Bureau and the Department of Housing and Urban Development estimates. This is 16.9% above the revised October 2018

seasonally adjusted annual rate of 562,000, but is 7.7% below the November 2017 seasonally adjusted annual rate of 712,000. The median sales price of new houses sold in November 2018 was \$302,400, down from \$343,300 a year earlier. The average sales price was \$362,400, down from \$402,900 as of December 2017. The inventory of new homes for sale at the end of November would support 6 months' supply at the current sales pace, down from 7.1 months in September, and similar to 5.7 months a year ago.

After two consecutive months of increases, existing home sales declined in the month of December, according to the National Association of Realtors (NAR). Total existing home sales decreased 6.4% from November 2018 to a seasonally adjusted rate of 4.99 million in December 2018. Sales are now down 10.3% from a year ago. Total housing inventory at the end of December decreased to 1.55 million, down from 1.74 million existing homes available for sale in November. Unsold inventory is at a 3.7 month supply at the current sales pace, up from 3.2 months a year ago.

The national median existing home price for all housing types in December was \$253,600, up 2.9% from December 2017. December's price increase marks the 82<sup>nd</sup> straight month of year-over-year gains. The Midwest region existing home median sale price, after some fluctuations, landed at \$191,300 for December 2018, the same as a year ago. First-time buyers accounted for 32% of sales in December, down slightly from 33% last month but the same as a year ago.

The multi-family sector rebounded in 2017 and 2018, with demand approaching the highest level on record. National vacancy rates were 6% at the end of December 2018 while our market areas reflected the following vacancy levels: Springfield, Mo. at 5.4%, St. Louis at 9.0%, Kansas City at 7.1%, Minneapolis at 4.7%, Tulsa, Okla. at 9.5%, Dallas-Fort Worth at 8.1% and Chicago at 6.4%. Rent growth picked up in recent months and demand has increased at a steady rate supported by the strong economy. Vacancy rates have increased in Tulsa, St. Louis and Dallas due to an increased number of units coming on-line. Developers continue to favor more-expensive submarkets. Transaction volume has slowed, but pricing has remained on an upward trajectory. Cap rates are still at very low levels. Continued increase in the homeownership rate is the single largest risk to the apartment sector. Despite the decline in affordability and rigid mortgage origination standards, about two-thirds of consumers still believe now is a good time to buy a home, according to a recent University of Michigan consumer survey. The homeownership rate has risen by more than a percentage point since 2016, to 64.4% in the third quarter of 2018. All of the Company's market areas within the multi-family sector are in expansion phase with the exception of Denver and Atlanta which are both currently in a hyper-supply phase.

Nationally, approximately 45% of the suburban office markets are in an expansion market cycle -- characterized by decreasing vacancy rates, moderate/high new construction, high absorption, moderate/high employment growth and medium/high rental rate growth. Signs of late-cycle conditions are spreading as we begin 2019. Both CBD and suburban markets are being categorized as either in recession or in hyper-supply by about one in 10 market respondents. So while most markets are in recovery or expansion, they tilt toward risk in the coming years. The Company's larger market areas in the suburban office expansion market cycle include Minneapolis, Dallas-Ft. Worth, and St. Louis. Tulsa, Okla. and Kansas City are currently in the recovery/expansion market cycle -- typified by decreasing vacancy rates, low new construction, moderate absorption, low/moderate employment growth and negative/low rental rate growth. Chicago is currently in a recession market cycle typified by increasing vacancies, low absorption and low new construction while Denver is in hyper-supply.

Approximately 70% of the retail sector is in the expansion phase of the market cycle, with another 20% in recovery mode and the remaining 10% in hyper-supply and recession. The Company's larger market areas included in the retail expansion market segment are Chicago, Denver, Minneapolis, Kansas City, Dallas-Ft. Worth, and St. Louis, with Chicago and Minneapolis nearing hyper-supply. The Atlanta and Tulsa markets are each in recovery phase.

The industrial segment, once concentrated in manufacturing, is now epitomized by a dense network of warehousing, distribution, logistics, and R&D/Flex properties which is the conduit of the current global e-commerce revolution. All of the Company's larger industrial market areas are categorized as being in the expansion cycle with prospects of continuing good economic growth. Two market areas; Chicago and Kansas City are in the latter stages of the expansion cycle.

Occupancy, absorption and rental income levels of commercial real estate properties located throughout the Company's market areas remain stable according to information provided by real estate services firm CoStar Group. Moderate real estate sales and financing activity is continuing to support loan growth.

While current economic indicators show stability nationally in employment, housing starts and prices, commercial real estate occupancy, absorption and rental rates, 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.

On June 9, 2017, Great Southern Bank executed an agreement with the FDIC to terminate the loss sharing agreements for InterBank, effective immediately. Pursuant to the termination agreement, the FDIC paid \$15.0 million to the Bank to settle all outstanding items related to the terminated loss sharing agreements. The Company recorded a pre-tax gain on the termination of \$7.7 million.

The termination of the loss sharing agreements for the TeamBank, Vantus Bank, Sun Security Bank and InterBank transactions have no impact on the yields for the loans that were previously covered under these agreements, as the remaining accretable yield adjustments that affect interest income have not been changed and will continue to be recognized for all FDIC-assisted transactions in the same manner as they have been previously. 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 earnings are negatively impacted to the extent the Company recognizes expenses, losses or charge-offs related to such assets. 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, Sun Security Bank or InterBank. All rights and obligations of the Bank and the FDIC under the terminated loss sharing agreements, including the settlement of all existing loss sharing and expense reimbursement claims, have been resolved and terminated.

## General

The profitability of the Company and, more specifically, the profitability of its primary subsidiary, the Bank, depend 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 portfolios, 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, 2018, Great Southern's total assets increased \$261.7 million, or 5.9%, from \$4.41 billion at December 31, 2017, to \$4.68 billion at December 31, 2018. Full details of the current year changes in total assets are provided in the "Comparison of Financial Condition at December 31, 2018 and December 31, 2017" section.

**Loans.** In the year ended December 31, 2018, Great Southern's net loans increased \$262.7 million, or 7.0%, from \$3.73 billion at December 31, 2017, to \$3.99 billion at December 31, 2018. Excluding FDIC-assisted acquired loans and mortgage loans held for sale, total gross loans increased \$472.3 million, or 10.8%, from December 31, 2017 to December 31, 2018. This increase was primarily in construction loans, commercial real estate loans, one- to four-family residential mortgage loans and other residential (multi-family) real estate loans. These increases were offset by a decrease in consumer auto loans of \$103.6 million and decrease in the FDIC-acquired loan portfolios of \$42.0 million. In addition, there were higher than usual unscheduled significant paydowns on loans during 2018 due to borrowers selling projects or refinancing debt. Total loan paydowns in excess of \$1.0 million exceeded \$668 million during 2018. 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 2018 or prior years. The Company's strategy continues to be focused on maintaining credit risk and interest rate risk at appropriate levels.

Recent loan growth has occurred in several loan types, primarily construction loans, other residential (multi-family) real estate loans and commercial real estate loans and in 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 Chicago, Dallas, Omaha and Tulsa. Certain minimum underwriting standards and monitoring help assure the Company's portfolio quality. Great Southern's loan committee reviews and approves all new loan originations in excess of lender approval authorities. Generally, the Company considers commercial construction, consumer, and commercial real estate 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. For commercial real estate, commercial business and construction loans, the credits are subject to an analysis of the borrower's and guarantor's financial condition, credit history, verification of liquid assets, collateral, market analysis and repayment ability. 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. To minimize construction risk, projects are monitored as construction

draws are requested by comparison to budget and with progress verified through property inspections. The geographic and product diversity of collateral, equity requirements and limitations on speculative construction projects help to mitigate overall risk in these loans. Underwriting standards for all loans also include loan-to-value ratio limitations which vary depending on collateral type, debt service coverage ratios or debt payment to income ratio guidelines, where applicable, credit histories, use of guaranties and other recommended terms relating to equity requirements, amortization, and maturity. 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 were fairly consistent over the past several years through the first half of 2016. In response to a more challenging consumer credit environment, the Company tightened its underwriting guidelines on automobile lending in the latter part of 2016. Management took this step in an effort to improve credit quality in the portfolio and lower delinquencies and charge-offs. 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. In 2019, the Company made the decision to discontinue indirect auto loan originations.

Of the total loan portfolio at December 31, 2018 and 2017, 84.4% and 79.9%, respectively, was secured by real estate, as this is the Bank's primary focus in its lending efforts. At December 31, 2018 and 2017, commercial real estate and commercial construction loans were 49.7% and 48.0% 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, 2018 and 2017, loans made in the Springfield, Mo. metropolitan statistical area (Springfield MSA) were 9% and 11% 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, 2018 and 2017, loans made in the St. Louis, Mo. metropolitan statistical area (St. Louis MSA) were 19% and 19% of the Bank's total loan portfolio (excluding loans acquired through FDIC-assisted transactions), 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 2018 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 55% as of December 31, 2018 due to customer preference for fixed rate loans during this period of low and, more recently, increasing interest rates. The majority of the increase in fixed rate loans was in commercial construction and commercial real estate, both of which typically have short durations within our portfolio. Of the total amount of fixed rate loans in our portfolio as of December 31, 2018, approximately 81% 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, 2018, our interest rate risk models indicated a one-year interest rate earnings sensitivity position that is modestly positive in an increasing rate environment. 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 "Item 1A. Risk Factors – We may be adversely affected by interest rate changes" in the Company's 2018 Annual Report on Form 10-K.

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, 2018 and 2017, an estimated 0.1% and 0.1%, respectively, of total owner occupied one- to four-family residential loans had loan-to-value ratios above 100% at origination. At December 31, 2018 and 2017, an estimated 0.9% and 1.5%, respectively, of total non-owner occupied one- to four-family residential loans had loan-to-value ratios above 100% at origination.

At December 31, 2018, troubled debt restructurings totaled \$6.9 million, or 0.2% of total loans, down \$8.1 million from \$15.0 million, or 0.4% of total loans, at December 31, 2017. 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. For troubled debt restructurings occurring during the year ended December 31, 2018, five loans totaling \$31,000 were restructured into multiple new loans. For troubled debt restructurings occurring during the year ended December 31, 2017, no loans were restructured into multiple new loans. For further information on troubled debt restructurings, see Note 3 of the accompanying audited financial statements.

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). As noted above, the loss sharing agreements for Team Bank, Vantus Bank and Sun Security Bank were terminated on April 26, 2016 and the loss sharing agreements for InterBank were terminated on June 9, 2017. Acquired loans are described in detail in Note 4 of the accompanying audited financial statements. For acquired loan pools, the Company may allocate, and at December 31, 2018, 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, 2018, available-for-sale securities increased \$64.8 million, or 36.2%, from \$179.2 million at December 31, 2017, to \$244.0 million at December 31, 2018. The increase was primarily due to the purchase of FNMA and GNMA fixed-rate multi-family mortgage-backed securities, partially offset by calls of municipal securities and normal monthly payments received related to the portfolio of mortgage-backed securities.

**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, 2018, total deposit balances increased \$127.9 million, or 3.6%. Transaction account balances decreased \$93.7 million and retail certificates of deposit increased \$120.1 million compared to December 31, 2017. A large portion of the decrease in transaction accounts was due to the sale of the Company's branches and deposits in Omaha, Neb. during 2018, which resulted in a decrease in transaction account balances of \$39.7 million and a decrease in retail certificates of deposit of \$16.1 million. Excluding the Omaha branch deposits sold, transaction account balances decreased \$54.0 million to \$2.13 billion at December 31, 2018, while retail certificates of deposit increased \$136.2 million compared to December 31, 2017, to \$1.26 billion at December 31, 2018. The decreases in transaction accounts were primarily a result of decreases in money market deposit accounts, with a smaller portion of the decreases coming from NOW account deposit accounts. Retail certificates of deposit increased due to an increase of approximately \$56 million in retail certificates generated through our banking centers and an increase of approximately \$70 million in certificates of deposit opened through the Company's internet deposit acquisition channels during 2018. Some of these deposits were generated as a result of our rates intentionally being in the top tier compared to our competitors in the internet channels during the last few months of 2018. Brokered deposits, including CDARS program purchased funds, were \$326.9 million at December 31, 2018, an increase of \$101.4 million from \$225.5 million at December 31, 2017.

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. It also gives us greater flexibility in increasing or decreasing the duration of our funding. 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.

**Federal Home Loan Bank Advances and Short Term Borrowings.** The Company's Federal Home Loan Bank advances totaled \$0 at December 31, 2018, compared to \$127.5 million at December 31, 2017. The balance of \$127.5 million at December 31, 2017, consisted of short-term advances. At December 31, 2018, there were no borrowings from the FHLBank, other than overnight advances, which are included in the short term borrowings category.

Short term borrowings and other interest-bearing liabilities increased \$176.1 million from \$16.6 million at December 31, 2017 to \$192.7 million at December 31, 2018. The short term borrowings included overnight FHLBank borrowings of \$178.0 million at December 31, 2018 and \$15.0 million at December 31, 2017. The Company utilizes both overnight borrowings and short-term FHLBank advances depending on relative interest rates.

**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 large portion of our loan portfolio is tied to one-month LIBOR, three-month LIBOR or the "prime rate" and adjusts immediately or shortly after the index rate adjusts (subject to the effect of contractual interest rate floors on some of the loans, 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 increase of 0.25% on December 16, 2015, the Federal Reserve Board had last changed interest rates on December 16, 2008. This was the first rate increase since June 29, 2006. The FRB has now also implemented rate increases of 0.25% on eight different occasions beginning December 14, 2016, with the Federal Funds rate now at 2.50%. Great Southern has a substantial portion of its loan portfolio (\$1.46 billion at December 31, 2018) which is tied to the one-month or three-month LIBOR index and will be subject to adjust at least once within 90 days after December 31, 2018. Of these loans, \$1.34 billion as of December 31, 2018 had interest rate floors. Great Southern also has a portfolio of loans (\$257 million at December 31, 2018) which are tied to a "prime rate" of interest and will adjust immediately with changes to the "prime rate" of interest. 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 still generally 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 LIBOR-based and prime-based loans. As of December 31, 2018, 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. 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."

**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, late charges and prepayment fees on loans, gains on sales of loans and available-for-sale investments and other general operating income. In 2016, 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 were 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) and for the InterBank transaction subsequent to June 2017 (due to the termination of the related loss sharing agreements effective as of that date). Therefore, no further amortization (expense) will be recorded relating to the reductions of expected reimbursements under the loss sharing agreements with the FDIC as all indemnification assets and other balances due to/from the FDIC have been settled. The Company recorded a gain in non-interest income during 2017 related to the termination of the InterBank loss sharing agreements. 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, 2018 and 2017."

## **Business Initiatives**

The Company implemented several business and operational initiatives in 2018.

The Company continually evaluates the performance of its banking center network and other customer access channels. As a result, several activities were initiated in 2018. In the second quarter of 2018, the Company consolidated operations of a banking center into a nearby office in Paola, Kan. The banking center, located at 1 S. Pearl Street, was closed and all accounts were automatically transferred to the banking center at 1515 Baptiste Drive, less than a mile away. A deposit-taking ATM and interactive teller machine remain available for customers at the S. Pearl Street building.

In the third quarter of 2018, the Company completed its sale of four banking centers in the Omaha, Neb., metropolitan market to a Nebraska-based bank. Pursuant to the purchase and assumption agreement, Great Southern sold branch deposits of approximately \$56 million and sold substantially all branch-related real estate, fixed assets and ATMs. The Company recorded pre-tax income, net of expenses, of \$7.25 million, or \$0.39 (after tax) per diluted common share. A commercial loan production office is all that remains in the Omaha market.

In the fourth quarter of 2018, the Company announced that in April 2019 it expects to consolidate its Fayetteville, Ark., banking center into its Rogers, Ark., office, approximately 20 miles away. The Fayetteville office opened in 2014 and has not met performance expectations. After this consolidation, the Company will operate one Arkansas banking center, in Rogers.

The online account opening platform on the Company's website was upgraded and available to customers in January 2019. The new platform provides a faster and more streamlined experience for opening deposit accounts. It is expected that online account opening will continue to increase in the future as customer preferences evolve. The Company's online banking and bill payment platform is also being significantly upgraded and is expected to be ready for customers beginning in mid-2019.

Commercial loan production offices opened in Atlanta, Ga., and Denver, Colo. in the fourth quarter of 2018. Each office is managed by a local and highly-experienced commercial lender. The Company also operates commercial loan production offices in Chicago, Dallas, Omaha, Neb., and Tulsa, Okla.

In 2018, an experienced lender was hired to serve as Small Business Administration (SBA) Manager, a new role in the Company. Based in the Dallas commercial loan production office, the Manager and his staff will exclusively focus on sourcing and servicing SBA 7a, SBA 504 and other commercial real estate loan opportunities throughout Great Southern's market areas.

In February 2019, the Company determined that it would cease providing indirect lending services to automobile dealerships, effective March 31, 2019. Market and financial forces, including strong rate competition for well-qualified borrowers, have made indirect automobile lending less profitable over the long term. The Company will continue servicing indirect automobile loans made before March 31, 2019, until each loan agreement is satisfied. Direct consumer lending through the Company's banking center network is expected to continue as normal.

## **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.

*Dodd-Frank Act.* 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 FRB to examine the Company and its non-bank subsidiaries.

Certain aspects of the Dodd-Frank Act remain subject to rulemaking and take effect over a number of years. 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.

Certain aspects of the Dodd-Frank Act have been affected by the recently EGRRC Act, as defined and discussed below under “-EGRRC Act.”

*Capital Rules.* The federal banking agencies have adopted regulatory capital rules that substantially amend the risk-based capital rules applicable to the Bank and the Company. The 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 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 capital conservation buffer requirement began phasing in on January 1, 2016 when a buffer greater than 0.625% of risk-weighted assets was required, which amount increased an equal amount each year until the buffer requirement of greater than 2.5% of risk-weighted assets became fully implemented on January 1, 2019.

Effective January 1, 2015, these 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.

*EGRRC Act.* In May 2018 the Economic Growth, Regulatory Relief and Consumer Protection Act (the “EGRRC Act”), was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While the EGRRC Act maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for depository institutions with assets of less than \$10 billion and for banks with assets of more than \$50 billion. Many of these changes could result in meaningful regulatory relief for community banks such as Great Southern.

The EGRRC Act, among other matters, expands the definition of qualified mortgages that may be held by a financial institution and simplifies the regulatory capital rules for financial institutions and their holding companies with total consolidated assets of less than \$10 billion by instructing the federal banking regulators to establish a single “Community Bank Leverage Ratio” of between 8 and 10 percent. Any qualifying depository institution or its holding company that exceeds the “community bank leverage ratio” will be considered to have met generally applicable leverage and risk-based regulatory capital requirements and any qualifying depository institution that exceeds the new ratio will be considered to be “well capitalized” under the prompt corrective action rules. In addition, the EGRRC Act includes regulatory relief for community banks regarding regulatory examination cycles, call reports, the Volcker Rule (proprietary trading prohibitions), mortgage disclosures and risk weights for certain high-risk commercial real estate loans.

It is difficult at this time to predict when or how any new standards under the EGRRC Act will ultimately be applied to the Company and the Bank or what specific impact the EGRRC Act and the yet-to-be-written implementing rules and regulations will have on community banks.

### **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, 2018 and December 31, 2017

During the year ended December 31, 2018, total assets increased by \$261.7 million to \$4.68 billion. The increase was primarily attributable to increases in loans receivable and available-for-sale investment securities, partially offset by decreases in cash and cash equivalents, other real estate owned and repossessions and current and deferred income taxes.

Cash and cash equivalents were \$202.7 million at December 31, 2018, a decrease of \$39.6 million, or 16.3%, from \$242.3 million at December 31, 2017. During 2018, cash and cash equivalents decreased primarily in order to fund the origination of loans and purchase of available for sale securities. This decrease in cash and cash equivalents was partially offset by an increase in deposits.

The Company's available for sale securities increased \$64.8 million, or 36.2%, compared to December 31, 2017. The increase was primarily due to the purchase of FNMA and GNMA fixed-rate multi-family mortgage-backed securities, partially offset by calls of municipal securities and normal monthly payments received related to the portfolio of mortgage-backed securities. The available-for-sale securities portfolio was 5.2% and 4.1% of total assets at December 31, 2018 and 2017, respectively.

Net loans increased \$262.7 million from December 31, 2017, to \$3.99 billion at December 31, 2018. Excluding FDIC-assisted acquired loans and mortgage loans held for sale, total gross loans (including the undisbursed portion of loans) increased \$472.3 million, or 10.8%, from December 31, 2017 to December 31, 2018. Increases primarily occurred in commercial construction loans, commercial real estate loans, other residential (multi-family) loans and one- to four-family residential mortgage loans. Outstanding and undisbursed balances of commercial construction loans increased \$350.5 million, or 30.4%, commercial real estate loans increased \$136.1 million, or 11.0%, one- to four-family residential loans increased \$89.3 million, or 28.8%, and other residential (multi-family) loans increased \$39.2 million, or 5.3%. Partially offsetting the increases in these loans were reductions of \$103.6 million, or 29.0%, in consumer auto loans and \$42.0 million, or 20.0%, in the FDIC-acquired loan portfolios.

Other real estate owned and repossessions were \$8.4 million at December 31, 2018, a decrease of \$13.6 million, or 61.6%, from \$22.0 million at December 31, 2017. The decrease was primarily due to sales of other real estate properties during the period, and is discussed in more detail in the *Non-performing Assets* section below.

Total liabilities increased \$201.4 million from \$3.94 billion at December 31, 2017 to \$4.14 billion at December 31, 2018. The increase was primarily attributable to an increase in deposits and short-term borrowings, partially offset by a decrease in FHLB advances.

Total deposits increased \$127.9 million, or 3.6%, from \$3.60 billion at December 31, 2017 to \$3.73 billion at December 31, 2018. Partially offsetting the increase in deposits was a decrease due to the sale of the Company's branches and deposits in Omaha, Neb. during 2018, which resulted in a decrease in transaction account balances of \$39.7 million and a decrease in retail certificates of deposit of \$16.1 million. Excluding the Omaha branch deposits sold, transaction account balances decreased \$54.0 million to \$2.13 billion at December 31, 2018, while retail certificates of deposit increased \$136.2 million compared to December 31, 2017, to \$1.26 billion at December 31, 2018. Customer retail certificates increased by \$72.3 million during the year ended December 31, 2018 and certificates of deposit opened through the Company's internet deposit acquisition channels increased by \$70.5 million. Brokered deposits, including CDARS program purchased funds, were \$326.9 million at December 31, 2018, an increase of \$101.4 million from \$225.5 million at December 31, 2017.

The Company's Federal Home Loan Bank advances totaled \$-0- at December 31, 2018, compared to \$127.5 million at December 31, 2017. The balance of \$127.5 million at December 31, 2017, consisted of short-term advances. At December 31, 2018, there were no borrowings from the FHLBank, other than overnight borrowings, which are included in the short term borrowings category. The Company utilizes both overnight borrowings and short-term FHLBank advances depending on relative interest rates.

Short term borrowings and other interest-bearing liabilities increased \$176.1 million from \$16.6 million at December 31, 2017 to \$192.7 million at December 31, 2018. The short term borrowings included overnight FHLBank borrowings of \$178.0 million at December 31, 2018 and \$15.0 million at December 31, 2017.

Securities sold under reverse repurchase agreements with customers increased \$24.7 million, or 30.7%, from December 31, 2017 to December 31, 2018 as these balances fluctuate over time based on customer demand for this product.

Total stockholders' equity increased \$60.3 million from \$471.7 million at December 31, 2017 to \$532.0 million at December 31, 2018. The Company recorded net income of \$67.1 million for the year ended December 31, 2018, and dividends declared on common stock were \$17.0 million. Accumulated other comprehensive income increased \$8.4 million due to increases in the fair value of available-for-sale investment securities and the fair value of cash flow hedges. In addition, total stockholders' equity increased \$3.0 million due to stock option exercises. Total stockholders' equity decreased \$903,000 due to the repurchase of the Company's common stock.

## Results of Operations and Comparison for the Years Ended December 31, 2018 and 2017

### General

Net income increased \$15.5 million, or 30.1%, during the year ended December 31, 2018, compared to the year ended December 31, 2017. Net income was \$67.1 million for the year ended December 31, 2018 compared to \$51.6 million for the year ended December 31, 2017. This increase was due to an increase in net interest income of \$13.0 million, or 8.4%, a decrease in provision for income taxes of \$3.9 million, or 20.9%, and a decrease in the provision for loan losses of \$2.0 million, or 21.4%, partially offset by a decrease in non-interest income of \$2.3 million, or 6.0%, and an increase in non-interest expense of \$1.0 million, or 0.9%. Net income available to common shareholders was \$67.1 million for the year ended December 31, 2018 compared to \$51.6 million for the year ended December 31, 2017.

### Total Interest Income

Total interest income increased \$22.9 million, or 12.5%, during the year ended December 31, 2018 compared to the year ended December 31, 2017. The increase was due to a \$21.6 million, or 12.2%, increase in interest income on loans and a \$1.3 million, or 20.5%, increase in interest income on investment securities and other interest-earning assets. Interest income on loans increased in 2018 due to higher average rates of interest and higher average balances of loans. Interest income from investment securities and other interest-earning assets increased during 2018 compared to 2017 primarily due to higher average rates of interest, partially offset by lower average balances.

### Interest Income – Loans

During the year ended December 31, 2018 compared to the year ended December 31, 2017, interest income on loans increased due to higher average interest rates and higher average balances. Interest income increased \$17.0 million as the result of higher average interest rates on loans. The average yield on loans increased from 4.63% during the year ended December 31, 2017 to 5.07% during the year ended December 31, 2018. This increase was primarily due to increased yields in most loan categories as a result of increased LIBOR and Federal Funds interest rates. Interest income increased \$4.5 million as the result of higher average loan balances, which increased from \$3.81 billion during the year ended December 31, 2017, to \$3.91 billion during the year ended December 31, 2018. The higher average balances were primarily due to organic loan growth in commercial construction loans, commercial real estate loans and other residential (multi-family) loans, partially offset by decreases in consumer loans.

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 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 loss sharing agreements for InterBank were terminated in June 2017, and the related indemnification asset was reduced to \$-0- at that time. The Valley Bank transaction does not include a loss sharing agreement with the FDIC. The entire amount of the discount adjustment has been and will be accreted to interest income over time with no further offsetting impact to non-interest income. For the years ended December 31, 2018 and 2017, the adjustments increased interest income by \$5.1 million and \$5.0 million, respectively, and decreased non-interest income by \$-0- and \$634,000, respectively. The net impact to pre-tax income was \$5.1 million and \$4.4 million, respectively, for the years ended December 31, 2018 and 2017.

As of December 31, 2018, the remaining accretable yield adjustment that will affect interest income was \$2.7 million. As there is no longer, nor will there be in the future, indemnification asset amortization related to Team Bank, Vantus Bank, Sun Security Bank or InterBank due to the termination or expiration of the related loss sharing agreements for those transactions, there is no remaining indemnification asset or related adjustments that will affect non-interest income (expense). Of the remaining adjustments affecting interest income, we expect to recognize \$2.0 million of interest income during 2019. 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 4.94% during the year ended December 31, 2018, compared to 4.50% during the year ended December 31, 2017, as a result of higher current market rates on adjustable rate loans and new loans originated during the year.

In October 2018, the Company entered into an interest rate swap transaction as part of its ongoing interest rate management strategies to hedge the risk of its floating rate loans. The notional amount of the swap is \$400 million with a termination date of October 6, 2025. Under the terms of the swap, the Company will receive a fixed rate of interest of 3.018% and will pay a floating rate of interest equal to one-month USD-LIBOR. The floating rate will be reset monthly and net settlements of interest due to/from the counterparty will also occur monthly. The floating rate of interest was 2.383% as of December 31, 2018. Therefore, in the near term, the Company will

receive net interest settlements which will be recorded as loan interest income, to the extent that the fixed rate of interest continues to exceed one-month USD-LIBOR. If USD-LIBOR exceeds the fixed rate of interest in future periods, the Company will be required to pay net settlements to the counterparty and will record those net payments as a reduction of interest income on loans. The Company recorded loan interest income of \$673,000 in 2018 related to this interest rate swap.

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

Interest income on investments increased \$640,000 in the year ended December 31, 2018 compared to the year ended December 31, 2017. Interest income increased \$796,000 due to an increase in average interest rates from 2.50% during the year ended December 31, 2017 to 2.90% during the year ended December 31, 2018, due to higher market rates of interest on investment securities and a decrease in the volume of prepayments on mortgage-backed securities. Partially offsetting that increase in average interest rates, interest income decreased \$156,000 as a result of a decrease in average balances from \$207.8 million during the year ended December 31, 2017, to \$201.3 million during the year ended December 31, 2018. Average balances of securities decreased primarily due to certain municipal securities being called and the normal monthly payments received on the portfolio of mortgage-backed securities.

Interest income on other interest-earning assets increased \$676,000 in the year ended December 31, 2018 compared to the year ended December 31, 2017. Interest income increased \$819,000 due to an increase in average interest rates from 1.00% during the year ended December 31, 2017, to 1.81% during the year ended December 31, 2018, primarily due to higher market rates of interest on other interest-bearing deposits in financial institutions. Partially offsetting that increase, interest income decreased \$143,000 as a result of a decrease in average balances from \$121.6 million during the year ended December 31, 2017, to \$104.2 million during the year ended December 31, 2018.

### **Total Interest Expense**

Total interest expense increased \$9.9 million, or 35.3%, during the year ended December 31, 2018, when compared with the year ended December 31, 2017, due to an increase in interest expense on deposits of \$7.4 million, or 35.7%, an increase in interest expense on FHLBank advances of \$2.5 million, or 162.9%, an increase in interest expense on short-term and repurchase agreement borrowings of \$18,000, or 2.4%, and an increase in interest expense on subordinated debentures issued to capital trust of \$4,000, or 0.4%.

### **Interest Expense - Deposits**

Interest on demand deposits increased \$1.4 million due to an increase in average rates from 0.30% during the year ended December 31, 2017, to 0.39% during the year ended December 31, 2018. Partially offsetting that increase, interest on demand deposits decreased \$71,000 due to a decrease in average balances from \$1.56 billion in the year ended December 31, 2017, to \$1.53 billion in the year ended December 31, 2018. The increase in average interest rates of interest-bearing demand deposits was primarily a result of increased market interest rates on these types of accounts since December 2016.

Interest expense on time deposits increased \$6.5 million as a result of an increase in average rates of interest from 1.12% during the year ended December 31, 2017, to 1.60% during the year ended December 31, 2018. Partially offsetting that increase, interest expense on time deposits decreased \$422,000 due to a decrease in average balances of time deposits from \$1.41 billion during the year ended December 31, 2017, to \$1.38 billion during the year ended December 31, 2018. 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. Older certificates of deposit that renewed or were replaced with new deposits generally resulted in the Company paying a higher rate of interest due to market interest rate increases in 2017 and 2018. The decrease in average balances of time deposits was primarily a result of decreases in CDARS program purchased funds brokered deposits.

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

Interest expense on FHLBank advances increased due to higher average balances and higher average rates of interest. Interest expense on FHLBank advances increased \$1.9 million due to an increase in average balances from \$93.5 million during the year ended December 31, 2017, to \$190.2 million during the year ended December 31, 2018. This increase was primarily due to an increase in borrowings to fund loan growth and the replacement of overnight borrowings with short-term three week FHLBank advances due to the short-term advances having a more favorable interest rate from time to time. The \$31.5 million of the Company's long-term higher fixed-rate FHLBank advances were repaid in June 2017. In addition, interest expense on FHLBank advances increased \$544,000 due to an increase in average interest rates from 1.62% in the year ended December 31, 2017, to 2.09% in the year ended December 31, 2018. The increase in the average rate was due to market interest rate increases during 2018.

Interest expense on short-term borrowings and repurchase agreements increased \$55,000 due to average rates that increased from 0.40% in the year ended December 31, 2017, to 0.56% in the year ended December 31, 2018. The increase was due to increases in

market interest rates and a change in the mix of funding during the period, with a lower percentage of the total made up of customer repurchase agreements, which have a lower interest rate. Partially offsetting the increase, interest expense on short-term borrowings and repurchase agreements decreased \$37,000 due to a decrease in average balances from \$186.4 million during the year ended December 31, 2017, to \$137.3 million during the year ended December 31, 2018, which is primarily due to changes in the Company's funding needs and the mix of funding, which can fluctuate. The Company had a higher amount of overnight borrowings from the FHLBank in 2017.

During the year ended December 31, 2018, compared to the year ended December 31, 2017, interest expense on subordinated debentures issued to capital trusts increased \$4,000 due to slightly higher average interest rates. The average interest rate was 3.68% in 2017, compared to 3.70% in 2018. There was no change in the average balance of the subordinated debentures between the 2018 and the 2017 years.

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 both of the years ended December 31, 2018 and 2017, was \$4.1 million.

### **Net Interest Income**

Net interest income for the year ended December 31, 2018 increased \$13.0 million, or 8.4%, to \$168.2 million, compared to \$155.2 million for the year ended December 31, 2017. Net interest margin was 3.99% for the year ended December 31, 2018, compared to 3.74% in 2017, an increase of 25 basis points. In both years, the Company's net interest income and margin were positively impacted by the increases in expected cash flows 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, 2018 and 2017 were increases in interest income of \$5.1 million and \$5.0 million, respectively, and increases in net interest margin of 12 basis points and 12 basis points, respectively. Excluding the positive impact of the additional yield accretion, net interest margin increased 25 basis points during the year ended December 31, 2018. The increase in net interest margin is primarily due to increased yields in most loan categories and higher overall yields on investments and interest-earning deposits at the Federal Reserve Bank, partially offset by an increase in the average interest rate on deposits and FHLBank advances and other borrowings.

The Company's overall interest rate spread increased 16 basis points, or 4.4%, from 3.59% during the year ended December 31, 2017, to 3.75% during the year ended December 31, 2018. The increase was due to a 46 basis point increase in the weighted average yield on interest-earning assets, partially offset by a 30 basis point increase in the weighted average rate paid on interest-bearing liabilities. In comparing the two years, the yield on loans increased 44 basis points, the yield on investment securities increased 40 basis points and the yield on other interest-earning assets increased 81 basis points. The rate paid on deposits increased 27 basis points, the rate paid on FHLBank advances increased 47 basis points, the rate paid on subordinated debentures issued to capital trust increased two basis points, the rate paid on short-term borrowings increased 16 basis points, and the rate paid on subordinated notes decreased two 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 for the year ended December 31, 2018 decreased \$1.9 million, to \$7.2 million, compared with \$9.1 million for the year ended December 31, 2017. At December 31, 2018 and December 31, 2017, the allowance for loan losses was \$38.4 million and \$36.5 million, respectively. Total net charge-offs were \$5.2 million and \$10.0 million for the years ended December 31, 2018 and 2017, respectively. During the year ended December 31, 2018, \$3.9 million of the \$5.2 million of net charge-offs were in the consumer auto category. In response to a more challenging consumer credit environment, the Company tightened its underwriting guidelines on automobile lending beginning in the latter part of 2016. Management took this step in an effort to improve credit quality in the portfolio and lower delinquencies and charge-offs. This action also reduced origination volume and, as such, the outstanding balance of the Company's automobile loans declined approximately \$104 million in the year ended December 31, 2018. We expect further declines in the automobile loan outstanding balance in 2019 as the Company determined in February 2019 that it will cease providing indirect lending services to automobile dealerships. In addition, six commercial loan relationships amounted to \$1.3 million of the total net charge-offs during the year ended December 31, 2018. Charge-offs were partially offset by recoveries on multiple loans during the year. General market conditions and unique circumstances related to individual borrowers and projects contributed to the level of provisions and charge-offs. As assets 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.

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 management 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 monitoring of payment performance, review of financial information and credit scores, collateral valuations and customer interaction to determine if additional reserves are warranted.

The Bank's allowance for loan losses as a percentage of total loans, excluding FDIC-acquired loans, was 0.98% and 1.01% at December 31, 2018 and December 31, 2017, respectively. Management considers the allowance for loan losses adequate to cover losses inherent in the Bank's loan portfolio at December 31, 2018, based on recent reviews of the Bank'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**

Non-performing assets acquired through FDIC-assisted transactions, 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. These assets were initially recorded at their estimated fair values as of their acquisition dates and are accounted for in pools; therefore, these loan pools are analyzed rather than the individual loans. The overall performance of the loan pools acquired in each of the five FDIC-assisted transactions has been better than original expectations as of the acquisition dates.

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 all FDIC-assisted acquired assets, at December 31, 2018, were \$11.8 million, a decrease of \$16.0 million from \$27.8 million at December 31, 2017. Non-performing assets, excluding all FDIC-assisted acquired assets, as a percentage of total assets were 0.25% at December 31, 2018, compared to 0.63% at December 31, 2017.

Compared to December 31, 2017, non-performing loans decreased \$5.0 million to \$6.3 million at December 31, 2018, and foreclosed assets decreased \$11.1 million to \$5.5 million at December 31, 2018. Non-performing one-to four-family residential loans comprised \$2.7 million, or 42.3%, of the total \$6.3 million of non-performing loans at December 31, 2018. Non-performing consumer loans comprised \$1.8 million, or 28.8%, of the total non-performing loans at December 31, 2018. Non-performing commercial business loans comprised \$1.4 million, or 22.8%, of total non-performing loans at December 31, 2018. Non-performing commercial real estate loans comprised \$334,000, or 5.3%, of total non-performing loans at December 31, 2018. The majority of the decrease in the non-performing commercial real estate category was due to one relationship totaling approximately \$650,000 being transferred to foreclosed assets during 2018. Non-performing other residential loans were \$-0- at December 31, 2018. The decrease in non-performing other residential loans was due to the one loan previously in this category being transferred to foreclosed assets during 2018.

*Non-performing Loans.* Activity in the non-performing loans category during the year ended December 31, 2018, was as follows:

|                                  | <b>Beginning<br/>Balance,<br/>January 1</b> | <b>Additions to<br/>Non-<br/>Performing</b> | <b>Removed<br/>from Non-<br/>Performing</b> | <b>Transfers to<br/>Potential<br/>Problem Loans</b> | <b>Transfers to<br/>Foreclosed<br/>Assets and<br/>Repossessions</b> | <b>Charge-Offs</b> | <b>Payments</b>   | <b>Ending<br/>Balance,<br/>December 31</b> |
|----------------------------------|---|---|---|---|---|--------------------|-------------------|--|
| (In Thousands)                   |   |   |   |   |   |                    |                   |  |
| One- to four-family construction | \$ —  | \$ —  | \$ —  | \$ —  | \$ —  | \$ —               | \$ —              | \$ —                                       |
| Subdivision construction         | 98  | —   | —   | —   | —   | (3)                | (95)              | —  |
| Land development                 | —   | 49  | —   | —   | —   | —                  | —                 | 49   |
| Commercial construction          | —   | —   | —   | —   | —   | —                  | —                 | —  |
| One- to four-family residential  | 2,728                                       | 975   | (81)  | (67)  | (467)   | (30)               | (394)             | 2,664                                      |
| Other residential                | 1,877                                       | 3   | —   | —   | (1,601)   | (279)              | —                 | —  |
| Commercial real estate           | 1,226                                       | 157   | —   | —   | (894)   | (101)              | (54)              | 334  |
| Other commercial                 | 2,063                                       | 2,321                                       | —   | —   | —   | (1,024)            | (1,923)           | 1,437                                      |
| Consumer                         | 3,263                                       | 2,725                                       | (7)   | (461)   | (790)   | (1,884)            | (1,030)           | 1,816                                      |
| <b>Total</b>                     | <b>\$ 11,255</b>                            | <b>\$ 6,230</b>                             | <b>\$ (88)</b>                              | <b>\$ (528)</b>                                     | <b>\$ (3,752)</b>   | <b>\$ (3,321)</b>  | <b>\$ (3,496)</b> | <b>\$ 6,300</b>                            |

At December 31, 2018, the non-performing one- to four-family residential category included 28 loans, eight of which were added during 2018. The largest relationship in this category was added in 2017 and included nine loans totaling \$1.3 million, or 48.4% of the total category, which are collateralized by residential rental homes in the Springfield, Mo. area. The non-performing consumer category included 176 loans, 104 of which were added during 2018, and the majority of which are indirect used automobile loans. The non-performing commercial business category included five loans, all of which were added during 2018. The largest relationship in this category totaled \$1.1 million, or 78.6% of the total category. This relationship is collateralized by an assignment of an interest in a real estate project. A relationship in the commercial business category, which previously totaled \$1.5 million, received payments during the year ended December 31, 2018, to satisfy the remaining recorded balance. The non-performing commercial real estate category included five loans, two of which were added during 2018 and were part of the same customer relationship. Three loans in the category were transferred to foreclosed assets during 2018, the largest of which totaled \$652,000 and was collateralized by commercial property in the St. Louis, Mo., area. The non-performing other residential category had a balance of \$-0- at December 31, 2018. The one loan previously in this category, which was collateralized by an apartment project in the central Missouri area, had charge-offs of \$279,000 during the year ended December 31, 2018 and the remaining balance of \$1.6 million was transferred to foreclosed assets.

*Other Real Estate Owned and Repossessions.* Of the total \$8.4 million of other real estate owned and repossessions at December 31, 2018, \$1.4 million represents the fair value of foreclosed and repossessed assets related to loans acquired in FDIC-assisted transactions and \$1.6 million represents properties which were not acquired through foreclosure. The 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 and repossessions. Because sales and write-downs of foreclosed and repossessed properties exceeded additions, total foreclosed assets and repossessions decreased. Activity in foreclosed assets and repossessions during the year ended December 31, 2018, was as follows:

|                                  | <b>Beginning<br/>Balance,<br/>January 1</b> | <b>Additions</b> | <b>ORE and<br/>Repossession<br/>Sales</b> | <b>Capitalized<br/>Costs</b> | <b>ORE and<br/>Repossession<br/>Write-Downs</b> | <b>Ending<br/>Balance,<br/>December 31</b> |
|----------------------------------|---|------------------|---|------------------------------|---|--|
| (In Thousands)                   |   |                  |   |                              |   |  |
| One- to four-family construction | \$ —  | \$ —             | \$ —                                      | \$ —                         | \$ —  | \$ —                                       |
| Subdivision construction         | 5,413                                       | —                | (2,402)                                   | —                            | (1,919)   | 1,092                                      |
| Land development                 | 7,729                                       | 20               | (2,837)                                   | —                            | (1,721)   | 3,191                                      |
| Commercial construction          | —   | —                | —   | —                            | —   | —  |
| One- to four-family residential  | 112   | 820              | (663)                                     | —                            | —   | 269  |
| Other residential                | 140   | 1,601            | (1,884)                                   | 143                          | —   | —  |
| Commercial real estate           | 1,194                                       | 894              | (1,932)                                   | 10                           | (166)   | —  |
| Commercial business              | —   | —                | —   | —                            | —   | —  |
| Consumer                         | 1,987                                       | 7,711            | (8,770)                                   | —                            | —   | 928  |
| <b>Total</b>                     | <b>\$ 16,575</b>                            | <b>\$ 11,046</b> | <b>\$ (18,488)</b>                        | <b>\$ 153</b>                | <b>\$ (3,806)</b>                               | <b>\$ 5,480</b>                            |

Excluding the consumer category, during the year ended December 31, 2018, the Company reduced its foreclosed assets by \$9.7 million through asset sales. At December 31, 2018, the land development category of foreclosed assets included seven properties, the largest of which was located in the Branson, Mo. area and had a balance of \$913,000, or 28.6% of the total category. Of the total dollar amount in the land development category of foreclosed assets, 66.8% was located in the Branson, Mo. area, including the largest property previously mentioned. The subdivision construction category of foreclosed assets included seven properties, the largest of which was located in the Branson, Mo. area and had a balance of \$350,000, or 32.1% of the total category. Of the total dollar amount in the subdivision construction category of foreclosed assets, 65.0% is located in the Branson, Mo. area, including the largest property previously mentioned. The write-downs in the land development and subdivision construction categories resulted from management's decision during the three months ended June 30, 2018, after marketing these assets for an extended period, to reduce the asking price for several parcels of land. The Company experienced increased levels of delinquencies and repossessions in indirect and used automobile loans throughout 2016 and 2017. The 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. The level of delinquencies and repossessions in indirect and used automobile loans decreased in 2018. The commercial real estate category of foreclosed assets had a zero balance at December 31, 2018. All of the previously remaining properties in the commercial real estate category, totaling \$1.9 million, were sold during 2018. The other residential category of foreclosed assets had a zero balance at December 31, 2018. The previously remaining property in the category, an apartment building in central Missouri totaling \$1.7 million, was sold during 2018.



**Potential Problem Loans.** Potential problem loans decreased \$4.6 million during the year ended December 31, 2018, from \$7.9 million at December 31, 2017 to \$3.3 million at December 31, 2018. This decrease was primarily due to \$5.3 million in loans removed from potential problem loans due to improvements in the credits, \$1.6 million in payments on potential problem loans and \$489,000 in loans transferred to the non-performing category, partially offset by the addition of \$2.8 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, 2018, was as follows:

|                                  | Beginning       | Additions to    | Removed           | Transfers to    | Transfers to | Foreclosed    | Charge-Offs    | Payments          | Ending          |
|----------------------------------|-----------------|-----------------|-------------------|-----------------|--------------|---------------|----------------|-------------------|-----------------|
|                                  | Balance,        | Potential       | from Potential    | Non-            | Non-         | Assets and    |                |                   | Balance,        |
|                                  | January 1       | Problem         | Problem           | Performing      | Performing   | Repossessions |                |                   | December 31     |
|                                  | (In Thousands)  |                 |                   |                 |              |               |                |                   |                 |
| One- to four-family construction | \$ —            | \$ —            | \$ —              | \$ —            | \$ —         | \$ —          | \$ —           | \$ —              | \$ —            |
| Subdivision construction         | —               | —               | —                 | —               | —            | —             | —              | —                 | —               |
| Land development                 | 4               | —               | (3)               | —               | —            | —             | —              | (1)               | —               |
| Commercial construction          | —               | —               | —                 | —               | —            | —             | —              | —                 | —               |
| One- to four-family residential  | 1,122           | 122             | —                 | —               | —            | —             | —              | (200)             | 1,044           |
| Other residential                | —               | —               | —                 | —               | —            | —             | —              | —                 | —               |
| Commercial real estate           | 5,759           | 2,180           | (4,709)           | —               | —            | —             | —              | (1,177)           | 2,053           |
| Other commercial                 | 503             | —               | (59)              | (407)           | —            | —             | —              | (37)              | —               |
| Consumer                         | 549             | 455             | (497)             | (82)            | —            | —             | (30)           | (189)             | 206             |
| <b>Total</b>                     | <b>\$ 7,937</b> | <b>\$ 2,757</b> | <b>\$ (5,268)</b> | <b>\$ (489)</b> | <b>\$ —</b>  | <b>\$ —</b>   | <b>\$ (30)</b> | <b>\$ (1,604)</b> | <b>\$ 3,303</b> |

At December 31, 2018, the commercial real estate category of potential problem loans included two loans, both of which were added during 2018. The largest relationship in this category, totaling \$1.9 million, or 93.9% of the total category, is collateralized by a mixed use commercial retail building. One relationship previously in this category consists of three loans totaling \$4.7 million collateralized by theatre and retail property in Branson, Mo. The decision to remove this relationship from potential problem loans during the year was due to an improvement in debt service coverage, and timely principal and interest payments on these loans, including over \$1.0 million in payments during 2018. The one- to four-family residential category of potential problem loans included 18 loans, four of which were added during 2018. The consumer category of potential problem loans included 18 loans, 15 of which were added during 2018.

### Non-Interest Income

Non-interest income for the year ended December 31, 2018 was \$36.2 million compared with \$38.5 million for the year ended December 31, 2017. The decrease of \$2.3 million, or 6.0%, was primarily as a result of the following items:

**2017 gain on early termination of FDIC loss sharing agreements for Inter Savings Bank:** In 2017, the Company recognized a one-time gross gain of \$7.7 million from the termination of the loss sharing agreements for Inter Savings Bank, which was recorded in the gain on termination of loss sharing agreements line item of the consolidated statements of income for the year ended December 31, 2017.

**Net gains on loan sales:** Net gains on loan sales decreased \$1.4 million compared to the prior year. The decrease was due to a decrease in originations of fixed-rate loans during 2018 compared to 2017. Fixed rate single-family mortgage loans originated are generally subsequently sold in the secondary market. In 2018, the Company originated more variable-rate single-family mortgage loans, partially due to higher market rates of interest, which have been retained in the Company's portfolio.

**Late charges and fees on loans:** Late charges and fees on loans decreased \$609,000 compared to the prior year. The decrease was primarily due to fees totaling \$632,000 on loan payoffs received on four loan relationships in 2017 which were not repeated in 2018.

Other income: Other income decreased \$695,000 compared to the prior year period. The decrease was primarily due to income from interest rate swaps entered into in 2017, the receipt of approximately \$260,000 more income related to the exit of certain tax credit partnerships in 2017 compared to 2018 and \$250,000 less in merchant card services fees compared to 2017.

Sale of Omaha-area banking centers: On July 20, 2018, the Company closed on the sale of four banking centers in the Omaha, Neb., metropolitan market. The Bank sold branch deposits of approximately \$56 million and sold substantially all branch-related real estate, fixed assets and ATMs. The Company recorded a pre-tax gain of \$7.4 million on the sale during the year ended December 31, 2018.

Amortization of income related to business acquisitions: Because of the termination of the remaining loss sharing agreements in June 2017, the net amortization expense related to business acquisitions was \$-0- for the year ended December 31, 2018, compared to \$486,000 for the year ended December 31, 2017, which reduced non-interest income by that amount in the previous year.

## **Non-Interest Expense**

Total non-interest expense increased \$1.0 million, or 0.9%, from \$114.3 million in the year ended December 31, 2017, to \$115.3 million in the year ended December 31, 2018. The Company's efficiency ratio for the year ended December 31, 2018 was 56.41%, a decrease from 58.99% for 2017. The improvement in the ratio for 2018 was primarily due to an increase in net interest income, partially offset by a decrease in non-interest income and an increase in non-interest expense. In the year ended December 31, 2018, the Company's efficiency ratio was positively impacted by the significant gain recorded related to the sale of the Bank's branches and deposits in Omaha, Neb. In the year ended December 31, 2017, the Company's efficiency ratio was positively impacted by the significant gain recorded related to the termination of the Inter Savings Bank loss sharing agreements. The Company's ratio of non-interest expense to average assets was 2.56% for each of the years ended December 31, 2018 and 2017. Average assets for the year ended December 31, 2018, increased \$43.1 million, or 1.0%, from the year ended December 31, 2017, primarily due to organic loan growth, partially offset by decreases in investment securities and other interest-earning assets.

The following were key items related to the increase in non-interest expense for the year ended December 31, 2018 as compared to the year ended December 31, 2017:

Net occupancy and equipment expense: Net occupancy expense increased \$1.0 million in the year ended December 31, 2018 compared to the year ended December 31, 2017. This increase was primarily due to increased expenses related to hardware and software costs for loan loss accounting and commercial loan systems and data servers at the Company's disaster recovery site, increased depreciation expense for upgraded ATM/ITM machines, deconversion expenses related to the sale of the Omaha-area banking centers and repairs and maintenance costs for various banking centers.

Expense on other real estate and repossessions: Expense on other real estate and repossessions increased \$990,000 compared to the prior year primarily due to the valuation write-down of certain foreclosed assets during the second quarter 2018, totaling approximately \$2.1 million, partially offset by gains on sales of foreclosed and repossessed assets in 2018 and lower repossession and collection expenses in 2018.

Legal, audit and other professional fees: Legal, audit and other professional fees increased \$561,000 in the year ended December 31, 2018 compared to 2017. The increase was primarily due to fees for professional services related to process improvement initiatives, fees paid to advisors for the negotiation and implementation of derivative transactions, consulting fees related to the ongoing implementation of an accounting system which will be utilized for the new loan loss accounting standard and legal costs related to the sale of the Omaha-area banking centers.

Other operating expenses: Other operating expenses decreased \$691,000 in the year ended December 31, 2018 compared to 2017. During 2017, the Company incurred a \$340,000 prepayment penalty when FHLB advances totaling \$31.4 million were repaid prior to maturity, which was not repeated in the 2018 period. In addition, the Company experienced significantly lower debit card and check fraud losses in 2018 compared to 2017.

Office supplies and printing expense: Office supplies and printing expense decreased \$399,000 in the year ended December 31, 2018 compared to 2017. During 2017 the Bank incurred printing and other costs totaling \$373,000 related to the replacement of a portion of customer debit cards with chip-enabled cards, which was not repeated in the current year.

Partnership tax credit: Partnership tax credit expense decreased \$355,000 in the year ended December 31, 2018 compared to the 2017 year. The Company periodically invests in certain tax credits and amortizes those investments over the period that the tax credits are used. The tax credit period for certain of these credits ended in 2017 and so the final amortization of the investment in those credits also ended in 2017.

## **Provision for Income Taxes**

For the years ended December 31, 2018 and 2017, the Company's effective tax rate was 18.1% and 26.7%, respectively. These effective rates were lower than the statutory federal tax rates of 21% (2018) and 35% (2017), 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. The Company's effective tax rate may fluctuate in future periods 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 pre-tax income. The Company's effective income tax rate was slightly higher than its typical effective tax rate in the 2018 and 2017 years due to gains on the sale of the Omaha branches and related deposits (2018) and increased net income resulting from the gain on termination of the loss sharing agreements for the Inter Savings Bank FDIC-assisted transaction (2017). The Company currently expects its effective tax rate (combined federal and state) to be approximately 17.0% to 18.5% in future periods, mainly as a result of the Act. The Company's effective income tax rate is expected to continue to be less than the statutory rate due primarily to investments in low-income housing tax credit projects and tax-exempt obligations. The Company's effective tax rate could change in future periods based on changes in the level of investments in tax credit projects and tax-exempt obligations, as well as changes in the level of overall pre-tax earnings.

On December 22, 2017, H.R. 1, originally known as the Tax Cuts and Jobs Act (the "TCJ Act") was signed into law. Among other things, the TCJ Act permanently lowers the corporate federal income tax rate to 21% from the prior maximum rate of 35%, effective for tax years including or commencing January 1, 2018. As a result of the reduction of the corporate federal income tax rate to 21%, U.S. generally accepted accounting principles require companies to perform a revaluation of their deferred tax assets and liabilities as of the date of enactment, with the resulting tax effects accounted for in the reporting period of enactment (the year ended December 31, 2017). Deferred income taxes result from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in future years. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax expense.

In 2017, based upon current accounting guidance and the utilization and recognition of the timing differences referred to above, the Company recorded a net decrease in income tax expense of approximately \$250,000. This net decrease in income tax expense was comprised of a \$2.1 million decrease from the adjustment of net deferred tax liabilities resulting from enactment of the TCJ Act, partially offset by the impacts of other tax planning strategies implemented. This impact on the Company's net deferred tax liabilities, which included, among other things, the timing of recognition of various revenues and expenses, was based upon a review and analysis of the Company's net deferred tax liabilities at December 31, 2017, as well as expected adjustments to various deferred tax assets and deferred tax liabilities in the year ended December 31, 2017, including those accounted for in accumulated other comprehensive 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. Net fees included in interest income were \$3.5 million, \$2.9 million and \$5.0 million for 2018, 2017 and 2016, respectively. Tax-exempt income was not calculated on a tax equivalent basis. The table does not reflect any effect of income taxes.

|   | Dec. 31,<br>2018 <sup>(2)</sup> | Year Ended<br>December 31, 2018 |           |                | Year Ended<br>December 31, 2017 |           |                | Year Ended<br>December 31, 2016 |           |                |
|---|---------------------------------|---------------------------------|-----------|----------------|---------------------------------|-----------|----------------|---------------------------------|-----------|----------------|
|   | Yield/<br>Rate                  | Average<br>Balance              | Interest  | Yield/<br>Rate | Average<br>Balance              | Interest  | Yield/<br>Rate | Average<br>Balance              | Interest  | Yield/<br>Rate |
| (Dollars In Thousands)  |                                 |                                 |           |                |                                 |           |                |                                 |           |                |
| Interest-earning assets:  |                                 |                                 |           |                |                                 |           |                |                                 |           |                |
| Loans receivable:   |                                 |                                 |           |                |                                 |           |                |                                 |           |                |
| One- to four-family residential   | 4.23%                           | \$ 449,917                      | \$ 22,924 | 5.10%          | \$ 459,227                      | \$ 22,102 | 4.81%          | \$ 538,776                      | \$ 28,674 | 5.32%          |
| Other residential   | 5.13                            | 761,115                         | 38,863    | 5.11           | 706,217                         | 31,970    | 4.53           | 535,793                         | 25,052    | 4.68           |
| Commercial real estate  | 4.91                            | 1,325,398                       | 64,605    | 4.87           | 1,240,017                       | 54,911    | 4.43           | 1,146,983                       | 53,516    | 4.67           |
| Construction  | 5.35                            | 569,570                         | 31,198    | 5.48           | 454,907                         | 21,099    | 4.64           | 394,051                         | 18,059    | 4.58           |
| Commercial business   | 5.22                            | 285,125                         | 14,104    | 4.95           | 295,379                         | 14,666    | 4.97           | 316,526                         | 17,389    | 5.49           |
| Other loans   | 6.01                            | 499,131                         | 25,250    | 5.06           | 632,968                         | 30,356    | 4.80           | 693,550                         | 34,176    | 4.93           |
| Industrial revenue bonds (1)  | 4.82                            | 20,563                          | 1,282     | 6.23           | 25,845                          | 1,551     | 6.00           | 33,681                          | 2,017     | 5.99           |
| Total loans receivable  | 5.16                            | 3,910,819                       | 198,226   | 5.07           | 3,814,560                       | 176,654   | 4.63           | 3,659,360                       | 178,883   | 4.89           |
| Investment securities (1)   | 3.36                            | 201,330                         | 5,835     | 2.90           | 207,803                         | 5,195     | 2.50           | 249,484                         | 5,741     | 2.30           |
| Other interest-earning assets   | 2.50                            | 104,220                         | 1,888     | 1.81           | 121,604                         | 1,211     | 1.00           | 116,812                         | 551       | 0.47           |
| Total interest-earning assets   | 5.00                            | 4,216,369                       | 205,949   | 4.88           | 4,143,967                       | 183,066   | 4.42           | 4,025,656                       | 185,175   | 4.60           |
| Non-interest-earning assets:  |                                 |                                 |           |                |                                 |           |                |                                 |           |                |
| Cash and cash equivalents   |                                 | 97,796                          |           |                | 103,505                         |           |                | 108,593                         |           |                |
| Other non-earning assets  |                                 | 189,161                         |           |                | 212,724                         |           |                | 236,544                         |           |                |
| Total assets  |                                 | <u>\$4,503,326</u>              |           |                | <u>\$4,460,196</u>              |           |                | <u>\$4,370,793</u>              |           |                |
| Interest-bearing liabilities:   |                                 |                                 |           |                |                                 |           |                |                                 |           |                |
| Interest-bearing demand and savings   | 0.46                            | \$ 1,531,375                    | 5,982     | 0.39           | \$ 1,555,375                    | 4,698     | 0.30           | \$ 1,496,837                    | 3,888     | 0.26           |
| Time deposits   | 1.98                            | 1,375,508                       | 21,975    | 1.60           | 1,414,189                       | 15,897    | 1.12           | 1,370,935                       | 13,499    | 0.98           |
| Total deposits  | 1.25                            | 2,906,883                       | 27,957    | 0.96           | 2,969,564                       | 20,595    | 0.69           | 2,867,772                       | 17,387    | 0.61           |
| Short-term borrowings, repurchase agreements and other interest-bearing liabilities | 1.68                            | 137,257                         | 765       | 0.56           | 186,364                         | 747       | 0.40           | 327,658                         | 1,137     | 0.35           |
| Subordinated debentures issued to capital trust                                     | 4.14                            | 25,774                          | 953       | 3.70           | 25,774                          | 949       | 3.68           | 25,774                          | 803       | 3.12           |
| Subordinated notes  | 5.55                            | 73,772                          | 4,097     | 5.55           | 73,613                          | 4,098     | 5.57           | 28,526                          | 1,578     | 5.53           |
| FHLB advances   | 0.00                            | 190,245                         | 3,985     | 2.09           | 93,524                          | 1,511     | 1.62           | 68,325                          | 1,214     | 1.78           |
| Total interest-bearing liabilities  | 1.40                            | 3,333,931                       | 37,757    | 1.13           | 3,348,839                       | 27,907    | 0.83           | 3,318,055                       | 22,119    | 0.67           |
| Non-interest-bearing liabilities:   |                                 |                                 |           |                |                                 |           |                |                                 |           |                |
| Demand deposits   |                                 | 649,357                         |           |                | 629,015                         |           |                | 608,115                         |           |                |
| Other liabilities   |                                 | 21,530                          |           |                | 26,638                          |           |                | 29,824                          |           |                |
| Total liabilities   |                                 | 4,004,818                       |           |                | 4,004,492                       |           |                | 3,955,994                       |           |                |
| Stockholders' equity  |                                 | 498,508                         |           |                | 455,704                         |           |                | 414,799                         |           |                |
| Total liabilities and stockholders' equity  |                                 | <u>\$4,503,326</u>              |           |                | <u>\$4,460,196</u>              |           |                | <u>\$4,370,793</u>              |           |                |
| Net interest income:  |                                 |                                 |           |                |                                 |           |                |                                 |           |                |
| Interest rate spread  | 3.60%                           |                                 | \$168,192 | 3.75%          |                                 | \$155,156 | 3.59%          |                                 | \$163,056 | 3.93%          |
| Net interest margin*  |                                 |                                 |           | 3.99%          |                                 |           | 3.74%          |                                 |           | 4.05%          |
| Average interest-earning assets to average interest-bearing liabilities             |                                 | 126.5%                          |           |                | 123.7%                          |           |                | 121.3%                          |           |                |

\* 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 \$53.6 million, \$61.5 million and \$72.0 million for 2018, 2017 and 2016, respectively. In addition, average tax-exempt industrial revenue bonds were \$24.76 million, \$28.6 million and \$32.0 million in 2018, 2017 and 2016, respectively. Interest income on tax-exempt assets included in this table was \$3.1 million, \$3.3 million and \$3.8 million for 2018, 2017 and 2016, respectively. Interest income net of disallowed interest expense related to tax-exempt assets was \$2.9 million, \$3.1 million and \$3.7 million for 2018, 2017 and 2016, respectively.

(2) The yield/rate on loans at December 31, 2018 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 2018 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<br>December 31, 2018 vs.<br>December 31, 2017 |                 |                                 | Year Ended<br>December 31, 2017 vs.<br>December 31, 2016 |                 |                                 |
|--|--|-----------------|---------------------------------|--|-----------------|---------------------------------|
|  | Increase (Decrease)<br>Due to                            |                 | Total<br>Increase<br>(Decrease) | Increase (Decrease)<br>Due to                            |                 | Total<br>Increase<br>(Decrease) |
|  | Rate   | Volume          |                                 | Rate   | Volume          |                                 |
|  | (In Thousands)   |                 |                                 |  |                 |                                 |
| Interest-earning assets:                           |  |                 |                                 |  |                 |                                 |
| Loans receivable                                   | \$ 17,025  | \$ 4,547        | \$ 21,572                       | \$ (9,638)   | \$ 7,409        | \$ (2,229)                      |
| Investment securities                              | 796  | (156)           | 640                             | 468  | (1,014)         | (546)                           |
| Other interest-earning assets                      | <u>819</u>   | <u>(143)</u>    | <u>676</u>                      | <u>638</u>   | <u>23</u>       | <u>661</u>                      |
| Total interest-earning assets                      | <u>18,640</u>  | <u>4,248</u>    | <u>22,888</u>                   | <u>(8,532)</u>   | <u>6,418</u>    | <u>(2,114)</u>                  |
| Interest-bearing liabilities:                      |  |                 |                                 |  |                 |                                 |
| Demand deposits                                    | 1,355  | (71)            | 1,284                           | 653  | 157             | 810                             |
| Time deposits                                      | <u>6,500</u>   | <u>(422)</u>    | <u>6,078</u>                    | <u>1,961</u>   | <u>437</u>      | <u>2,398</u>                    |
| Total deposits                                     | 7,855  | (493)           | 7,362                           | 2,614  | 594             | 3,208                           |
| Short-term borrowings and<br>repurchase agreements | 55   | (37)            | 18                              | 156  | (546)           | (390)                           |
| Subordinated debentures issued<br>to capital trust | 4  | —               | 4                               | 146  | —               | 146                             |
| Subordinated notes                                 | (1)  | —               | (1)                             | 216  | 2,304           | 2,520                           |
| FHLBank advances                                   | <u>544</u>   | <u>1,925</u>    | <u>2,469</u>                    | <u>(114)</u>   | <u>416</u>      | <u>302</u>                      |
| Total interest-bearing liabilities                 | <u>8,457</u>   | <u>1,395</u>    | <u>9,852</u>                    | <u>3,018</u>   | <u>2,768</u>    | <u>5,786</u>                    |
| Net interest income                                | <u>\$ 10,183</u>   | <u>\$ 2,853</u> | <u>\$ 13,036</u>                | <u>\$ (11,550)</u>                                       | <u>\$ 3,650</u> | <u>\$ (7,900)</u>               |

## Results of Operations and Comparison for the Years Ended December 31, 2017 and 2016

### General

Net income increased \$6.3 million, or 13.7%, during the year ended December 31, 2017, compared to the year ended December 31, 2016. Net income was \$51.6 million for the year ended December 31, 2017 compared to \$45.3 million for the year ended December 31, 2016. This increase was due to an increase in non-interest income of \$10.0 million, or 35.1%, a decrease in non-interest expense of \$6.2 million, or 5.1%, and a decrease in the provision for loan losses of \$181,000, or 2.0%, partially offset by a decrease in net interest income of \$7.9 million, or 4.8%, and an increase in provision for income taxes of \$2.2 million, or 13.6%. Net income available to common shareholders was \$51.6 million for the year ended December 31, 2017 compared to \$45.3 million for the year ended December 31, 2016.

### Total Interest Income

Total interest income decreased \$2.1 million, or 1.1%, during the year ended December 31, 2017 compared to the year ended December 31, 2016. The decrease was due to a \$2.2 million, or 1.2%, decrease in interest income on loans, partially offset by a \$115,000, or 1.8%, increase in interest income on investment securities and other interest-earning assets. Interest income on loans decreased in 2017 due to lower average rates of interest, partially offset by higher average balances of loans. The decrease in average interest rates on loans was primarily the result of a reduction in the additional yield accretion recognized in conjunction with updated estimates of the fair value of the acquired loan pools compared to the prior year. Interest income from investment securities and other interest-earning assets increased during 2017 compared to 2016 primarily due to higher average rates of interest, partially offset by lower average balances.

## **Interest Income – Loans**

During the year ended December 31, 2017 compared to the year ended December 31, 2016, interest income on loans decreased due to lower average interest rates, partially offset by higher average balances. Interest income decreased \$9.6 million as the result of lower average interest rates on loans. The average yield on loans decreased from 4.89% during the year ended December 31, 2016 to 4.63% during the year ended December 31, 2017. This decrease was due to 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. The decrease was partially offset by higher overall average loan balances. Interest income increased \$7.4 million as the result of higher average loan balances, which increased from \$3.66 billion during the year ended December 31, 2016, to \$3.81 billion during the year ended December 31, 2017. The higher average balances were primarily due to organic loan growth.

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 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 loss sharing agreements for InterBank were terminated in June 2017, and the related indemnification asset was reduced to \$-0- at that time. The Valley Bank transaction does not include a loss sharing agreement with the FDIC. Therefore, there was no remaining indemnification asset for FDIC-assisted transactions as of December 31, 2017. The entire amount of the discount adjustment has been and will be accreted to interest income over time with no further offsetting impact to non-interest income. For the years ended December 31, 2017 and 2016, the adjustments increased interest income by \$5.0 million and \$16.4 million, respectively, and decreased non-interest income by \$634,000 and \$7.0 million, respectively. The net impact to pre-tax income was \$4.4 million and \$9.4 million, respectively, for the years ended December 31, 2017 and 2016.

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

Interest income on investments and other interest-earning assets increased \$115,000 in the year ended December 31, 2017 compared to the year ended December 31, 2016. Interest income increased \$1.1 million due to an increase in average interest rates from 1.72% during the year ended December 31, 2016 to 2.05% during the year ended December 31, 2017, due to higher market rates of interest on investment securities and other interest-bearing deposits in financial institutions. Interest income decreased \$1.0 million as a result of a decrease in average balances from \$366.3 million during the year ended December 31, 2016, to \$329.4 million during the year ended December 31, 2017. Average balances of securities decreased due to certain U. S. government agency securities and municipal securities being called and the normal monthly payments received related to the portfolio of mortgage-backed securities.

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, 2017, the Company had cash and cash equivalents of \$242.3 million compared to \$279.8 million at December 31, 2016. See "Net Interest Income" for additional information on the impact of this interest activity.

## **Total Interest Expense**

Total interest expense increased \$5.8 million, or 26.2%, during the year ended December 31, 2017, when compared with the year ended December 31, 2016, due to an increase in interest expense on deposits of \$3.2 million, or 18.5%, an increase in interest expense on the subordinated notes issued during 2016 of \$2.5 million, or 159.7%, an increase in interest expense on FHLBank advances of \$302,000, or 24.9%, and an increase in interest expense on subordinated debentures issued to capital trust of \$146,000, or 18.2%, partially offset by a decrease in interest expense on short-term and repurchase agreement borrowings of \$390,000, or 34.3%.

## **Interest Expense - Deposits**

Interest on demand deposits increased \$653,000 due to an increase in average rates from 0.26% during the year ended December 31, 2016, to 0.30% during the year ended December 31, 2017. Interest on demand deposits increased \$157,000 due to an increase in average balances from \$1.50 billion in the year ended December 31, 2016, to \$1.56 billion in the year ended December 31, 2017. The increase in average balances of interest-bearing demand deposits was primarily a result of increased balances in money market accounts. Market interest rates on these types of accounts have increased since December 2016.

Interest expense on time deposits increased \$2.0 million as a result of an increase in average rates of interest from 0.98% during the year ended December 31, 2016, to 1.12% during the year ended December 31, 2017. Interest expense on time deposits increased \$437,000 due to an increase in average balances of time deposits from \$1.37 billion during the year ended December 31, 2016, to

\$1.41 billion during the year ended December 31, 2017. The increase in average balances of time deposits was primarily a result of organic growth of retail deposits. 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. Older certificates of deposit that renewed or were replaced with new deposits generally had a higher rate of interest due to market interest rate increases since December 2016.

### **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 increased due to higher average balances, partially offset by lower average rates of interest. Interest expense on FHLBank advances increased \$416,000 due to an increase in average balances from \$68.3 million during the year ended December 31, 2016, to \$93.5 million during the year ended December 31, 2017. This increase was primarily due to the replacement of overnight borrowings with short-term three week FHLBank advances due to the short-term advances having a more favorable interest rate from time to time. The \$31.5 million of the Company's long-term higher fixed-rate FHLBank advances were repaid during June 2017. Partially offsetting the increase due to higher average balances was a decrease in interest expense of \$114,000 due to a decrease in average interest rates from 1.78% in the year ended December 31, 2016, to 1.62% in the year ended December 31, 2017. The decrease in the average rate was due to the repayment of the fixed-rate term FHLBank advances during June 2017 and the borrowing of shorter term FHLBank advances at a lower rate.

Interest expense on short-term borrowings and repurchase agreements decreased \$546,000 due to a decrease in average balances from \$327.7 million during the year ended December 31, 2016, to \$186.4 million during the year ended December 31, 2017, which is primarily due to changes in the Company's funding needs and the mix of funding, which can fluctuate. The Company had a much higher amount of overnight borrowings from the FHLBank in 2016. Partially offsetting that decrease was an increase in interest expense on short-term borrowings and repurchase agreements of \$156,000 due to average rates that increased from 0.35% in the year ended December 31, 2016, to 0.40% in the year ended December 31, 2017. The increase was due to increases in market interest rates and a change in the mix of funding during the period, with a lower percentage of the total made up of customer repurchase agreements, which have a lower interest rate.

During the year ended December 31, 2017, compared to the year ended December 31, 2016, interest expense on subordinated debentures issued to capital trusts increased \$146,000 due to higher average interest rates. The average interest rate was 3.12% in 2016, compared to 3.68% in 2017. 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 effectively increased the rates for each year. The 2017 average interest rate was higher than 3.68% until the three months ended September 30, 2017, when the interest rate cap terminated based on its contractual terms, as a result of the amortization of the cost of the interest rate cap. There was no change in the average balance of the subordinated debentures between the 2017 and the 2016 years.

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, 2017, was \$4.1 million, an increase of \$2.5 million over the \$1.6 million of interest expense for the year ended December 31, 2016. The increase was due to the fact that the notes were issued during the second half of 2016 and the Company did not incur interest expense for the entire year in 2016.

### **Net Interest Income**

Net interest income for the year ended December 31, 2017 decreased \$7.9 million, to \$155.2 million, compared to \$163.1 million for the year ended December 31, 2016. Net interest margin was 3.74% for the year ended December 31, 2017, compared to 4.05% in 2016, a decrease of 31 basis points. In both years, the Company's net interest income and margin were significantly impacted by 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, 2017 and 2016 were increases in interest income of \$5.0 million and \$16.4 million, respectively, and increases in net interest margin of 12 basis points and 41 basis points, respectively. Excluding the positive impact of the additional yield accretion, net interest margin decreased 2 basis points during the year ended December 31, 2017. The decrease in net interest margin was primarily due to the interest expense associated with the issuance of \$75.0 million of subordinated notes in August 2016 and an increase in the average interest rate on deposits and other borrowings.

The Company's overall interest rate spread decreased 34 basis points, or 8.6%, from 3.93% during the year ended December 31, 2016, to 3.59% during the year ended December 31, 2017. The decrease was due to an 18 basis point decrease in the weighted average yield on interest-earning assets and a 16 basis point increase in the weighted average rate paid on interest-bearing liabilities. In comparing the two years, the yield on loans decreased 26 basis points while the yield on investment securities and other interest-earning assets increased 23 basis points. The rate paid on deposits increased 8 basis points, the rate paid on subordinated debentures issued to capital

trust increased 56 basis points, the rate paid on short-term borrowings increased 5 basis points, the rate paid on subordinated notes increased 4 basis points and the rate paid on FHLBank advances decreased 16 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 for the year ended December 31, 2017 decreased \$181,000, to \$9.1 million, compared with \$9.3 million for the year ended December 31, 2016. At December 31, 2017 and December 31, 2016, the allowance for loan losses was \$36.5 million and \$37.4 million, respectively. Total net charge-offs were \$10.0 million and \$10.0 million for the years ended December 31, 2017 and 2016, respectively. During the year ended December 31, 2017, \$6.1 million of the \$10.0 million of net charge-offs were in the consumer auto category. Five commercial loan relationships amounted to \$2.9 million of the net charge-off total for the year ended December 31, 2017. In response to a more challenging consumer credit environment, the Company tightened its underwriting guidelines on automobile lending beginning in the latter part of 2016. Management took this step in an effort to improve credit quality in the portfolio and lower delinquencies and charge-offs. This action also resulted in a lower level of origination volume and, as such, the outstanding balance of the Company's automobile loans declined approximately \$137 million in the year ended December 31, 2017. General market conditions and unique circumstances related to individual borrowers and projects contributed to the level of provisions and charge-offs. As assets 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.

In June 2017, the loss sharing agreements for Inter Savings Bank were terminated. 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 review of financial information, collateral valuations and customer interaction to determine if additional reserves are warranted.

The Bank's allowance for loan losses as a percentage of total loans, excluding acquired loans that were previously covered by the FDIC loss sharing agreements, was 1.01% and 1.04% at December 31, 2017 and December 31, 2016, respectively.

### **Non-performing Assets**

Former TeamBank, Vantus Bank, Sun Security Bank, InterBank and Valley Bank 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. These assets were initially recorded at their estimated fair values as of their acquisition dates and are accounted for in pools; therefore, these loan pools are analyzed rather than the individual loans. The performance of the loan pools acquired in the five transactions has been better than original expectations as of the acquisition dates.

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 all FDIC-assisted acquired assets, at December 31, 2017, were \$27.8 million, a decrease of \$11.5 million from \$39.3 million at December 31, 2016. Non-performing assets, excluding all FDIC-assisted acquired assets, as a percentage of total assets were 0.63% at December 31, 2017, compared to 0.86% at December 31, 2016.

Compared to December 31, 2016, non-performing loans decreased \$2.8 million to \$11.3 million at December 31, 2017, and foreclosed assets decreased \$8.7 million to \$16.6 million at December 31, 2017. Non-performing consumer loans comprised \$3.3 million, or 29.1%, of the total \$11.3 million of non-performing loans at December 31, 2017. Non-performing one-to four-family residential loans comprised \$2.7 million, or 24.2%, of the total non-performing loans at December 31, 2017. Non-performing commercial business loans were \$2.1 million, or 18.3%, of total non-performing loans at December 31, 2017. The decrease in non-performing commercial business loans was primarily due to one relationship totaling \$2.9 million which was transferred to foreclosed assets during 2017. Non-performing other residential loans were \$1.9 million, or 16.7%, of total non-performing loans at December 31, 2017. The increase in non-performing other residential loans was primarily due to the additional of one loan initially totaling \$2.4 million, which was charged down upon being added to Non-performing Loans. Non-performing commercial real estate loans comprised \$1.2 million, or 10.9%, of total non-performing loans at December 31, 2017. The majority of the decrease in the commercial real estate category was due to one relationship incurring charge-offs of \$1.2 million during 2017, and two separate relationship with transfers to



foreclosed assets totaling approximately \$500,000 each. Non-performing land development loans were \$-0- at December 31, 2017. The decrease in non-performing land development loans was primarily due to the payoff of two significant relationships.

*Non-performing Loans.* Activity in the non-performing loans category during the year ended December 31, 2017, was as follows:

|                                  | <b>Beginning<br/>Balance,<br/>January 1</b> | <b>Additions</b> | <b>Removed<br/>from Non-<br/>Performing</b> | <b>Transfers to<br/>Potential<br/>Problem Loans</b> | <b>Transfers to<br/>Foreclosed<br/>Assets</b> | <b>Charge-Offs</b> | <b>Payments</b>   | <b>Ending<br/>Balance,<br/>December 31</b> |
|----------------------------------|---|------------------|---|---|---|--------------------|-------------------|--|
| (In Thousands)                   |   |                  |   |   |   |                    |                   |  |
| One- to four-family construction | \$ —  | \$ 381           | \$ —  | \$ —  | \$ —  | \$ —               | \$ (381)          | \$ —                                       |
| Subdivision construction         | 109   | —                | —   | —   | —   | —                  | (11)              | 98   |
| Land development                 | 1,718                                       | 4,060            | —   | —   | (185)   | (125)              | (5,468)           | —  |
| Commercial construction          | —   | —                | —   | —   | —   | —                  | —                 | —  |
| One- to four-family residential  | 1,825                                       | 2,487            | (36)  | (840)   | (242)   | (37)               | (437)             | 2,720                                      |
| Other residential                | 162   | 2,442            | (77)  | —   | (161)   | (488)              | (1)               | 1,877                                      |
| Commercial real estate           | 2,727                                       | 2,550            | (394)                                       | (347)   | (1,060)                                       | (1,649)            | (601)             | 1,226                                      |
| Other commercial                 | 4,765                                       | 1,256            | —   | —   | (2,883)                                       | (829)              | (246)             | 2,063                                      |
| Consumer                         | 2,775                                       | 5,923            | (217)                                       | (329)   | (1,081)                                       | (2,075)            | (1,725)           | 3,271                                      |
| <b>Total</b>                     | <b>\$ 14,081</b>                            | <b>\$ 19,099</b> | <b>\$ (724)</b>                             | <b>\$ (1,516)</b>                                   | <b>\$ (5,612)</b>                             | <b>\$ (5,203)</b>  | <b>\$ (8,870)</b> | <b>\$ 11,255</b>                           |

Commercial real estate collateral that secured one relationship, totaling \$1.7 million, was partially sold, with the remaining assets transferred to foreclosed assets; therefore, the balance was reclassified from commercial real estate to commercial business in the Beginning Balance, January 1 presentation in the table above.

At December 31, 2017, the non-performing one- to four-family residential category included 28 loans, 18 of which were added during 2017. The largest relationship in this category, which was added during 2017, included nine loans totaling \$1.4 million, or 50.6% of the total category, which are collateralized by residential rental homes in the Springfield, Mo. area. The non-performing commercial business category included five loans. The largest relationship in this category totaled \$1.5 million, or 73.2% of the total category. This relationship, discussed in the paragraph above, was previously collateralized by commercial real estate which was foreclosed upon and subsequently sold. One loan in this category, totaling \$2.9 million and secured by the borrower's interest in a condo project in Branson, Mo, was transferred to foreclosed assets during 2017. One loan totaling \$970,000 was transferred from potential problem loans during 2017. This loan was added to potential problem loans earlier in 2017 and was subsequently transferred to non-performing loans. The loan was charged down \$470,000 and the remaining balance at December 31, 2017 was \$500,000. The loan is collateralized by the business assets of an entity in the St. Louis, Mo. area. The non-performing other residential category included one loan, which was added during 2017. This loan is collateralized by an apartment project in the central Missouri area and was originated in 2004. The non-performing commercial real estate category included six loans, three of which were added during the year. The largest relationship in this category, which was added during 2017, totaled \$667,000, or 54.4% of the total category. This loan is collateralized by commercial property in the St. Louis, Mo., area. One relationship in this category, which included two loans, had \$358,000 of charge-offs during 2017 and the remaining balance of \$465,000 was transferred to foreclosed assets. The relationship was collateralized by commercial entertainment property and other property in Branson, Mo. One loan in this category with a balance of \$498,000 was transferred to foreclosed assets during the period. One relationship in this category, which was collateralized by a theatre property in Branson, Mo., incurred charge-offs of \$1.2 million and received payments of \$480,000 during the year, which paid off the remaining balance of that loan. The non-performing consumer category included 255 loans, 204 of which were added during 2017, and the majority of which are indirect used automobile loans. Compared to previous years, in 2016 and 2017 the Company experienced increased levels of delinquencies and repossessions in consumer loans, primarily indirect used automobile loans. The non-performing land development category was zero at December 31, 2017. During the year, one loan, which is the same relationship as one of the loans discussed in the commercial real estate category, and was collateralized by land in the Branson, Mo. area had charge-offs of \$92,000 and received payments of \$3.8 million, which paid off the remaining balance of that loan. Also during 2017, one loan in this category received payments of \$1.6 million, which paid off the remaining balance of that loan.

*Foreclosed Assets.* Of the total \$22.0 million of other real estate owned at December 31, 2017, \$2.1 million represents the fair value of foreclosed assets previously covered by FDIC loss sharing agreements, \$1.7 million represents foreclosed assets related to Valley Bank and not previously covered by loss sharing agreements, and \$1.6 million represents properties which were not acquired through foreclosure, including former branch locations that were closed and held for sale and land which was acquired for a potential branch location. The acquired 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, 2017, was as follows:

|                                  | <b>Beginning<br/>Balance,<br/>January 1</b> | <b>Additions</b> | <b>Proceeds<br/>from Sales</b> | <b>Capitalized<br/>Costs</b> | <b>ORE Expense<br/>Write-Downs</b> | <b>Ending<br/>Balance,<br/>December 31</b> |
|----------------------------------|---|------------------|--------------------------------|------------------------------|------------------------------------|--|
| (In Thousands)                   |   |                  |                                |                              |                                    |  |
| One- to four-family construction | \$ —  | \$ —             | \$ —                           | \$ —                         | \$ —                               | \$ —                                       |
| Subdivision construction         | 6,360                                       | 350              | (1,297)                        | —                            | —                                  | 5,413                                      |
| Land development                 | 10,886                                      | —                | (2,431)                        | —                            | (1,226)                            | 7,229                                      |
| Commercial construction          | —   | —                | —                              | —                            | —                                  | —  |
| One- to four-family residential  | 1,217                                       | 374              | (1,470)                        | —                            | (9)                                | 112  |
| Other residential                | 954   | 161              | (1,071)                        | 117                          | (21)                               | 140  |
| Commercial real estate           | 3,841                                       | 896              | (2,843)                        | —                            | (200)                              | 1,694                                      |
| Commercial business              | —   | 2,876            | (2,876)                        | —                            | —                                  | —  |
| Consumer                         | 1,991                                       | 15,728           | (15,732)                       | —                            | —                                  | 1,987                                      |
| <b>Total</b>                     | <b>\$ 25,249</b>                            | <b>\$ 20,385</b> | <b>\$ (27,720)</b>             | <b>\$ 117</b>                | <b>\$ (1,456)</b>                  | <b>\$ 16,575</b>                           |

At December 31, 2017, the land development category of foreclosed assets included 17 properties, the largest of which was located in the Branson, Mo., area and had a balance of \$1.2 million, or 17.2% of the total category. One property located in the northwest Arkansas area and totaling \$1.4 million was sold during 2017. Of the total dollar amount in the land development category of foreclosed assets, 38.6% and 23.0% was located in the Branson, Mo. and the northwest Arkansas areas, respectively, including the largest property previously mentioned. The subdivision construction category of foreclosed assets included 15 properties, the largest of which was located in the Springfield, Mo. metropolitan area and had a balance of \$1.2 million, or 22.8% of the total category. Of the total dollar amount in the subdivision construction category of foreclosed assets, 38.2% and 22.8% was located in Branson, Mo. and Springfield, Mo., respectively, including the largest property previously mentioned. The subdivision construction category of foreclosed assets had 16 properties with total or partial sales during 2017, totaling \$1.3 million. The largest sale was a property in northwest Arkansas totaling \$775,000. The commercial real estate category of foreclosed assets included four properties. The largest relationship in the commercial real estate category includes commercial properties in Springfield, Mo. and the surrounding area totaling \$500,000, or 29.5% of the total category. The assets of one relationship in the commercial real estate category, which included one retail property located in Georgia and one retail property located in Texas totaling \$1.5 million, were sold during 2017. One property in the commercial real estate category, which is a hotel located in the western United States totaling \$1.1 million, was sold during the year. The commercial business category of other real estate had a balance of zero as of December 31, 2017, due to the sale of the one foreclosed property which was added to the category during the year totaling \$2.9 million, which was collateralized by the borrower's interest in a condominium project in Branson, Mo. The other residential category of foreclosed assets included one property which was added during 2017. All five properties which were held at the beginning of the year were sold, and included in those sales were four properties which were part of the same condominium community located in Branson, Mo. totaling \$843,000. 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. The Company experienced increased levels of delinquencies and repossessions in indirect used automobile loans throughout 2016 and 2017.

*Potential Problem Loans.* Potential problem loans increased \$975,000 during the year ended December 31, 2017, from \$7.0 million at December 31, 2016 to \$7.9 million at December 31, 2017. This increase was due to the addition of \$9.7 million of loans to potential problem loans, partially offset by \$5.9 million in loans transferred to the non-performing category, \$1.0 million in loans removed from potential problem loans due to improvements in the credits, \$72,000 in charge-offs, \$89,000 in loans transferred to foreclosed assets, and \$1.7 million in payments on 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, 2017, was as follows:

|                                  | Beginning<br>Balance,<br>January 1 | Additions | Removed<br>from Potential<br>Problem | Transfers to<br>Non-<br>Performing | Transfers to<br>Foreclosed<br>Assets | Charge-Offs | Payments   | Ending<br>Balance,<br>December 31 |
|----------------------------------|------------------------------------|-----------|--------------------------------------|------------------------------------|--------------------------------------|-------------|------------|-----------------------------------|
| (In Thousands)                   |                                    |           |                                      |                                    |                                      |             |            |                                   |
| One- to four-family construction | \$ —                               | \$ —      | \$ —                                 | \$ —                               | \$ —                                 | \$ —        | \$ —       | \$ —                              |
| Subdivision construction         | —                                  | —         | —                                    | —                                  | —                                    | —           | —          | —                                 |
| Land development                 | 4,135                              | 139       | —                                    | (3,980)                            | —                                    | —           | (290)      | 4                                 |
| Commercial construction          | —                                  | —         | —                                    | —                                  | —                                    | —           | —          | —                                 |
| One- to four-family residential  | 439                                | 1,102     | —                                    | (131)                              | (89)                                 | (72)        | (127)      | 1,122                             |
| Other residential                | —                                  | —         | —                                    | —                                  | —                                    | —           | —          | —                                 |
| Commercial real estate           | 2,062                              | 6,569     | (1,029)                              | (803)                              | —                                    | —           | (1,040)    | 5,759                             |
| Other commercial                 | 204                                | 1,387     | —                                    | (970)                              | —                                    | —           | (118)      | 503                               |
| Consumer                         | 122                                | 561       | (10)                                 | (28)                               | —                                    | —           | (96)       | 549                               |
| Total                            | \$ 6,962                           | \$ 9,758  | \$ (1,039)                           | \$ (5,912)                         | \$ (89)                              | \$ (72)     | \$ (1,671) | \$ 7,937                          |

At December 31, 2017, the commercial real estate category of potential problem loans included three loans, all of which were part of the same customer relationship. This relationship, totaling \$5.8 million, or 100.0% of the total category, is collateralized by theatre and retail property in Branson, Mo. This is a long-term customer of the Bank and these loans were all originated prior to 2008. The borrower had been experiencing cash flow issues due to vacancies in some of the properties and the loans were added to potential problem loans during 2017. \$963,000 of the payments in the category related to one relationship, the remainder of which was moved to non-performing loans during 2017. The one- to four-family residential category of potential problem loans included 16 loans, 10 of which were added during 2017. The commercial business category of potential problem loans included five loans, one of which was added during 2017. One loan in this category totaling \$970,000 was added to potential problem loans during 2017 and then subsequently transferred to non-performing loans during the year, and is discussed above in non-performing loans. The consumer category of potential problem loans included 43 loans, 36 of which were added during 2017. The land development category of potential problem loans decreased from December 31, 2016 primarily due to the transfer of one loan totaling \$3.8 million to the non-performing loans category, which is discussed above in non-performing loans.

### Non-Interest Income

Non-interest income for the year ended December 31, 2017 was \$38.5 million compared with \$28.5 million for the year ended December 31, 2016. The increase of \$10.0 million, or 35.1%, was primarily the result of the following items:

Gain on early termination of FDIC loss sharing agreement for Inter Savings Bank: During 2017, the Company's loss sharing agreement with the FDIC related to Inter Savings Bank was terminated early and the Company received a payment of \$15.0 million to settle all outstanding items related to the terminated agreement. The Company recognized a one-time gross gain in 2017 of \$7.7 million related to the termination.

Amortization of income related to business acquisitions: Because of the termination of FDIC loss sharing agreements in previous periods, the net amortization expense related to business acquisitions was \$486,000 for the year ended December 31, 2017, compared to \$6.4 million for the year ended December 31, 2016. The amortization expense for the year ended December 31, 2017, consisted of the following items: \$504,000 of amortization expense related to the changes in cash flows expected to be collected from the FDIC-covered loan portfolios acquired from InterBank and \$140,000 of amortization of the clawback liability. Partially offsetting the expense was income from the accretion of the discount related to the indemnification asset for the InterBank acquisition of \$158,000.

Late charges and fees on loans: Late charges and fees on loans increased \$484,000 in 2017 compared to 2016. The increase was primarily due to fees totaling \$632,000 on loan payoffs received on four loan relationships during 2017.

Net gains on loan sales: Net gains on loan sales decreased \$791,000 in 2017 compared to 2016. The decrease was due to a decrease in originations of fixed-rate loans in 2017 compared to 2016, which resulted in fewer loan sales during 2017. Fixed rate single-family loans originated are generally subsequently sold in the secondary market.

Other income: Other income decreased \$825,000 in 2017 compared to 2016. During 2016, the Company recognized gains of \$367,000 on the sale of the two branches in Southwest Missouri. In addition, a gain of \$238,000 was recognized on sales of fixed assets unrelated to the branch sales during 2016. There were no similar transactions during 2017. There were net losses on the disposal of certain fixed assets, including ATMs, during the year ended December 31, 2017 of approximately \$114,000, with no significant losses on the disposal of fixed assets in 2016.

Net realized gains on sales of available-for-sale securities: During 2016, the Company sold an investment held by Bancorp for a gain of \$2.7 million and sold other investment securities for a net gain of \$144,000. There were no gains on sales of investments in 2017.

## **Non-Interest Expense**

Total non-interest expense decreased \$6.1 million, or 5.1%, from \$120.4 million in the year ended December 31, 2016, to \$114.3 million in the year ended December 31, 2017. The Company's efficiency ratio for the year ended December 31, 2017 was 58.99%, a decrease from 62.86% in 2016. The improvement in the ratio for 2017 was primarily due to the decrease in non-interest expense and the increase in non-interest income (significantly impacted by the gain on the termination of the loss sharing agreements for the Inter Savings Bank FDIC-assisted transaction), partially offset by the decrease in net interest income. The Company's ratio of non-interest expense to average assets decreased from 2.76% for the year ended December 31, 2016, to 2.56% for the year ended December 31, 2017. The decrease in the ratio for 2017 was due to the decrease in non-interest expense and the increase in average assets in 2017 compared to 2016. Average assets for the year ended December 31, 2017, increased \$89.4 million, or 2.0%, from the year ended December 31, 2016, primarily due to organic loan growth, partially offset by decreases in investment securities.

The following were key items related to the decrease in non-interest expense for the year ended December 31, 2017 as compared to the year ended December 31, 2016:

Fifth Third Bank branch acquisition expenses: During 2016, the Company incurred approximately \$1.4 million of one-time expenses related to the acquisition of certain branches from Fifth Third Bank. Those expenses included approximately \$124,000 of compensation expense, approximately \$385,000 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 \$79,000 of travel, meals and other expenses related to the transaction.

Salaries and employee benefits: Salaries and employee benefits decreased \$343,000 from the prior year. In 2016, the Company incurred one-time acquisition related net salary and retention bonus and other compensation expenses paid as part of the Fifth Third branch transaction totaling \$124,000. Subsequent to the transaction, some employees related to those operations left the Company and many were not replaced. Compensation expense also decreased due to a reduction in incentive compensation for loan originators and staff due to fewer residential loan originations in 2017 than in 2016. The Company also recently reorganized some staff functions in certain areas to operate more efficiently. In addition, there were budgeted but unfilled positions in various areas of the Company that resulted in lower compensation costs in these areas. These decreases were partially offset by the increase of \$1.1 million related to the special employee bonuses paid to all employees who were employed by the Company on December 31, 2017. These bonuses were in response to the new federal tax reform legislation.

Net occupancy expense: Net occupancy expense decreased \$1.5 million in the year ended December 31, 2017 compared to 2016. The decrease was primarily due to furniture, fixtures and equipment, and computer equipment which became fully depreciated, resulting in less depreciation expense during 2017. During 2016, the Company had one-time expenses as part of the acquisition of the Fifth Third banking centers of \$279,000 and increased computer license and support costs of \$247,000 with no similar expenses in 2017.

Partnership tax credit: Partnership tax credit expense decreased \$751,000 in the year ended December 31, 2017 compared to 2016. The decrease was primarily due to the end of the amortization period for some of the Company's new market tax credits and the investment in those tax credits has been written off.

Insurance expense: Insurance expense decreased \$523,000 in the year ended December 31, 2017 compared to 2016 primarily due to a reduction in FDIC insurance premiums resulting from a change in the FDIC insurance assessment rates, which went into effect during the fourth quarter of 2016.

Postage: Postage decreased \$330,000 in 2017 from 2016. During 2016, the Company incurred significant postage costs due to branch acquisitions and sales and the mailing of chip-enabled debit cards.

Legal, audit and other professional fees: Legal, audit and other professional fees decreased \$329,000 in 2017 from 2016 due to additional expenses in 2016 related to the Fifth Third transaction, as noted in the Fifth Third Bank branch acquisition expenses above.

Other operating expenses: Other operating expenses decreased \$1.5 million in the year ended December 31, 2017 compared to 2016. The decrease in other operating expenses was primarily due to higher levels of debit card and check fraud losses in 2016. In 2016, the Company experienced debit card and check fraud losses totaling \$1.9 million, a significant portion of which 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. In 2017, the Company experienced debit card and check fraud losses totaling \$1.0 million. Additionally, \$436,000 of the decrease in operating expenses was the charge in 2016 to replace Fifth Third customer checks as discussed above.

### **Provision for Income Taxes**

For the years ended December 31, 2017 and 2016, the Company's effective tax rate was 26.7% and 26.7%, respectively. These effective rates were 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. 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 pre-tax income. The Company's effective tax rate was higher in 2016 and 2017 than it had typically been in prior years due to increased net income resulting from the gain on termination of the loss sharing agreements for the Inter Savings Bank FDIC-assisted transaction (2017) and gains on the sales of investments (2016).

Based upon current accounting guidance and the utilization and recognition of timing differences, the Company recorded a net decrease in income tax expense of approximately \$250,000. This net decrease in income tax expense was comprised of a \$2.1 million decrease from the adjustment of net deferred tax liabilities resulting from enactment of the TCJ Act, partially offset by the impacts of other tax planning strategies implemented. This impact on the Company's net deferred tax liabilities, which includes, among other things, the timing of recognition of various revenues and expenses, was based upon a review and analysis of the Company's net deferred tax liabilities at December 31, 2017, as well as expected adjustments to various deferred tax assets and deferred tax liabilities in the three months and year ended December 31, 2017, including those accounted for in accumulated other comprehensive income.

### **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, 2018, the Company had commitments of approximately \$129.6 million to fund loan originations, \$1.24 billion of unused lines of credit and unadvanced loans, and \$28.9 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, 2018. Additional information regarding these contractual obligations is discussed further in Notes 8, 9, 10, 11, 12, 13, 16 and 19 of the accompanying audited financial statements.

|   | <b>Payments Due In:</b>     |                                       |                            | <b>Total</b>        |
|---|-----------------------------|---------------------------------------|----------------------------|---------------------|
|   | <b>One Year or<br/>Less</b> | <b>Over One to<br/>Five<br/>Years</b> | <b>Over Five<br/>Years</b> |                     |
|   | (In Thousands)              |                                       |                            |                     |
| Deposits without a stated maturity        | \$ 2,133,596                | \$ —                                  | \$ —                       | \$ 2,133,596        |
| Time and brokered certificates of deposit | 1,215,822                   | 374,145                               | 1,444                      | 1,591,411           |
| Federal Home Loan Bank advances           | —                           | —                                     | —                          | —                   |
| Short-term borrowings                     | 297,978                     | —                                     | —                          | 297,978             |
| Subordinated debentures                   | —                           | —                                     | 25,774                     | 25,774              |
| Subordinated notes                        | —                           | —                                     | 73,842                     | 73,842              |
| Operating leases                          | 958                         | 2,483                                 | 837                        | 4,278               |
| Dividends declared but not paid           | 4,528                       | —                                     | —                          | 4,528               |
|   | <u>\$ 3,652,882</u>         | <u>\$ 376,628</u>                     | <u>\$ 101,897</u>          | <u>\$ 4,131,407</u> |

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, 2018 and 2017, the Company had these available secured lines and on-balance sheet liquidity:

|  | <u><b>December 31, 2018</b></u> | <u><b>December 31, 2017</b></u> |
|--|---------------------------------|---------------------------------|
| Federal Home Loan Bank line                        | \$666.8 million                 | \$570.5 million                 |
| Federal Reserve Bank line                          | 460.7 million                   | 528.9 million                   |
| Interest-Bearing and Non-Interest-Bearing Deposits | 202.7 million                   | 242.3 million                   |
| Unpledged Securities                               | 87.1 million                    | 46.4 million                    |

**Statements of Cash Flows.** During the years ended December 31, 2018, 2017 and 2016, the Company had positive cash flows from operating activities. The Company experienced negative cash flows from investing activities during the years ended December 31, 2018 and 2016 and positive cash flows from investing activities during the year ended December 31, 2017. The Company experienced positive cash flows from financing activities during the years ended December 31, 2018 and 2016 and negative cash flows from financing activities during the year ended December 31, 2017.

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 or losses on the termination of loss sharing agreements 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 \$94.2 million, \$62.8 million and \$80.6 million during the years ended December 31, 2018, 2017 and 2016, respectively.

During the years ended December 31, 2018 and 2016, investing activities used cash of \$381.3 million and \$198.7 million, respectively, primarily due to the net increases and purchases of loans and investment securities and the cash paid for the sale of deposits and branches (2018), partially offset by the sales of investment securities (2016) and cash received from the purchase of deposits and branches (2016). During the year ended December 31, 2017, investing activities provided cash of \$81.4 million, primarily due to the cash received from the FDIC loss sharing termination reimbursement, proceeds from the sale of other real estate owned and the net repayment of investment securities.

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, dividend payments to stockholders and issuance of subordinated notes (2016). Financing activities provided cash flows of \$247.6 million and \$198.7 million during the years ended December 31, 2018 and 2016, respectively, primarily due to increases in customer deposit balances, net increases or decreases in various borrowings and issuance of subordinated notes (2016), partially offset by dividend payments to stockholders. Financing activities used cash flows of \$181.7 million during the year ended December 31, 2017, primarily due to reduction of customer certificate of 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, 2018, total stockholders' equity and common stockholders' equity were each \$532.0 million, or 11.4% of total assets, equivalent to a book value of \$37.59 per common share. As of December 31, 2017, total stockholders' equity and common stockholders' equity were each \$471.7 million, or 10.7% of total assets, equivalent to a book value of \$33.48 per common share. At December 31, 2018, the Company's tangible common equity to tangible assets ratio was 11.2% as compared to 10.5% at December 31, 2017.

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, 2018, the Bank's common equity Tier 1 capital ratio was 12.4%, its Tier 1 capital ratio was 12.4%, its total capital ratio was 13.3% and its Tier 1 leverage ratio was 12.2%. As a result, as of December 31, 2018, the Bank was well capitalized, with capital ratios in excess of those required to qualify as such. On December 31, 2017, the Bank's common equity Tier 1 capital ratio was 12.3%, its Tier 1 capital ratio was 12.3%, its total capital ratio was 13.2% and its Tier 1 leverage ratio was 11.7%. As a result, as of December 31, 2017, 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, 2018, the Company's common equity Tier 1 capital ratio was 11.4%, its Tier 1 capital ratio was 11.9%, its total capital ratio was 14.4% and its Tier 1 leverage ratio was 11.7%. 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, 2018, the Company was considered well capitalized, with capital ratios in excess of those required to qualify as such. On December 31, 2017, the Company's common equity Tier 1 capital ratio was 10.9%, its Tier 1 capital ratio was 11.4%, its total capital ratio was 14.1% and its Tier 1 leverage ratio was 10.9%. As of December 31, 2017, 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 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. This 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 increased by an additional 0.625% as of January 1, 2017, and increased an equal amount each year until the buffer requirement of greater than 2.5% of risk-weighted assets was 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, 2018, the Company declared common stock cash dividends of \$1.20 per share (25.5% of net income per common share) and paid common stock cash dividends of \$1.12 per share. During the year ended December 31, 2017, the Company declared common stock cash dividends of \$0.94 per share (25.8% of net income per common share) and paid common stock cash dividends of \$0.92 per share. The Board of Directors meets regularly to consider the level and the timing of dividend payments. The \$0.32 per share dividend declared but unpaid as of December 31, 2018, was paid to stockholders in January 2019. 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 year ended December 31, 2018, the Company repurchased 17,542 shares of its common stock at an average price of \$51.52 per share. During the year ended December 31, 2017, the Company did not repurchase any shares of its common stock. During the years ended December 31, 2018 and 2017, the Company issued 81,207 shares of stock at an average price of \$27.60 per share and 119,147 shares of stock at an average price of \$27.35 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.



## Non-GAAP Financial Measures

This document contains certain financial information determined by methods other than in accordance with accounting principles generally accepted in the United States ("GAAP"). These non-GAAP financial measures include tangible common equity to tangible assets ratio.

In calculating the ratio of tangible common equity to tangible assets, we subtract period-end intangible assets from common equity and from total assets. Management believes that the presentation of these measures excluding the impact of intangible assets provides useful supplemental information that is helpful in understanding our financial condition and results of operations, as they provide a method to assess management's success in utilizing our tangible capital as well as our capital strength. Management also believes that providing measures that exclude balances of intangible assets, which are subjective components of valuation, facilitates the comparison of our performance with the performance of our peers. In addition, management believes that these are standard financial measures used in the banking industry to evaluate performance.

These non-GAAP financial measures are supplemental and are not a substitute for any analysis based on GAAP financial measures. Because not all companies use the same calculation of non-GAAP measures, this presentation may not be comparable to other similarly titled measures as calculated by other companies.

### Non-GAAP Reconciliation: Ratio of Tangible Common Equity to Tangible Assets

|   | December 31,<br>2018   | December 31,<br>2017 | December 31,<br>2016 | December 31,<br>2015 | December 31,<br>2014 |
|---|------------------------|----------------------|----------------------|----------------------|----------------------|
|   | (Dollars in thousands) |                      |                      |                      |                      |
| Common equity at period end                         | \$ 531,977             | \$ 471,662           | \$ 429,806           | \$ 398,227           | \$ 361,802           |
| Less: Intangible assets at period end               | <u>9,288</u>           | <u>10,850</u>        | <u>12,500</u>        | <u>5,758</u>         | <u>7,508</u>         |
| Tangible common equity at period end (a)            | <u>\$ 522,689</u>      | <u>\$ 460,812</u>    | <u>\$ 417,306</u>    | <u>\$ 392,469</u>    | <u>\$ 354,294</u>    |
| Total assets at period end                          | \$ 4,676,200           | \$ 4,414,521         | \$ 4,550,663         | \$ 4,104,189         | \$ 3,951,334         |
| Less: Intangible assets at period end               | <u>9,288</u>           | <u>10,850</u>        | <u>12,500</u>        | <u>5,758</u>         | <u>7,508</u>         |
| Tangible assets at period end (b)                   | <u>\$ 4,666,912</u>    | <u>\$ 4,403,671</u>  | <u>\$ 4,538,163</u>  | <u>\$ 4,098,431</u>  | <u>\$ 3,943,826</u>  |
| Tangible common equity to tangible assets (a) / (b) | <u>11.20%</u>          | <u>10.46%</u>        | <u>9.20%</u>         | <u>9.58%</u>         | <u>8.98%</u>         |

## 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, 2018, 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 increase of 0.25% on December 16, 2015, the FRB had last changed interest rates on December 16, 2008. This was the first rate increase since June 29, 2006. The FRB has now also implemented rate increases of 0.25% on eight different occasions beginning December 14, 2016, with the Federal Funds rate now at 2.50%. A substantial portion of Great Southern's loan portfolio (\$1.46 billion at December 31, 2018) is tied to the one-month or three-month LIBOR index and will be subject to adjustment at least once within 90 days after December 31, 2018. Of these loans, \$1.34 billion as of December 31, 2018 had interest rate floors. Great Southern also has a portfolio of loans (\$257 million at December 31, 2018) which are tied to a "prime rate" of interest and will adjust immediately with changes to the "prime rate" of interest.

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 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 an interest rate cap agreement related to its floating rate debt associated with its trust preferred securities. The agreement provided that the counterparty would reimburse the Company if interest rates rise above a certain threshold, thus creating a cap on the effective interest rate paid by the Company. This agreement was classified as a hedging instrument, and the effective portion of the gain or loss on the derivative was 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. The interest rate cap related to the \$25.0 million trust preferred security terminated per its contractual terms in the third quarter of 2017.

In October 2018, the Company entered into an interest rate swap transaction as part of its ongoing interest rate management strategies to hedge the risk of its floating rate loans. The notional amount of the swap is \$400 million with a termination date of October 6, 2025. Under the terms of the swap, the Company will receive a fixed rate of interest of 3.018% and will pay a floating rate of interest equal to one-month USD-LIBOR. The floating rate will be reset monthly and net settlements of interest due to/from the counterparty will also occur monthly. The floating rate of interest was 2.383% as of December 31, 2018. Therefore, in the near term, the Company will receive net interest settlements which will be recorded as loan interest income, to the extent that the fixed rate of interest continues to exceed one-month USD-LIBOR. If USD-LIBOR exceeds the fixed rate of interest in future periods, the Company will be required to pay net settlements to the counterparty and will record those net payments as a reduction of interest income on loans. 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 affected 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.

The Company's interest rate derivatives and hedging activities are discussed further in Note 17 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, 2018. 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

|                                       | <u>December 31,</u>        |                          |                          |                          |                          |                            | <u>December 31,</u><br><u>2018</u><br><u>Fair Value</u> |              |
|---------------------------------------|----------------------------|--------------------------|--------------------------|--------------------------|--------------------------|----------------------------|---|--------------|
|                                       | <u>2019</u>                | <u>2020</u>              | <u>2021</u>              | <u>2022</u>              | <u>2023</u>              | <u>Thereafter</u>          |   | <u>Total</u> |
|                                       | (Dollars In Thousands)     |                          |                          |                          |                          |                            |   |              |
| <b>Financial Assets:</b>              |                            |                          |                          |                          |                          |                            |   |              |
| Interest bearing deposits             | \$ 92,634                  | —                        | —                        | —                        | —                        | —                          | \$ 92,634   | \$ 92,634    |
| Weighted average rate                 | 2.50%                      | —                        | —                        | —                        | —                        | —                          | 2.50%   |              |
| Available-for-sale debt securities(1) | \$ 15,847                  | \$ 17,571                | \$ 6,012                 | \$ 1,710                 | \$ 13,227                | \$ 189,601                 | \$ 243,968  | \$ 243,968   |
| Weighted average rate                 | 4.96 %                     | 5.12%                    | 4.86%                    | 5.50%                    | 3.09%                    | 2.94%                      | 3.29%   |              |
| Adjustable rate loans                 | \$ 443,238                 | \$ 330,228               | \$ 467,422               | \$ 299,033               | \$ 218,671               | \$ 497,982                 | \$ 2,256,574  | \$ 2,189,440 |
| Weighted average rate                 | 5.44 %                     | 5.52%                    | 5.29%                    | 5.37%                    | 5.31%                    | 4.15%                      | 5.12%   |              |
| Fixed rate loans                      | \$ 279,268                 | \$ 307,867               | \$ 375,550               | \$ 251,209               | \$ 249,104               | \$ 333,688                 | \$ 1,796,686  | \$ 1,766,346 |
| Weighted average rate                 | 4.45 %                     | 4.72%                    | 5.06%                    | 5.73%                    | 5.48%                    | 5.31%                      | 5.11%   |              |
| Federal Home Loan Bank stock          | —                          | —                        | —                        | —                        | —                        | \$ 12,438                  | \$ 12,438   | \$ 12,438    |
| Weighted average rate                 | —                          | —                        | —                        | —                        | —                        | 4.68%                      | 4.68%   |              |
| <b>Total financial assets</b>         | <b><u>\$ 830,987</u></b>   | <b><u>\$ 655,666</u></b> | <b><u>\$ 848,984</u></b> | <b><u>\$ 551,952</u></b> | <b><u>\$ 481,002</u></b> | <b><u>\$ 1,033,709</u></b> | <b><u>\$ 4,402,300</u></b>                              |              |
| <b>Financial Liabilities:</b>         |                            |                          |                          |                          |                          |                            |   |              |
| Time deposits                         | \$ 1,215,822               | \$ 259,704               | \$ 73,724                | \$ 26,012                | \$ 14,705                | \$ 1,444                   | \$ 1,591,411  | \$ 1,584,303 |
| Weighted average rate                 | 1.92%                      | 2.22%                    | 2.20%                    | 1.95%                    | 2.18%                    | 1.77%                      | 1.98%   |              |
| Interest-bearing demand               | \$ 1,472,535               | —                        | —                        | —                        | —                        | —                          | \$ 1,472,535  | \$ 1,472,535 |
| Weighted average rate                 | 0.46%                      | —                        | —                        | —                        | —                        | —                          | 0.46%   |              |
| Non-interest-bearing demand           | \$ 661,061                 | —                        | —                        | —                        | —                        | —                          | \$ 661,061  | \$ 661,061   |
| Weighted average rate                 | —                          | —                        | —                        | —                        | —                        | —                          | —   |              |
| Short-term borrowings                 | \$ 297,978                 | —                        | —                        | —                        | —                        | —                          | \$ 297,978  | \$ 297,978   |
| Weighted average rate                 | 1.68 %                     | —                        | —                        | —                        | —                        | —                          | 1.68%   |              |
| Subordinated notes                    | —                          | —                        | —                        | —                        | —                        | \$ 75,000                  | \$ 75,000   | \$ 75,188    |
| Weighted average rate                 | —                          | —                        | —                        | —                        | —                        | 5.55 %                     | 5.55%   |              |
| Subordinated debentures               | —                          | —                        | —                        | —                        | —                        | \$ 25,774                  | \$ 25,774   | \$ 25,774    |
| Weighted average rate                 | —                          | —                        | —                        | —                        | —                        | 4.14%                      | 4.14%   |              |
| <b>Total financial liabilities</b>    | <b><u>\$ 3,647,396</u></b> | <b><u>\$ 259,704</u></b> | <b><u>\$ 73,724</u></b>  | <b><u>\$ 26,012</u></b>  | <b><u>\$ 14,705</u></b>  | <b><u>\$ 102,218</u></b>   | <b><u>\$ 4,123,759</u></b>                              |              |

(1) Available-for-sale debt securities include approximately \$192.5 million of mortgage-backed securities which pay interest and principal monthly to the Company. Of this total, \$84.0 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,           |                     |                    |                   |                   |                     | Total               | December<br>31,<br>2018<br>Fair Value |
|---------------------------------------|------------------------|---------------------|--------------------|-------------------|-------------------|---------------------|---------------------|---------------------------------------|
|                                       | 2019                   | 2020                | 2021               | 2022              | 2023              | Thereafter          |                     |                                       |
|                                       | (Dollars In Thousands) |                     |                    |                   |                   |                     |                     |                                       |
| <b>Financial Assets:</b>              |                        |                     |                    |                   |                   |                     |                     |                                       |
| Interest bearing deposits             | \$ 92,634              | —                   | —                  | —                 | —                 | —                   | \$ 92,634           | \$ 92,634                             |
| Weighted average rate                 | 2.50%                  | —                   | —                  | —                 | —                 | —                   | 2.50%               |                                       |
| Available-for-sale debt securities(1) | \$ 43,202              | \$ 17,571           | \$ 12,757          | \$ 24,406         | \$ 36,022         | \$ 110,010          | \$ 243,968          | \$ 243,968                            |
| Weighted average rate                 | 3.68%                  | 5.12%               | 3.35%              | 2.47%             | 2.43%             | 3.33%               | 3.29%               |                                       |
| Adjustable rate loans                 | \$ 1,983,704           | \$ 87,167           | \$ 43,032          | \$ 11,740         | \$ 32,874         | \$ 98,057           | \$ 2,256,574        | \$ 2,189,440                          |
| Weighted average rate                 | 5.28%                  | 3.80%               | 4.03%              | 3.70%             | 4.41%             | 3.95%               | 5.12%               |                                       |
| Fixed rate loans                      | \$ 279,268             | \$ 307,867          | \$ 375,550         | \$ 251,209        | \$ 249,104        | \$ 333,688          | \$ 1,796,686        | \$ 1,766,346                          |
| Weighted average rate                 | 4.45%                  | 4.72%               | 5.06%              | 5.73%             | 5.48%             | 5.31%               | 5.11%               |                                       |
| Federal Home Loan Bank stock          | \$ 12,438              | —                   | —                  | —                 | —                 | —                   | \$ 12,438           | \$ 12,438                             |
| Weighted average rate                 | 4.68%                  | —                   | —                  | —                 | —                 | —                   | 4.68%               |                                       |
| <b>Total financial assets</b>         | <b>\$ 2,411,246</b>    | <b>\$ 412,605</b>   | <b>\$ 431,339</b>  | <b>\$ 287,355</b> | <b>\$ 318,000</b> | <b>\$ 541,755</b>   | <b>\$ 4,402,300</b> |                                       |
| <b>Financial Liabilities:</b>         |                        |                     |                    |                   |                   |                     |                     |                                       |
| Time deposits                         | \$ 1,215,822           | \$ 259,704          | \$ 73,724          | \$ 26,012         | \$ 14,705         | \$ 1,444            | \$ 1,591,411        | \$ 1,584,303                          |
| Weighted average rate                 | 1.92%                  | 2.22%               | 2.20%              | 1.93%             | 2.18%             | 1.77%               | 1.98%               |                                       |
| Interest-bearing demand               | \$ 1,472,535           | —                   | —                  | —                 | —                 | —                   | \$ 1,472,535        | \$ 1,472,535                          |
| Weighted average rate                 | 0.46%                  | —                   | —                  | —                 | —                 | —                   | 0.46%               |                                       |
| Non-interest-bearing demand(2)        | —                      | —                   | —                  | —                 | —                 | \$ 661,061          | \$ 661,061          | \$ 661,061                            |
| Weighted average rate                 | —                      | —                   | —                  | —                 | —                 | —                   | —                   |                                       |
| Short-term borrowings                 | \$ 297,978             | —                   | —                  | —                 | —                 | —                   | \$ 297,978          | \$ 297,978                            |
| Weighted average rate                 | 1.68%                  | —                   | —                  | —                 | —                 | —                   | 1.68%               |                                       |
| Subordinated notes                    | —                      | —                   | —                  | —                 | —                 | \$ 75,000           | \$ 75,000           | \$ 75,188                             |
| Weighted average rate                 | —                      | —                   | —                  | —                 | —                 | 5.55%               | 5.55%               |                                       |
| Subordinated debentures               | \$ 25,774              | —                   | —                  | —                 | —                 | —                   | \$ 25,774           | \$ 25,774                             |
| Weighted average rate                 | 4.14%                  | —                   | —                  | —                 | —                 | —                   | 4.14%               |                                       |
| <b>Total financial liabilities</b>    | <b>\$ 3,012,109</b>    | <b>\$ 259,704</b>   | <b>\$ 73,724</b>   | <b>\$ 26,012</b>  | <b>\$ 14,705</b>  | <b>\$ 737,505</b>   | <b>\$ 4,123,759</b> |                                       |
| <b>Periodic repricing GAP</b>         | <b>\$ (600,863)</b>    | <b>\$ 152,901</b>   | <b>\$ 357,615</b>  | <b>\$ 261,343</b> | <b>\$ 303,295</b> | <b>\$ (195,750)</b> | <b>\$ 278,541</b>   |                                       |
| <b>Cumulative repricing GAP</b>       | <b>\$ (600,863)</b>    | <b>\$ (447,962)</b> | <b>\$ (90,347)</b> | <b>\$ 170,996</b> | <b>\$ 474,291</b> | <b>\$ 278,541</b>   |                     |                                       |

(1) Available-for-sale debt securities include approximately \$192.5 million of mortgage-backed securities which pay interest and principal monthly to the Company. Of this total, \$84.0 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, 2018 and 2017**

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## Report of Independent Registered Public Accounting Firm

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

### ***Opinion on the Financial Statements***

We have audited the accompanying consolidated statements of financial condition of Great Southern Bancorp, Inc. (the “Company”) as of December 31, 2018 and 2017, 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, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, 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) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 7, 2019 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

### ***Basis for Opinion***

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**BKD, LLP**

*BKD, LLP*

We have served as the Company’s auditor since 1975.

Springfield, Missouri  
March 7, 2019



**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Financial Condition**  
**December 31, 2018 and 2017**  
**(In Thousands, Except Per Share Data)**

**Assets**

|   | <u>2018</u>         | <u>2017</u>         |
|---|---------------------|---------------------|
| Cash  | \$ 110,108          | \$ 115,600          |
| Interest-bearing deposits in other financial institutions   | <u>92,634</u>       | <u>126,653</u>      |
| Cash and cash equivalents   | 202,742             | 242,253             |
| Available-for-sale securities   | 243,968             | 179,179             |
| Held-to-maturity securities   | —                   | 130                 |
| Mortgage loans held for sale  | 1,650               | 8,203               |
| Loans receivable, net of allowance for loan losses of \$38,409 and \$36,492 at December 31, 2018 and 2017, respectively | 3,989,001           | 3,726,302           |
| Interest receivable   | 13,448              | 12,338              |
| Prepaid expenses and other assets   | 55,336              | 47,122              |
| Other real estate owned and repossessions, net  | 8,440               | 22,002              |
| Premises and equipment, net   | 132,424             | 138,018             |
| Goodwill and other intangible assets  | 9,288               | 10,850              |
| Federal Home Loan Bank stock  | 12,438              | 11,182              |
| Current and deferred income taxes   | <u>7,465</u>        | <u>16,942</u>       |
| Total assets  | <u>\$ 4,676,200</u> | <u>\$ 4,414,521</u> |

*See Notes to Consolidated Financial Statements*

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Financial Condition**  
**December 31, 2018 and 2017**  
**(In Thousands, Except Per Share Data)**

**Liabilities and Stockholders' Equity**

|  | <b>2018</b>         | <b>2017</b>         |
|--|---------------------|---------------------|
| <b>Liabilities</b>   |                     |                     |
| Deposits   | \$ 3,725,007        | \$ 3,597,144        |
| Federal Home Loan Bank advances  | —                   | 127,500             |
| Securities sold under reverse repurchase agreements with customers   | 105,253             | 80,531              |
| Short-term borrowings and other interest-bearing liabilities   | 192,725             | 16,604              |
| Subordinated debentures issued to capital trust  | 25,774              | 25,774              |
| Subordinated notes   | 73,842              | 73,688              |
| Accrued interest payable   | 3,570               | 2,904               |
| Advances from borrowers for taxes and insurance  | 5,092               | 5,319               |
| Accrued expenses and other liabilities   | <u>12,960</u>       | <u>13,395</u>       |
| Total liabilities  | <u>4,144,223</u>    | <u>3,942,859</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;<br>issued and outstanding 2018 and 2017 – -0- shares                   | —                   | —                   |
| Common stock, \$.01 par value; authorized 20,000,000 shares;<br>issued and outstanding 2018 – 14,151,198 shares, 2017 –<br>14,087,533 shares | 142                 | 141                 |
| Additional paid-in capital   | 30,121              | 28,203              |
| Retained earnings  | 492,087             | 442,077             |
| Accumulated other comprehensive income, net of income taxes of \$2,844<br>and \$708 at December 31, 2018 and 2017, respectively              | <u>9,627</u>        | <u>1,241</u>        |
| Total stockholders' equity   | <u>531,977</u>      | <u>471,662</u>      |
| Total liabilities and stockholders' equity   | <u>\$ 4,676,200</u> | <u>\$ 4,414,521</u> |

See Notes to Consolidated Financial Statements

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2018, 2017 and 2016**  
**(In Thousands, Except Per Share Data)**

|   | <u>2018</u>    | <u>2017</u>    | <u>2016</u>    |
|---|----------------|----------------|----------------|
| <b>Interest Income</b>  |                |                |                |
| Loans   | \$ 198,226     | \$ 176,654     | \$ 178,883     |
| Investment securities and other                                 | <u>7,723</u>   | <u>6,407</u>   | <u>6,292</u>   |
|   | <u>205,949</u> | <u>183,061</u> | <u>185,175</u> |
| <b>Interest Expense</b>   |                |                |                |
| Deposits  | 27,957         | 20,595         | 17,387         |
| Federal Home Loan Bank advances                                 | 3,985          | 1,516          | 1,214          |
| Short-term borrowings and repurchase agreements                 | 765            | 747            | 1,137          |
| Subordinated debentures issued to capital trust                 | 953            | 949            | 803            |
| Subordinated notes  | <u>4,097</u>   | <u>4,098</u>   | <u>1,578</u>   |
|   | <u>37,757</u>  | <u>27,905</u>  | <u>22,119</u>  |
| <b>Net Interest Income</b>                                      | 168,192        | 155,156        | 163,056        |
| <b>Provision for Loan Losses</b>                                | <u>7,150</u>   | <u>9,100</u>   | <u>9,281</u>   |
| <b>Net Interest Income After Provision for Loan Losses</b>      | <u>161,042</u> | <u>146,056</u> | <u>153,775</u> |
| <b>Noninterest Income</b>                                       |                |                |                |
| Commissions   | 1,137          | 1,041          | 1,097          |
| Service charges and ATM fees                                    | 21,695         | 21,628         | 21,666         |
| Net gains on loan sales   | 1,788          | 3,150          | 3,941          |
| Net realized gains on sales of available-for-sale securities    | 2              | —              | 2,873          |
| Late charges and fees on loans                                  | 1,622          | 2,231          | 1,747          |
| Gain on derivative interest rate products                       | 25             | 28             | 66             |
| Gain on sale of business units                                  | 7,414          | —              | —              |
| Gain (loss) on termination of loss sharing agreements           | —              | 7,705          | (584)          |
| Amortization of income/expense related to business acquisitions | —              | (486)          | (6,351)        |
| Other income  | <u>2,535</u>   | <u>3,230</u>   | <u>4,055</u>   |
|   | <u>36,218</u>  | <u>38,527</u>  | <u>28,510</u>  |
| <b>Noninterest Expense</b>                                      |                |                |                |
| Salaries and employee benefits                                  | 60,215         | 60,034         | 60,377         |
| Net occupancy expense   | 25,628         | 24,613         | 26,077         |
| Postage   | 3,348          | 3,461          | 3,791          |
| Insurance   | 2,674          | 2,959          | 3,482          |
| Advertising   | 2,460          | 2,311          | 2,228          |
| Office supplies and printing                                    | 1,047          | 1,446          | 1,708          |
| Telephone   | 3,272          | 3,188          | 3,483          |
| Legal, audit and other professional fees                        | 3,423          | 2,862          | 3,191          |
| Expense on other real estate and repossessions                  | 4,919          | 3,929          | 4,111          |
| Partnership tax credit investment amortization                  | 575            | 930            | 1,681          |
| Acquired deposit intangible asset amortization                  | 1,562          | 1,650          | 1,910          |
| Other operating expenses  | <u>6,187</u>   | <u>6,878</u>   | <u>8,388</u>   |
|   | <u>115,310</u> | <u>114,261</u> | <u>120,427</u> |

See Notes to Consolidated Financial Statements

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2018, 2017 and 2016**  
**(In Thousands, Except Per Share Data)**

|   | <u>2018</u>      | <u>2017</u>      | <u>2016</u>      |
|---|------------------|------------------|------------------|
| <b>Income Before Income Taxes</b>                                 | \$ 81,950        | \$ 70,322        | \$ 61,858        |
| <b>Provision for Income Taxes</b>                                 | <u>14,841</u>    | <u>18,758</u>    | <u>16,516</u>    |
| <b>Net Income and Net Income Available to Common Shareholders</b> | <u>\$ 67,109</u> | <u>\$ 51,564</u> | <u>\$ 45,342</u> |
| <b>Earnings Per Common Share</b>                                  |                  |                  |                  |
| Basic   | <u>\$ 4.75</u>   | <u>\$ 3.67</u>   | <u>\$ 3.26</u>   |
| Diluted   | <u>\$ 4.71</u>   | <u>\$ 3.64</u>   | <u>\$ 3.21</u>   |

*See Notes to Consolidated Financial Statements*

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2018, 2017 and 2016**  
**(In Thousands)**

|   | <u>2018</u>             | <u>2017</u>             | <u>2016</u>             |
|---|-------------------------|-------------------------|-------------------------|
| <b>Net Income</b>   | \$ <u>67,109</u>        | \$ <u>51,564</u>        | \$ <u>45,342</u>        |
| Unrealized depreciation on available-for-sale securities,<br>net of taxes (credit) of \$(353), \$(272) and \$(1,346) for<br>2018, 2017 and 2016, respectively   | (1,229)                 | (478)                   | (2,363)                 |
| Less: reclassification adjustment for gains included in<br>net income, net of taxes (credit) of \$0, \$0 and<br>\$(1,043) for 2018, 2017 and 2016, respectively | (2)                     | —                       | (1,830)                 |
| Change in fair value of cash flow hedge, net of taxes of<br>\$2,761, \$93 and \$50 for 2018, 2017 and 2016,<br>respectively                                     | <u>9,345</u>            | <u>161</u>              | <u>87</u>               |
| Other comprehensive income (loss)   | <u>8,114</u>            | <u>(317)</u>            | <u>(4,106)</u>          |
| <b>Comprehensive Income</b>   | <u>\$ <u>75,223</u></u> | <u>\$ <u>51,247</u></u> | <u>\$ <u>41,236</u></u> |

See Notes to Consolidated Financial Statements

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
**Years Ended December 31, 2018, 2017 and 2016**  
**(In Thousands, Except Per Share Data)**

|  | <b>Common<br/>Stock</b> |
|--|-------------------------|
| <b>Balance, January 1, 2016</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  | 1                       |
| <b>Balance, December 31, 2016</b>  | 140                     |
| Net income   | —                       |
| Stock issued under Stock Option Plan   | —                       |
| Common dividends declared, \$.94 per share   | —                       |
| Other comprehensive loss   | —                       |
| Reclassification of treasury stock per Maryland law  | 1                       |
| <b>Balance, December 31, 2017</b>  | 141                     |
| Net income   | —                       |
| Stock issued under Stock Option Plan   | —                       |
| Common dividends declared, \$1.20 per share  | —                       |
| Purchase of the Company's common stock   | —                       |
| Reclassification of stranded tax effects resulting from change in Federal<br>income tax rate | —                       |
| Other comprehensive gain   | —                       |
| Reclassification of treasury stock per Maryland law  | 1                       |
| <b>Balance, December 31, 2018</b>  | <b>\$ 142</b>           |

*See Notes to Consolidated Financial Statements*

| <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income<br/>(Loss)</b> | <b>Treasury<br/>Stock</b> | <b>Total</b>      |
|---|------------------------------|--|---------------------------|-------------------|
| \$ 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)           |
| <u>—</u>                                  | <u>1,021</u>                 | <u>—</u>   | <u>(1,022)</u>            | <u>—</u>          |
| 25,942                                    | 402,166                      | 1,558  | —                         | 429,806           |
| —   | 51,564                       | —  | —                         | 51,564            |
| 2,261                                     | —                            | —  | 1,550                     | 3,811             |
| —   | (13,202)                     | —  | —                         | (13,202)          |
| —   | —                            | (317)  | —                         | (317)             |
| <u>—</u>                                  | <u>1,549</u>                 | <u>—</u>   | <u>(1,550)</u>            | <u>—</u>          |
| 28,203                                    | 442,077                      | 1,241  | —                         | 471,662           |
| —   | 67,109                       | —  | —                         | 67,109            |
| 1,918                                     | —                            | —  | 1,043                     | 2,961             |
| —   | (16,966)                     | —  | —                         | (16,966)          |
| —   | —                            | —  | (903)                     | (903)             |
| —   | (272)                        | 272  | —                         | —                 |
| —   | —                            | 8,114  | —                         | 8,114             |
| <u>—</u>                                  | <u>139</u>                   | <u>—</u>   | <u>(140)</u>              | <u>—</u>          |
| <u>\$ 30,121</u>                          | <u>\$ 492,087</u>            | <u>\$ 9,627</u>  | <u>\$ —</u>               | <u>\$ 531,977</u> |

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2018, 2017 and 2016**  
**(In Thousands)**

|   | <u>2018</u>   | <u>2017</u>     | <u>2016</u>   |
|---|---------------|-----------------|---------------|
| <b>Operating Activities</b>   |               |                 |               |
| Net income  | \$ 67,109     | \$ 51,564       | \$ 45,342     |
| Proceeds from sales of loans held for sale                                    | 92,422        | 138,659         | 156,835       |
| Originations of loans held for sale   | (83,806)      | (126,215)       | (156,036)     |
| Items not requiring (providing) cash  |               |                 |               |
| Depreciation  | 9,118         | 9,120           | 9,816         |
| Amortization  | 2,291         | 2,731           | 3,656         |
| Compensation expense for stock option grants                                  | 737           | 564             | 483           |
| Provision for loan losses   | 7,150         | 9,100           | 9,281         |
| Net gains on loan sales   | (1,788)       | (3,150)         | (3,941)       |
| Net realized gains on available-for-sale securities                           | (2)           | —               | (2,873)       |
| (Gain) loss on sale of premises and equipment                                 | 193           | 297             | (249)         |
| (Gain) loss on sale/write-down of other real estate<br>and repossessions      | 1,886         | (449)           | 489           |
| Gain on sales of business units   | (7,414)       | —               | (368)         |
| (Gain) loss realized on termination of loss sharing<br>agreements             | —             | (7,705)         | 584           |
| (Accretion) amortization of deferred income,<br>premiums, discounts and other | (2,918)       | (1,947)         | 4,423         |
| Gain on derivative interest rate products                                     | (25)          | (28)            | (66)          |
| Deferred income taxes   | (4,450)       | 9,423           | (3,621)       |
| Changes in  |               |                 |               |
| Interest receivable   | (1,110)       | (463)           | (535)         |
| Prepaid expenses and other assets   | 3,002         | (5,227)         | 12,655        |
| Accrued expenses and other liabilities  | 280           | 1,821           | (2,720)       |
| Income taxes refundable/payable   | <u>11,520</u> | <u>(15,278)</u> | <u>7,484</u>  |
| Net cash provided by operating activities                                     | <u>94,195</u> | <u>62,817</u>   | <u>80,639</u> |

See Notes to Consolidated Financial Statements



**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2018, 2017 and 2016**  
**(In Thousands)**

|   | <u>2018</u>      | <u>2017</u>   | <u>2016</u>      |
|---|------------------|---------------|------------------|
| <b>Investing Activities</b>   |                  |               |                  |
| Net change in loans   | \$ (147,945)     | \$ 136,596    | \$ (145,101)     |
| Purchase of loans   | (128,038)        | (133,018)     | (145,600)        |
| Proceeds from sale of student loans   | —                | —             | 368              |
| Cash received from purchase of additional business units                        | —                | —             | 44,363           |
| Cash received from FDIC loss sharing reimbursements                             | —                | 16,246        | 247              |
| Cash paid for sale of business units  | (50,356)         | —             | (17,821)         |
| Purchase of premises and equipment  | (9,317)          | (7,404)       | (10,878)         |
| Proceeds from sale of premises and equipment                                    | 2,328            | 565           | 1,178            |
| Proceeds from sale of other real estate and repossessions                       | 20,426           | 33,640        | 28,362           |
| Capitalized costs on other real estate owned                                    | (153)            | (117)         | (146)            |
| Proceeds from maturities, calls and repayments of held-to-maturity securities   | 130              | 117           | 106              |
| Proceeds from sale of available-for-sale securities                             | 502              | —             | 55,000           |
| Proceeds from maturities, calls and repayments of available-for-sale securities | 25,734           | 36,754        | 60,827           |
| Purchase of available-for-sale securities                                       | (93,378)         | (3,852)       | (71,904)         |
| Redemption (purchase) of Federal Home Loan Bank stock                           | <u>(1,256)</u>   | <u>1,852</u>  | <u>2,269</u>     |
| Net cash provided by (used in) investing activities                             | <u>(381,323)</u> | <u>81,379</u> | <u>(198,730)</u> |

See Notes to Consolidated Financial Statements

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2018, 2017 and 2016**  
**(In Thousands)**

|   | <u>2018</u>       | <u>2017</u>       | <u>2016</u>       |
|---|-------------------|-------------------|-------------------|
| <b>Financing Activities</b>   |                   |                   |                   |
| Net increase (decrease) in certificates of deposit                                      | \$ 242,955        | \$ (114,714)      | \$ 162,763        |
| Net increase (decrease) in checking and savings accounts                                | (53,956)          | 34,796            | 36,126            |
| Proceeds from Federal Home Loan Bank advances   | 2,621,500         | 1,420,500         | 1,793,000         |
| Repayments of Federal Home Loan Bank advances   | (2,749,000)       | (1,324,435)       | (2,025,070)       |
| Net increase (decrease) in short-term borrowings and other interest-bearing liabilities | 200,843           | (188,888)         | 168,546           |
| Proceeds from issuance of subordinated notes  | —                 | —                 | 73,472            |
| Advances from (to) borrowers for taxes and insurance                                    | (227)             | 676               | (38)              |
| Purchase of the Company's common stock  | (903)             | —                 | —                 |
| Dividends paid  | (15,819)          | (12,894)          | (12,232)          |
| Stock options exercised   | <u>2,224</u>      | <u>3,247</u>      | <u>2,110</u>      |
| Net cash provided by (used in) financing activities                                     | <u>247,617</u>    | <u>(181,712)</u>  | <u>198,677</u>    |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>                                 | <b>(39,511)</b>   | <b>(37,516)</b>   | <b>80,586</b>     |
| <b>Cash and Cash Equivalents, Beginning of Year</b>                                     | <u>242,253</u>    | <u>279,769</u>    | <u>199,183</u>    |
| <b>Cash and Cash Equivalents, End of Year</b>   | <u>\$ 202,742</u> | <u>\$ 242,253</u> | <u>\$ 279,769</u> |

See Notes to Consolidated Financial Statements

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018, 2017 and 2016**

**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, Tulsa, Okla., Chicago, Ill., Atlanta, Ga., Denver, Colo. and Omaha, Neb. 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 (prior to December 31, 2017) 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 was 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 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.

# Great Southern Bancorp, Inc.

## Notes to Consolidated Financial Statements

### December 31, 2018, 2017 and 2016

#### ***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 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 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.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018, 2017 and 2016**

***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 loans 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 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.

# Great Southern Bancorp, Inc.

## Notes to Consolidated Financial Statements

### December 31, 2018, 2017 and 2016

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 acquired 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. 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 acquired 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 were covered under loss sharing agreements with the FDIC. These agreements committed 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 expected 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

# Great Southern Bancorp, Inc.

## Notes to Consolidated Financial Statements

### December 31, 2018, 2017 and 2016

with FASB ASC 805, each FDIC Indemnification Asset was initially recorded at its fair value, and was measured separately from the loan assets and foreclosed assets because the loss sharing agreements were not contractually embedded in them or transferrable with them in the event of disposal. The balance of the FDIC Indemnification Asset increased and decreased as the expected and actual cash flows from the covered assets fluctuated, as loans were paid off or impaired and as loans and foreclosed assets were sold. There were no contractual interest rates on the 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 the receivable was to be collected over the terms of the loss sharing agreements. This discount was accreted to income up until the termination of the loss sharing agreements. During 2016 and 2017, the Company and the FDIC mutually agreed to terminate all 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 and Repossessions***

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. 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 believed that the market value of some of these properties had declined further. No asset impairment was recognized during the years ended December 31, 2018 and 2017. At December 31, 2018, the remaining valuation allowance related to various properties was \$928,000.

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**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.

A summary of goodwill and intangible assets is as follows:

|                                | <b>December 31,</b>   |             |
|--------------------------------|-----------------------|-------------|
|                                | <b>2018</b>           | <b>2017</b> |
|                                | <b>(In Thousands)</b> |             |
| Goodwill – Branch acquisitions | \$ 5,396              | \$ 5,396    |
| Deposit intangibles            |                       |             |
| Sun Security Bank              | —                     | 263         |
| InterBank                      | 36                    | 181         |
| Boulevard Bank                 | 275                   | 397         |
| Valley Bank                    | 1,000                 | 1,400       |
| Fifth Third Bank               | 2,581                 | 3,213       |
|                                | 3,892                 | 5,454       |
|                                | \$ 9,288              | \$ 10,850   |

**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**

The Company is incorporated in the State of Maryland. 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.



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

|  | 2018                                  | 2017             | 2016             |
|--|---------------------------------------|------------------|------------------|
|  | (In Thousands, Except Per Share Data) |                  |                  |
| Net income and net income available to common shareholders | \$ <u>67,109</u>                      | \$ <u>51,564</u> | \$ <u>45,342</u> |
| Average common shares outstanding                          | 14,132                                | 14,032           | 13,912           |
| Average common share stock options outstanding             | <u>128</u>                            | <u>148</u>       | <u>229</u>       |
| Average diluted common shares                              | <u>14,260</u>                         | <u>14,180</u>    | <u>14,141</u>    |
| Earnings per common share – basic                          | \$ <u>4.75</u>                        | \$ <u>3.67</u>   | \$ <u>3.26</u>   |
| Earnings per common share – diluted                        | \$ <u>4.71</u>                        | \$ <u>3.64</u>   | \$ <u>3.21</u>   |

Options outstanding at December 31, 2018, 2017 and 2016, to purchase 424,833, 253,711 and 108,450 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, 2018, 2017 and 2016, 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, 2018, 2017 and 2016, share-based compensation expense totaling \$737,000, \$564,000 and \$483,000, 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, 2018 and 2017, cash equivalents consisted of interest-bearing deposits in other financial institutions. At December 31, 2018, 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 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.

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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, 2018 and 2017, 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 17*.

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, 2018 and 2017, respectively, was \$62.6 million and \$59.1 million.

#### **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. These Updates were effective beginning January 1, 2018. Our revenue is comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. We have determined that certain components of our non-interest income contain revenue streams which are included in the scope of these updates, such as deposit-related fees, service charges, debit card interchange fees and other charges and fees, and revenue from the sale of other real estate owned; however the adoption of these updates did not materially impact the Company’s consolidated statements of income. We adopted the guidance using the modified retrospective adoption method, and no cumulative effect adjustment to opening retained earnings was required as a result of the adoption.

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Under ASU 2014-09, for revenue not associated with financial instruments, we apply the following steps when recognizing revenue from contracts with customers: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations and (v) recognize revenue when performance obligation is satisfied. Our contracts with customers are generally short term in nature, typically due within one year or less or cancellable by us or our customer upon a short notice period. Performance obligations for our customer contracts are generally satisfied at a single point in time, typically when the transaction is complete, or over time. For performance obligations satisfied over time, we primarily use the output method, directly measuring the value of the products/services transferred to the customer, to determine when performance obligations have been satisfied. We typically receive payment from customers and recognize revenue concurrent with the satisfaction of our performance obligations. In most cases, this occurs within a single financial reporting period. For payments received in advance of the satisfaction of performance obligations, revenue recognition is deferred until such time the performance obligations have been satisfied. In cases where we have not received payment despite satisfaction of our performance obligations, we accrue an estimate of the amount due in the period our performance obligations have been satisfied. For contracts with variable components, only amounts for which collection is probable are accrued. We generally act in a principal capacity, on our own behalf, in most of our contracts with customers. In such transactions, we recognize revenue and the related costs to provide our services on a gross basis in our financial statements. In some cases, we act in an agent capacity, deriving revenue through assisting other entities in transactions with our customers. In such transactions, we recognize revenue and the related costs to provide our services on a net basis in our financial statements. These transactions primarily relate to fees derived from our customers' use of various interchange and ATM/debit card networks.

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. The update enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information by updating certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Among other changes, the update requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 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 was effective for the Company on January 1, 2018 and did not have a material impact on the Company's consolidated statements of financial condition or our consolidated statements of income.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* and in July 2018 FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*. 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 was effective for the Company January 1, 2019. 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, 2018, which totaled less than 20 leased properties and no significant leased equipment, the adoption of the new standard did not have a material impact on our consolidated statements of financial condition or our consolidated statements of income, although an increase to assets and liabilities occurs at the time of adoption. In the first quarter of 2019, the Company recognized a lease liability and a corresponding right-of-use asset for all leases of approximately \$9 million based on our current lease portfolio. Subsequent to December 31, 2018, the Company's lease terminations, new leases and lease modifications and renewals will impact the amount of lease liability and a corresponding right-of-use asset recognized. The Company's leases are currently all "operating leases" as defined in the Update; therefore, no material change in the income statement presentation of lease expense is anticipated.

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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. Early adoption will be permitted beginning after December 15, 2018. An entity will apply the amendments in this update on a modified retrospective basis, through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company has formed a cross functional committee to oversee the system, data, reporting and other considerations for the purposes of meeting the requirements of this standard. We have assessed our data and system needs and completed the upload of the necessary historical loan data to the software that will be used in meeting certain requirements of this standard. Parallel testing of the new methodology compared to the current methodology will commence in the first quarter of 2019. The Company is evaluating the impact of adopting the new guidance, including the implementation of new data systems to capture the information needed to comply with the new standard. 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. These items include: cash payments for debt prepayment or debt extinguishment costs; cash outflows for the settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; and beneficial interests acquired in securitization transactions. The amendments in the Update are to be applied retrospectively. The Update was effective for the Company on January 1, 2018 and did not result in a material impact on the Company's consolidated financial statements, including the statement of cash flows.

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 was effective for the Company on January 1, 2018. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

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 were effective for the Company on January 1, 2018. The adoption of this new guidance must be applied on a prospective basis and did not have a material impact on the Company's consolidated financial statements.

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 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

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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, including consideration of early adoption, on the consolidated financial statements, but it is not expected to have a material impact.

In May 2017, the FASB issued ASU 2017-09, *Compensation --Stock Compensation (Topic 718): Scope of Modification Accounting*. The amendment provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The amendments clarify that modification accounting only applies to an entity if the fair value, vesting conditions, or classification of the award changes as a result of changes in the terms or conditions of a share-based payment award. The ASU should be applied prospectively to awards modified on or after the adoption date. The guidance was effective for the Company on January 1, 2018. The adoption of the ASU did not impact the Company's consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The objective of ASU 2017-12 is to improve the financial reporting of hedging relationships by better aligning an entity's risk management activity with the economic objectives in undertaking those activities. In addition, the amendments in this update simplify the application of hedge accounting for preparers of financial statements, as well as improve the understandability of an entity's risk management activities being conveyed to financial statement users. The Company early adopted the ASU on a prospective basis effective October 1, 2018, and the adoption did not have a material effect on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220)*. The amendment allows an entity to elect to reclassify the stranded tax effects resulting from the change in income tax rate from H.R. 1, originally known as the "Tax Cuts and Jobs Act," from accumulated other comprehensive income to retained earnings. The amendments in this update are effective for periods beginning after December 15, 2018. Early adoption is permitted. The Company chose to early adopt ASU 2018-02 effective January 1, 2018. The stranded tax amount related to unrealized gains and losses on available for sale securities, which was reclassified from accumulated other comprehensive income to retained earnings at the time of adoption, was \$272,000. There were no other income tax effects related to the application of the Act to be reclassified from AOCI to retained earnings.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) - Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 modifies the disclosure requirements on fair value measurements in Topic 820. The amendments in this update remove disclosures that no longer are considered cost beneficial, modify/clarify the specific requirements of certain disclosures, and add disclosure requirements identified as relevant. ASU 2018-13 is effective for periods beginning after December 15, 2019, with early adoption permitted for certain removed and modified disclosures, and is not expected to have a significant impact on our financial statements.

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**Note 2: Investments in Securities**

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

|  | <b>December 31, 2018</b>  |                                       |  |                       |
|--|---------------------------|---------------------------------------|--|-----------------------|
|  | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|  | (In Thousands)            |                                       |  |                       |
| Agency mortgage-backed securities          | \$ 154,557                | \$ 1,272                              | \$ 2,571                               | \$ 153,258            |
| Agency collateralized mortgage obligations | 39,024                    | 250                                   | 14                                     | 39,260                |
| States and political subdivisions          | <u>50,022</u>             | <u>1,428</u>                          | <u>—</u>                               | <u>51,450</u>         |
|  | <u>\$ 243,603</u>         | <u>\$ 2,950</u>                       | <u>\$ 2,585</u>                        | <u>\$ 243,968</u>     |

|                                   | <b>December 31, 2017</b>  |                                       |  |                       |
|-----------------------------------|---------------------------|---------------------------------------|--|-----------------------|
|                                   | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|                                   | (In Thousands)            |                                       |  |                       |
| Agency mortgage-backed securities | \$ 123,300                | \$ 871                                | \$ 1,638                               | \$ 122,533            |
| States and political subdivisions | <u>53,930</u>             | <u>2,716</u>                          | <u>—</u>                               | <u>56,646</u>         |
|                                   | <u>\$ 177,230</u>         | <u>\$ 3,587</u>                       | <u>\$ 1,638</u>                        | <u>\$ 179,179</u>     |

At December 31, 2018, the Company's agency mortgage-backed securities portfolio consisted of FHLMC securities totaling \$37.2 million, FNMA securities totaling \$92.1 million and GNMA securities totaling \$23.9 million. At December 31, 2018, agency collateralized mortgage obligations consisted of GNMA securities totaling \$39.3 million, all of which are commercial multi-family fixed rate securities. At December 31, 2018, \$108.5 million of the Company's agency mortgage-backed securities had fixed rates of interest and \$84.0 million had variable rates of interest. Of the total FNMA securities at December 31, 2018, \$56.3 million are commercial multi-family fixed rate securities.

The amortized cost and fair value of available-for-sale securities at December 31, 2018, 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.

|  | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> |
|--|---------------------------|-----------------------|
|  | (In Thousands)            |                       |
| After one through five years                 | \$ 849                    | \$ 919                |
| After five through ten years                 | 9,959                     | 10,139                |
| After ten years                              | 39,214                    | 40,392                |
| Securities not due on a single maturity date | <u>193,581</u>            | <u>192,518</u>        |
|  | <u>\$ 243,603</u>         | <u>\$ 243,968</u>     |

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The amortized cost and fair values of securities classified as held to maturity were as follows. There were no securities classified as held to maturity at December 31, 2018:

|                                   | <b>December 31, 2017</b>  |                                       |  |                       |
|-----------------------------------|---------------------------|---------------------------------------|--|-----------------------|
|                                   | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|                                   | (In Thousands)            |                                       |  |                       |
| States and political subdivisions | \$ <u>130</u>             | \$ <u>1</u>                           | \$ <u>—</u>                            | \$ <u>131</u>         |

The amortized cost and fair values of securities pledged as collateral was as follows at December 31, 2018 and 2017:

|                                      | <b>2018</b>               |                       | <b>2017</b>               |                       |
|--------------------------------------|---------------------------|-----------------------|---------------------------|-----------------------|
|                                      | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> |
|                                      | (In Thousands)            |                       |                           |                       |
| Public deposits                      | \$ 9,482                  | \$ 9,802              | \$ 10,958                 | \$ 11,490             |
| Collateralized borrowing<br>accounts | 148,050                   | 146,337               | 120,622                   | 119,776               |
| Other                                | <u>763</u>                | <u>761</u>            | <u>1,579</u>              | <u>1,601</u>          |
|                                      | <u>\$ 158,295</u>         | <u>\$ 156,900</u>     | <u>\$ 133,159</u>         | <u>\$ 132,867</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, 2018 and 2017, was approximately \$95.7 million and \$89.7 million, respectively, which is approximately 39.2% and 50.0% 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.

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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, 2018 and 2017:

| Description of Securities                  | 2018                |                   |                   |                   |                  |                   |
|--|---------------------|-------------------|-------------------|-------------------|------------------|-------------------|
|  | Less than 12 Months |                   | 12 Months or More |                   | Total            |                   |
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value       | Unrealized Losses |
|  | (In Thousands)      |                   |                   |                   |                  |                   |
| Agency mortgage-backed securities          | \$ 11,255           | \$ (82)           | \$ 74,186         | \$ (2,489)        | \$ 85,441        | \$ (2,571)        |
| Agency collateralized mortgage obligations | 9,725               | (14)              | —                 | —                 | 9,725            | (14)              |
| States and political subdivisions          | 511                 | —                 | —                 | —                 | 511              | —                 |
|  | <u>\$ 21,491</u>    | <u>\$ (96)</u>    | <u>\$ 74,186</u>  | <u>\$ (2,489)</u> | <u>\$ 95,677</u> | <u>\$ (2,585)</u> |

| Description of Securities         | 2017                |                   |                   |                   |                  |                   |
|-----------------------------------|---------------------|-------------------|-------------------|-------------------|------------------|-------------------|
|                                   | Less than 12 Months |                   | 12 Months or More |                   | Total            |                   |
|                                   | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value       | Unrealized Losses |
|                                   | (In Thousands)      |                   |                   |                   |                  |                   |
| Agency mortgage-backed securities | \$ 33,862           | \$ (384)          | \$ 55,845         | \$ (1,254)        | \$ 89,707        | \$ (1,638)        |
| States and political subdivisions | —                   | —                 | —                 | —                 | —                | —                 |
|                                   | <u>\$ 33,862</u>    | <u>\$ (384)</u>   | <u>\$ 55,845</u>  | <u>\$ (1,254)</u> | <u>\$ 89,707</u> | <u>\$ (1,638)</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



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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 2018, 2017 and 2016, no securities were determined to have impairment that had become other than temporary.

***Credit Losses Recognized on Investments***

During 2018, 2017 and 2016, 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, 2018 and 2017, included:

|   | <b>2018</b>           | <b>2017</b>         |
|---|-----------------------|---------------------|
|   | <b>(In Thousands)</b> |                     |
| One- to four-family residential construction                        | \$ 26,177             | \$ 20,793           |
| Subdivision construction  | 13,844                | 18,062              |
| Land development  | 44,492                | 43,971              |
| Commercial construction   | 1,417,166             | 1,068,352           |
| Owner occupied one- to four-family residential                      | 276,866               | 190,515             |
| Non-owner occupied one- to four-family residential                  | 122,438               | 119,468             |
| Commercial real estate  | 1,371,435             | 1,235,329           |
| Other residential   | 784,894               | 745,645             |
| Commercial business   | 322,118               | 353,351             |
| Industrial revenue bonds  | 13,940                | 21,859              |
| Consumer auto   | 253,528               | 357,142             |
| Consumer other  | 57,350                | 63,368              |
| Home equity lines of credit   | 121,352               | 115,439             |
| Loans acquired and accounted for under ASC 310-30, net of discounts | 167,651               | 209,669             |
|   | 4,993,251             | 4,562,963           |
| Undisbursed portion of loans in process                             | (958,441)             | (793,669)           |
| Allowance for loan losses   | (38,409)              | (36,492)            |
| Deferred loan fees and gains, net                                   | (7,400)               | (6,500)             |
|   | <u>\$ 3,989,001</u>   | <u>\$ 3,726,302</u> |

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Classes of loans by aging were as follows:

|  | December 31, 2018      |                        |                 |                   |                     |                              |  |
|--|------------------------|------------------------|-----------------|-------------------|---------------------|------------------------------|--|
|  | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | Over 90<br>Days | Total Past<br>Due | Current             | Total<br>Loans<br>Receivable | Total Loans<br>> 90 Days Past<br>Due and<br>Still Accruing |
|  | (In Thousands)         |                        |                 |                   |                     |                              |  |
| One- to four-family residential construction                             | \$ —                   | \$ —                   | \$ —            | \$ —              | \$ 26,177           | \$ 26,177                    | \$ —   |
| Subdivision construction   | —                      | —                      | —               | —                 | 13,844              | 13,844                       | —  |
| Land development   | 13                     | —                      | 49              | 62                | 44,430              | 44,492                       | —  |
| Commercial construction  | —                      | —                      | —               | —                 | 1,417,166           | 1,417,166                    | —  |
| Owner occupied one- to four-family residential                           | 1,431                  | 806                    | 1,206           | 3,443             | 273,423             | 276,866                      | —  |
| Non-owner occupied one- to four-family residential                       | 1,142                  | 144                    | 1,458           | 2,744             | 119,694             | 122,438                      | —  |
| Commercial real estate   | 3,940                  | 53                     | 334             | 4,327             | 1,367,108           | 1,371,435                    | —  |
| Other residential  | —                      | —                      | —               | —                 | 784,894             | 784,894                      | —  |
| Commercial business  | 72                     | 54                     | 1,437           | 1,563             | 320,555             | 322,118                      | —  |
| Industrial revenue bonds   | 3                      | —                      | —               | 3                 | 13,937              | 13,940                       | —  |
| Consumer auto  | 2,596                  | 722                    | 1,490           | 4,808             | 248,720             | 253,528                      | —  |
| Consumer other   | 691                    | 181                    | 240             | 1,112             | 56,238              | 57,350                       | —  |
| Home equity lines of credit  | 229                    | —                      | 86              | 315               | 121,037             | 121,352                      | —  |
| Loans acquired and accounted for under ASC 310-30, net of discounts      | <u>2,195</u>           | <u>1,416</u>           | <u>6,827</u>    | <u>10,438</u>     | <u>157,213</u>      | <u>167,651</u>               | <u>—</u>   |
|  | 12,312                 | 3,376                  | 13,127          | 28,815            | 4,964,436           | 4,993,251                    | —  |
| Less loans acquired and accounted for under ASC 310-30, net of discounts | <u>2,195</u>           | <u>1,416</u>           | <u>6,827</u>    | <u>10,438</u>     | <u>157,213</u>      | <u>167,651</u>               | <u>—</u>   |
| Total  | <u>\$ 10,117</u>       | <u>\$ 1,960</u>        | <u>\$ 6,300</u> | <u>\$ 18,377</u>  | <u>\$ 4,807,223</u> | <u>\$ 4,825,600</u>          | <u>\$ —</u>  |

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|  | <b>30-59 Days<br/>Past Due</b> | <b>60-89 Days<br/>Past Due</b> | <b>Over 90<br/>Days</b> | <b>Total Past<br/>Due</b> | <b>Current</b>      | <b>Total<br/>Loans<br/>Receivable</b> | <b>Total Loans<br/>&gt; 90 Days<br/>Past Due and<br/>Still Accruing</b> |
|--|--------------------------------|--------------------------------|-------------------------|---------------------------|---------------------|---------------------------------------|---|
| <b>(In Thousands)</b>  |                                |                                |                         |                           |                     |                                       |   |
| One- to four-family residential construction                             | \$ 250                         | \$ —                           | \$ —                    | \$ 250                    | \$ 20,543           | \$ 20,793                             | \$ —  |
| Subdivision construction   | —                              | —                              | 98                      | 98                        | 17,964              | 18,062                                | —   |
| Land development   | 54                             | 37                             | —                       | 91                        | 43,880              | 43,971                                | —   |
| Commercial construction  | —                              | —                              | —                       | —                         | 1,068,352           | 1,068,352                             | —   |
| Owner occupied one- to four-family residential                           | 1,927                          | 71                             | 904                     | 2,902                     | 187,613             | 190,515                               | —   |
| Non-owner occupied one- to four-family residential                       | 947                            | 190                            | 1,816                   | 2,953                     | 116,515             | 119,468                               | 58  |
| Commercial real estate   | 8,346                          | 993                            | 1,226                   | 10,565                    | 1,224,764           | 1,235,329                             | —   |
| Other residential  | 540                            | 353                            | 1,877                   | 2,770                     | 742,875             | 745,645                               | —   |
| Commercial business  | 2,623                          | 1,282                          | 2,063                   | 5,968                     | 347,383             | 353,351                               | —   |
| Industrial revenue bonds   | —                              | —                              | —                       | —                         | 21,859              | 21,859                                | —   |
| Consumer auto  | 5,196                          | 1,230                          | 2,284                   | 8,710                     | 348,432             | 357,142                               | 12  |
| Consumer other   | 464                            | 64                             | 557                     | 1,085                     | 62,283              | 63,368                                | —   |
| Home equity lines of credit  | 58                             | —                              | 430                     | 488                       | 114,951             | 115,439                               | 26  |
| Loans acquired and accounted for under ASC 310-30, net of discounts      | <u>4,449</u>                   | <u>1,951</u>                   | <u>10,675</u>           | <u>17,075</u>             | <u>192,594</u>      | <u>209,669</u>                        | <u>272</u>  |
|  | 24,854                         | 6,171                          | 21,930                  | 52,955                    | 4,510,008           | 4,562,963                             | 368   |
| Less loans acquired and accounted for under ASC 310-30, net of discounts | <u>4,449</u>                   | <u>1,951</u>                   | <u>10,675</u>           | <u>17,075</u>             | <u>192,594</u>      | <u>209,669</u>                        | <u>272</u>  |
| Total  | <u>\$ 20,405</u>               | <u>\$ 4,220</u>                | <u>\$ 11,255</u>        | <u>\$ 35,880</u>          | <u>\$ 4,317,414</u> | <u>\$ 4,353,294</u>                   | <u>\$ 96</u>  |

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Nonaccruing loans are summarized as follows:

|  | December 31,   |           |
|--|----------------|-----------|
|  | 2018           | 2017      |
|  | (In Thousands) |           |
| One- to four-family residential construction       | \$ —           | \$ —      |
| Subdivision construction                           | 49             | 98        |
| Land development                                   | —              | —         |
| Commercial construction                            | —              | —         |
| Owner occupied one- to four-family residential     | 1,206          | 904       |
| Non-owner occupied one- to four-family residential | 1,458          | 1,758     |
| Commercial real estate                             | 334            | 1,226     |
| Other residential                                  | —              | 1,877     |
| Commercial business                                | 1,437          | 2,063     |
| Industrial revenue bonds                           | —              | —         |
| Consumer auto                                      | 1,490          | 2,272     |
| Consumer other                                     | 240            | 557       |
| Home equity lines of credit                        | 86             | 404       |
| Total  | \$ 6,300       | \$ 11,159 |

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The following tables present the activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2018, 2017 and 2016, 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, 2018, 2017, and 2016, respectively:

|   | <b>December 31, 2018</b>   |                              |                                   |                                    |                                |                   |                     |
|---|--|------------------------------|-----------------------------------|------------------------------------|--------------------------------|-------------------|---------------------|
|   | <b>One- to Four-<br/>Family<br/>Residential<br/>and<br/>Construction</b> | <b>Other<br/>Residential</b> | <b>Commercial<br/>Real Estate</b> | <b>Commercial<br/>Construction</b> | <b>Commercial<br/>Business</b> | <b>Consumer</b>   | <b>Total</b>        |
|   | (In Thousands)   |                              |                                   |                                    |                                |                   |                     |
| <b>Allowance for Loan Losses</b>                        |  |                              |                                   |                                    |                                |                   |                     |
| Balance, January 1, 2018                                | \$ 2,108   | \$ 2,839                     | \$ 18,639                         | \$ 1,767                           | \$ 3,581                       | \$ 7,558          | \$ 36,492           |
| Provision (benefit)                                     |  |                              |                                   |                                    |                                |                   |                     |
| charged to expense                                      | 742  | 1,982                        | 1,094                             | 1,031                              | (1,613)                        | 3,914             | 7,150               |
| Losses charged off                                      | (62)   | (525)                        | (102)                             | (87)                               | (1,155)                        | (9,425)           | (11,356)            |
| Recoveries  | <u>334</u>   | <u>417</u>                   | <u>172</u>                        | <u>394</u>                         | <u>755</u>                     | <u>4,051</u>      | <u>6,123</u>        |
| Balance,<br>December 31, 2018                           | <u>\$ 3,122</u>  | <u>\$ 4,713</u>              | <u>\$ 19,803</u>                  | <u>\$ 3,105</u>                    | <u>\$ 1,568</u>                | <u>\$ 6,098</u>   | <u>\$ 38,409</u>    |
| Ending balance:   |  |                              |                                   |                                    |                                |                   |                     |
| Individually evaluated<br>for impairment                | <u>\$ 694</u>  | <u>\$ —</u>                  | <u>\$ 613</u>                     | <u>\$ —</u>                        | <u>\$ 309</u>                  | <u>\$ 425</u>     | <u>\$ 2,041</u>     |
| Collectively evaluated<br>for impairment                | <u>\$ 2,392</u>  | <u>\$ 4,681</u>              | <u>\$ 18,958</u>                  | <u>\$ 3,029</u>                    | <u>\$ 1,247</u>                | <u>\$ 5,640</u>   | <u>\$ 35,947</u>    |
| Loans acquired and<br>accounted for under<br>ASC 310-30 | <u>\$ 36</u>   | <u>\$ 32</u>                 | <u>\$ 232</u>                     | <u>\$ 76</u>                       | <u>\$ 12</u>                   | <u>\$ 33</u>      | <u>\$ 421</u>       |
| <b>Loans</b>  |  |                              |                                   |                                    |                                |                   |                     |
| Individually evaluated<br>for impairment                | <u>\$ 6,116</u>  | <u>\$ —</u>                  | <u>\$ 3,501</u>                   | <u>\$ 14</u>                       | <u>\$ 1,844</u>                | <u>\$ 2,464</u>   | <u>\$ 13,939</u>    |
| Collectively evaluated<br>for impairment                | <u>\$ 433,209</u>  | <u>\$ 784,894</u>            | <u>\$ 1,367,934</u>               | <u>\$ 1,461,644</u>                | <u>\$ 334,214</u>              | <u>\$ 429,766</u> | <u>\$ 4,811,661</u> |
| Loans acquired and<br>accounted for under<br>ASC 310-30 | <u>\$ 93,841</u>   | <u>\$ 12,790</u>             | <u>\$ 33,620</u>                  | <u>\$ 4,093</u>                    | <u>\$ 4,347</u>                | <u>\$ 18,960</u>  | <u>\$ 167,651</u>   |

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|   | <b>One- to Four-<br/>Family<br/>Residential<br/>and<br/>Construction</b> | <b>Other<br/>Residential</b> | <b>Commercial<br/>Real Estate</b> | <b>Commercial<br/>Construction</b> | <b>Commercial<br/>Business</b> | <b>Consumer</b>   | <b>Total</b>        |
|---|--|------------------------------|-----------------------------------|------------------------------------|--------------------------------|-------------------|---------------------|
| <b>(In Thousands)</b>                                   |  |                              |                                   |                                    |                                |                   |                     |
| <b>Allowance for Loan Losses</b>                        |  |                              |                                   |                                    |                                |                   |                     |
| Balance, January 1, 2017                                | \$ 2,322   | \$ 5,486                     | \$ 15,938                         | \$ 2,284                           | \$ 3,015                       | \$ 8,355          | \$ 37,400           |
| Provision (benefit)<br>charged to expense               | (158)  | (2,356)                      | 4,234                             | (643)                              | 1,475                          | 6,548             | 9,100               |
| Losses charged off                                      | (165)  | (488)                        | (1,656)                           | (420)                              | (1,489)                        | (11,859)          | (16,077)            |
| Recoveries  | <u>109</u>   | <u>197</u>                   | <u>123</u>                        | <u>546</u>                         | <u>580</u>                     | <u>4,514</u>      | <u>6,069</u>        |
| Balance,<br>December 31, 2017                           | <u>\$ 2,108</u>  | <u>\$ 2,839</u>              | <u>\$ 18,639</u>                  | <u>\$ 1,767</u>                    | <u>\$ 3,581</u>                | <u>\$ 7,558</u>   | <u>\$ 36,492</u>    |
| Ending balance:   |  |                              |                                   |                                    |                                |                   |                     |
| Individually evaluated<br>for impairment                | <u>\$ 513</u>  | <u>\$ —</u>                  | <u>\$ 599</u>                     | <u>\$ —</u>                        | <u>\$ 2,140</u>                | <u>\$ 699</u>     | <u>\$ 3,951</u>     |
| Collectively evaluated<br>for impairment                | <u>\$ 1,564</u>  | <u>\$ 2,813</u>              | <u>\$ 17,843</u>                  | <u>\$ 1,690</u>                    | <u>\$ 1,369</u>                | <u>\$ 6,802</u>   | <u>\$ 32,081</u>    |
| Loans acquired and<br>accounted for under<br>ASC 310-30 | <u>\$ 31</u>   | <u>\$ 26</u>                 | <u>\$ 197</u>                     | <u>\$ 77</u>                       | <u>\$ 72</u>                   | <u>\$ 57</u>      | <u>\$ 460</u>       |
| <b>Loans</b>  |  |                              |                                   |                                    |                                |                   |                     |
| Individually evaluated<br>for impairment                | <u>\$ 6,950</u>  | <u>\$ 2,907</u>              | <u>\$ 8,315</u>                   | <u>\$ 15</u>                       | <u>\$ 3,018</u>                | <u>\$ 4,129</u>   | <u>\$ 25,334</u>    |
| Collectively evaluated<br>for impairment                | <u>\$ 341,888</u>  | <u>\$ 742,738</u>            | <u>\$ 1,227,014</u>               | <u>\$ 1,112,308</u>                | <u>\$ 372,192</u>              | <u>\$ 531,820</u> | <u>\$ 4,327,960</u> |
| Loans acquired and<br>accounted for under<br>ASC 310-30 | <u>\$ 120,295</u>  | <u>\$ 14,877</u>             | <u>\$ 39,210</u>                  | <u>\$ 3,806</u>                    | <u>\$ 5,275</u>                | <u>\$ 26,206</u>  | <u>\$ 209,669</u>   |

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|   | <b>One- to Four-<br/>Family<br/>Residential<br/>and<br/>Construction</b> | <b>Other<br/>Residential</b> | <b>Commercial<br/>Real Estate</b> | <b>Commercial<br/>Construction</b> | <b>Commercial<br/>Business</b> | <b>Consumer</b>   | <b>Total</b>        |
|---|--|------------------------------|-----------------------------------|------------------------------------|--------------------------------|-------------------|---------------------|
| <b>(In Thousands)</b>                                   |  |                              |                                   |                                    |                                |                   |                     |
| <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)<br>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,<br>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>    |
| <b>Ending balance:</b>                                  |  |                              |                                   |                                    |                                |                   |                     |
| Individually evaluated<br>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<br>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<br>accounted for under<br>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<br>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<br>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<br>accounted for under<br>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>   |

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.
- 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, 2018 and 2017, was 5.16% and 4.74%, respectively.

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Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balance of loans serviced for others at December 31, 2018, was \$260.2 million, consisting of \$181.5 million of commercial loan participations sold to other financial institutions and \$78.7 million of residential mortgage loans sold. The unpaid principal balance of loans serviced for others at December 31, 2017, was \$254.0 million, consisting of \$164.8 million of commercial loan participations sold to other financial institutions and \$89.2 million of residential mortgage loans sold. In addition, available lines of credit on these loans were \$121.0 million and \$37.8 million at December 31, 2018 and 2017, 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, 2018, 2017 and 2016:

|  | December 31, 2018   |                                |                       | Year Ended<br>December 31, 2018               |                                  |
|--|---------------------|--------------------------------|-----------------------|---|----------------------------------|
|  | Recorded<br>Balance | Unpaid<br>Principal<br>Balance | Specific<br>Allowance | Average<br>Investment<br>in Impaired<br>Loans | Interest<br>Income<br>Recognized |
|  | (In Thousands)      |                                |                       |   |                                  |
| One- to four-family residential construction       | \$ —                | \$ —                           | \$ —                  | \$ —  | \$ —                             |
| Subdivision construction                           | 318                 | 318                            | 105                   | 321   | 17                               |
| Land development                                   | 14                  | 18                             | —                     | 14  | 1                                |
| Commercial construction                            | —                   | —                              | —                     | —   | —                                |
| Owner occupied one- to four-family residential     | 3,576               | 3,926                          | 285                   | 3,406   | 197                              |
| Non-owner occupied one- to four-family residential | 2,222               | 2,519                          | 304                   | 2,870   | 158                              |
| Commercial real estate                             | 3,501               | 3,665                          | 613                   | 6,216   | 337                              |
| Other residential                                  | —                   | —                              | —                     | 1,026   | 20                               |
| Commercial business                                | 1,844               | 2,207                          | 309                   | 2,932   | 362                              |
| Industrial revenue bonds                           | —                   | —                              | —                     | —   | —                                |
| Consumer auto                                      | 1,874               | 2,114                          | 336                   | 2,069   | 167                              |
| Consumer other                                     | 479                 | 684                            | 72                    | 738   | 59                               |
| Home equity lines of credit                        | <u>111</u>          | <u>128</u>                     | <u>17</u>             | <u>412</u>                                    | <u>28</u>                        |
| Total  | <u>\$ 13,939</u>    | <u>\$ 15,579</u>               | <u>\$ 2,041</u>       | <u>\$ 20,004</u>                              | <u>\$ 1,346</u>                  |



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|  | December 31, 2017   |                                |                       | Year Ended<br>December 31, 2017               |                                  |
|--|---------------------|--------------------------------|-----------------------|---|----------------------------------|
|  | Recorded<br>Balance | Unpaid<br>Principal<br>Balance | Specific<br>Allowance | Average<br>Investment<br>in Impaired<br>Loans | Interest<br>Income<br>Recognized |
|  | (In Thousands)      |                                |                       |   |                                  |
| One- to four-family residential construction       | \$ —                | \$ —                           | \$ —                  | \$ 193  | \$ —                             |
| Subdivision construction                           | 349                 | 367                            | 114                   | 584   | 22                               |
| Land development                                   | 15                  | 18                             | —                     | 1,793   | 24                               |
| Commercial construction                            | —                   | —                              | —                     | —   | —                                |
| Owner occupied one- to four-family residential     | 3,405               | 3,723                          | 331                   | 3,405   | 166                              |
| Non-owner occupied one- to four-family residential | 3,196               | 3,465                          | 68                    | 2,419   | 165                              |
| Commercial real estate                             | 8,315               | 8,490                          | 599                   | 9,075   | 567                              |
| Other residential                                  | 2,907               | 2,907                          | —                     | 3,553   | 147                              |
| Commercial business                                | 3,018               | 4,222                          | 2,140                 | 5,384   | 173                              |
| Industrial revenue bonds                           | —                   | —                              | —                     | —   | —                                |
| Consumer auto                                      | 2,713               | 2,898                          | 484                   | 2,383   | 222                              |
| Consumer other                                     | 825                 | 917                            | 124                   | 906   | 69                               |
| Home equity lines of credit                        | <u>591</u>          | <u>648</u>                     | <u>91</u>             | <u>498</u>                                    | <u>33</u>                        |
| Total  | <u>\$ 25,334</u>    | <u>\$ 27,655</u>               | <u>\$ 3,951</u>       | <u>\$ 30,193</u>                              | <u>\$ 1,588</u>                  |

|  | December 31, 2016   |                                |                       | Year Ended<br>December 31, 2016               |                                  |
|--|---------------------|--------------------------------|-----------------------|---|----------------------------------|
|  | Recorded<br>Balance | Unpaid<br>Principal<br>Balance | Specific<br>Allowance | Average<br>Investment<br>in Impaired<br>Loans | Interest<br>Income<br>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                        | <u>476</u>          | <u>492</u>                     | <u>124</u>            | <u>417</u>                                    | <u>32</u>                        |
| Total  | <u>\$ 34,281</u>    | <u>\$ 36,823</u>               | <u>\$ 6,362</u>       | <u>\$ 50,012</u>                              | <u>\$ 2,315</u>                  |

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At December 31, 2018, \$8.4 million of impaired loans had specific valuation allowances totaling \$2.0 million. At December 31, 2017, \$12.7 million of impaired loans had specific valuation allowances totaling \$4.0 million. At December 31, 2016, \$18.1 million of impaired loans had specific valuation allowances totaling \$6.4 million. For impaired loans which were nonaccruing, interest of approximately \$1.0 million, \$1.2 million and \$1.5 million would have been recognized on an accrual basis during the years ended December 31, 2018, 2017 and 2016, 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 2018 and 2017 by type of modification:

|                                   | <b>2018</b>          |               |                    | <b>Total<br/>Modification</b> |
|-----------------------------------|----------------------|---------------|--------------------|-------------------------------|
|                                   | <b>Interest Only</b> | <b>Term</b>   | <b>Combination</b> |                               |
| (In Thousands)                    |                      |               |                    |                               |
| Mortgage loans on real estate:    |                      |               |                    |                               |
| Residential one-to-four family    | \$ 1,348             | \$ —          | \$ —               | \$ 1,348                      |
| Construction and land development | —                    | 31            | —                  | 31                            |
| Commercial                        | —                    | —             | 106                | 106                           |
| Consumer                          | <u>—</u>             | <u>535</u>    | <u>—</u>           | <u>535</u>                    |
|                                   | <u>\$ 1,348</u>      | <u>\$ 566</u> | <u>\$ 106</u>      | <u>\$ 2,020</u>               |
|                                   |                      |               |                    |                               |
|                                   | <b>2017</b>          |               |                    | <b>Total<br/>Modification</b> |
|                                   | <b>Interest Only</b> | <b>Term</b>   | <b>Combination</b> |                               |
| (In Thousands)                    |                      |               |                    |                               |
| Mortgage loans on real estate:    |                      |               |                    |                               |
| Commercial                        | \$ —                 | \$ —          | \$ 5,759           | \$ 5,759                      |
| Commercial business               | —                    | 16            | 274                | 290                           |
| Consumer                          | <u>—</u>             | <u>245</u>    | <u>—</u>           | <u>245</u>                    |
|                                   | <u>\$ —</u>          | <u>\$ 261</u> | <u>\$ 6,033</u>    | <u>\$ 6,294</u>               |

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At December 31, 2018, the Company had \$6.9 million of loans that were modified in troubled debt restructurings and impaired, as follows: \$283,000 of construction and land development loans, \$3.9 million of single family residential mortgage loans, \$1.3 million of commercial real estate loans, \$548,000 of commercial business loans and \$803,000 of consumer loans. Of the total troubled debt restructurings at December 31, 2018, \$4.7 million were accruing interest and \$2.5 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, 2018. 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, 2017, the Company had \$15.0 million of loans that were modified in troubled debt restructurings and impaired, as follows: \$266,000 of construction and land development loans, \$6.2 million of single family and multi-family residential mortgage loans, \$7.1 million of commercial real estate loans, \$867,000 million of commercial business loans and \$617,000 of consumer loans. Of the total troubled debt restructurings at December 31, 2017, \$12.3 million were accruing interest and \$8.8 million were classified as substandard using the Company's internal grading system. During the year ended December 31, 2018, borrowers with loans designated as troubled debt restructurings totaling \$87,000, all of which consisted of consumer loans, met the criteria for placement back on accrual status. This criteria is generally a minimum of six months of consistent and timely payment performance under original or modified terms.

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." 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. 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. 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. Loans not meeting any of the criteria previously described are considered satisfactory. The FDIC-assisted acquired loans are evaluated using this internal grading system. These loans are accounted for in pools. Minimal adverse classification in these acquired loan pools was identified as of December 31, 2018 and 2017, respectively. See *Note 4* for further discussion of the acquired loan pools and termination of the loss sharing agreements.

The Company evaluates the loan risk internal grading system definitions and allowance for loan loss methodology on an ongoing basis. The general component of the allowance for loan losses is affected by several factors, including, but not limited to, average historical losses, average life of the loans, 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 the Company's allowance for loan losses. No significant changes were made to the loan risk grading system definitions and allowance for loan loss methodology during the past year.

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The loan grading system is presented by loan class below:

|   | December 31, 2018   |                  |                    |                 |             | Total               |
|---|---------------------|------------------|--------------------|-----------------|-------------|---------------------|
|   | Satisfactory        | Watch            | Special<br>Mention | Substandard     | Doubtful    |                     |
|   | (In Thousands)      |                  |                    |                 |             |                     |
| One- to four-family residential construction                        | \$ 25,803           | \$ 374           | \$ —               | \$ —            | \$ —        | \$ 26,177           |
| Subdivision construction  | 12,077              | 1,718            | —                  | 49              | —           | 13,844              |
| Land development  | 39,892              | 4,600            | —                  | —               | —           | 44,492              |
| Commercial construction   | 1,417,166           | —                | —                  | —               | —           | 1,417,166           |
| Owner occupied one- to-four-family residential                      | 274,661             | 43               | —                  | 2,162           | —           | 276,866             |
| Non-owner occupied one- to-four-family residential                  | 119,951             | 941              | —                  | 1,546           | —           | 122,438             |
| Commercial real estate  | 1,357,987           | 11,061           | —                  | 2,387           | —           | 1,371,435           |
| Other residential   | 784,393             | 501              | —                  | —               | —           | 784,894             |
| Commercial business   | 315,518             | 5,163            | —                  | 1,437           | —           | 322,118             |
| Industrial revenue bonds  | 13,940              | —                | —                  | —               | —           | 13,940              |
| Consumer auto   | 251,824             | 116              | —                  | 1,588           | —           | 253,528             |
| Consumer other  | 56,859              | 157              | —                  | 334             | —           | 57,350              |
| Home equity lines of credit   | 121,134             | 118              | —                  | 100             | —           | 121,352             |
| Loans acquired and accounted for under ASC 310-30, net of discounts | <u>167,632</u>      | <u>—</u>         | <u>—</u>           | <u>19</u>       | <u>—</u>    | <u>167,651</u>      |
| Total   | <u>\$ 4,958,837</u> | <u>\$ 24,792</u> | <u>\$ —</u>        | <u>\$ 9,622</u> | <u>\$ —</u> | <u>\$ 4,993,251</u> |

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|   | December 31, 2017          |                         |                    |                         |                      |                            |
|---|----------------------------|-------------------------|--------------------|-------------------------|----------------------|----------------------------|
|   | Satisfactory               | Watch                   | Special<br>Mention |                         |                      | Total                      |
|   |                            |                         | Substandard        | Doubtful                | Total                |                            |
| (In Thousands)  |                            |                         |                    |                         |                      |                            |
| One- to four-family residential construction                        | \$ 20,275                  | \$ 518                  | \$ —               | \$ —                    | \$ —                 | \$ 20,793                  |
| Subdivision construction  | 15,602                     | 2,362                   | —                  | 98                      | —                    | 18,062                     |
| Land development  | 39,171                     | 4,800                   | —                  | —                       | —                    | 43,971                     |
| Commercial construction   | 1,068,352                  | —                       | —                  | —                       | —                    | 1,068,352                  |
| Owner occupied one- to-four-family residential                      | 188,706                    | —                       | —                  | 1,809                   | —                    | 190,515                    |
| Non-owner occupied one- to-four-family residential                  | 117,103                    | 389                     | —                  | 1,976                   | —                    | 119,468                    |
| Commercial real estate  | 1,218,431                  | 9,909                   | —                  | 6,989                   | —                    | 1,235,329                  |
| Other residential   | 742,237                    | 1,532                   | —                  | 1,876                   | —                    | 745,645                    |
| Commercial business   | 344,479                    | 6,306                   | —                  | 2,066                   | 500                  | 353,351                    |
| Industrial revenue bonds  | 21,859                     | —                       | —                  | —                       | —                    | 21,859                     |
| Consumer auto   | 354,588                    | —                       | —                  | 2,554                   | —                    | 357,142                    |
| Consumer other  | 62,682                     | —                       | —                  | 686                     | —                    | 63,368                     |
| Home equity lines of credit   | 114,860                    | —                       | —                  | 579                     | —                    | 115,439                    |
| Loans acquired and accounted for under ASC 310-30, net of discounts | <u>209,657</u>             | <u>—</u>                | <u>—</u>           | <u>12</u>               | <u>—</u>             | <u>209,669</u>             |
| <b>Total</b>  | <b><u>\$ 4,518,002</u></b> | <b><u>\$ 25,816</u></b> | <b><u>\$ —</u></b> | <b><u>\$ 18,645</u></b> | <b><u>\$ 500</u></b> | <b><u>\$ 4,562,963</u></b> |

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, 2018 and 2017, loans outstanding to these directors and executive officers are summarized as follows:

|                            | 2018             | 2017             |
|----------------------------|------------------|------------------|
|                            | (In Thousands)   |                  |
| Balance, beginning of year | \$ 40,041        | \$ 24,793        |
| New loans                  | 17,141           | 19,734           |
| Payments                   | <u>(28,165)</u>  | <u>(4,486)</u>   |
| Balance, end of year       | <u>\$ 29,017</u> | <u>\$ 40,041</u> |

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**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. 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. 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 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 were covered by a loss sharing agreement between the FDIC and Great Southern Bank. 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.

***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 were covered by a loss sharing agreement between the FDIC and Great Southern Bank. 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 June 9, 2017, 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 premium was recorded in conjunction with the fair value of the acquired loans and the amount amortized to yield during 2018, 2017 and 2016 was \$175,000, \$269,000 and \$359,000, respectively.

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#### **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.

Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded. A premium was recorded in conjunction with the fair value of the acquired loans and the amount amortized to yield during 2018, 2017 and 2016 was \$11,000, \$217,000 and \$491,000, respectively.

#### **Loss Sharing Agreements**

On April 26, 2016, Great Southern Bank executed an agreement with the FDIC to terminate the loss sharing agreements for 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 termination agreement, assets that were covered by the terminated loss sharing agreements were reclassified as non-covered assets effective April 26, 2016. All rights and obligations of the Bank and the FDIC under the terminated loss sharing agreements, including the settlement of all existing loss sharing and expense reimbursement claims, have been resolved and terminated.

On June 9, 2017, Great Southern Bank executed an agreement with the FDIC to terminate the loss sharing agreements for InterBank, effective immediately. Pursuant to the termination agreement, the FDIC paid \$15.0 million to the Bank to settle all outstanding items related to the terminated loss sharing agreements. The Company recorded a pre-tax gain on the termination of \$7.7 million. As a result of entering into the termination agreement, assets that were covered by the terminated loss sharing arrangements were reclassified as non-covered assets effective June 9, 2017. All rights and obligations of the Bank and the FDIC under the terminated loss sharing agreements, including the settlement of all existing loss sharing and expense reimbursement claims, have been resolved and terminated.

The termination of the loss sharing agreements for the TeamBank, Vantus Bank, Sun Security Bank and InterBank transactions has no impact on the yields for the loans that were previously covered under 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 are 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, 2018, 2017 and 2016, improvements in expected

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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, until they were terminated or expired. This resulted in corresponding adjustments during the years ended December 31, 2017 and 2016, to the indemnification assets (which during 2017 were reduced to \$-0- due to the termination of the loss sharing agreements). The amounts of these adjustments were as follows:

|   | Year Ended December 31, |          |           |
|---|-------------------------|----------|-----------|
|   | 2018                    | 2017     | 2016      |
|   | (In Thousands)          |          |           |
| Increase in accretable yield due to increased cash flow expectations            | \$ 5,202                | \$ 1,333 | \$ 10,598 |
| Decrease in FDIC indemnification asset as a result of accretable yield increase | —                       | —        | (2,744)   |

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

|                              | Year Ended December 31, |                 |                 |
|------------------------------|-------------------------|-----------------|-----------------|
|                              | 2018                    | 2017            | 2016            |
|                              | (In Thousands)          |                 |                 |
| Interest income              | \$ 5,134                | \$ 5,014        | \$ 16,393       |
| Noninterest income           | —                       | (634)           | (7,033)         |
| Net impact to pre-tax income | \$ <u>5,134</u>         | \$ <u>4,380</u> | \$ <u>9,360</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 credit loss expectations. This resulted in increased income that has been spread, on a level-yield basis, over the remaining expected lives of the loan pools (and, therefore, has decreased over time). Increases in expected cash flows also reduced the amount of expected reimbursements under the loss sharing agreements with the FDIC (when such agreements were in place), which were recorded as indemnification assets. Therefore, the expected indemnification assets had 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 lives of the loan pools, whichever was shorter. Additional estimated cash flows totaling approximately \$5.2 million were recorded in the year ended December 31, 2018 related to these loan pools, with no corresponding reduction in expected reimbursement from the FDIC as the remaining loss sharing agreements were terminated in 2017.

Because these adjustments to accretable yield will be recognized generally over the remaining lives of the loan pools, they will impact future periods as well. As of December 31, 2018, the remaining accretable yield adjustment that will affect interest income was \$2.7 million. Of the remaining adjustments affecting interest income, we expect to recognize \$2.0 million of interest income during 2019. Additional adjustments to accretable yield 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. As there is no longer, nor will there be in the future, indemnification asset amortization related to TeamBank, Vantus Bank, Sun Security Bank or InterBank due to the termination or expiration of the related loss sharing agreements for those transactions, there is no remaining indemnification asset or related adjustments that will affect non-interest income (expense).



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**TeamBank Loans and Foreclosed Assets.** The following tables present the balances of the acquired loans and foreclosed assets related to the TeamBank transaction at December 31, 2018 and 2017. Through December 31, 2018, gross loan balances (due from borrowers) were reduced approximately \$425.6 million since the transaction date because of \$293.0 million of repayments by the borrowers, \$61.7 million of transfers to foreclosed assets and \$70.9 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.

|   | <b>December 31, 2018</b> |                          |
|---|--------------------------|--------------------------|
|   | <b>Loans</b>             | <b>Foreclosed Assets</b> |
|   | <b>(In Thousands)</b>    |                          |
| Initial basis for loss sharing determination, net of activity since acquisition date  | \$ 10,602                | \$ —                     |
| Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date) | (399)                    | —                        |
| Original estimated fair value of assets, net of activity since acquisition date   | (10,106)                 | —                        |
| Expected loss remaining   | \$ 97                    | \$ —                     |
|   | <b>December 31, 2017</b> |                          |
|   | <b>Loans</b>             | <b>Foreclosed Assets</b> |
|   | <b>(In Thousands)</b>    |                          |
| Initial basis for loss sharing determination, net of activity since acquisition date  | \$ 13,668                | \$ 35                    |
| Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date) | (589)                    | —                        |
| Original estimated fair value of assets, net of activity since acquisition date   | (12,948)                 | (35)                     |
| Expected loss remaining   | \$ 131                   | \$ —                     |

**Great Southern Bancorp, Inc.**  
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*Vantus Bank Loans and Foreclosed Assets.* The following tables present the balances of the acquired loans and foreclosed assets related to the Vantus Bank transaction at December 31, 2018 and 2017. Through December 31, 2018, gross loan balances (due from borrowers) were reduced approximately \$317.5 million since the transaction date because of \$271.9 million of repayments by the borrowers, \$16.7 million of transfers to foreclosed assets and \$28.9 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.

|   | <b>December 31, 2018</b> |                          |
|---|--------------------------|--------------------------|
|   | <b>Loans</b>             | <b>Foreclosed Assets</b> |
|   | <b>(In Thousands)</b>    |                          |
| Initial basis for loss sharing determination, net of activity since acquisition date  | \$ 14,097                | \$ —                     |
| Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date) | (58)                     | —                        |
| Original estimated fair value of assets, net of activity since acquisition date   | (13,809)                 | —                        |
| Expected loss remaining   | \$ 230                   | \$ —                     |
|   | <b>December 31, 2017</b> |                          |
|   | <b>Loans</b>             | <b>Foreclosed Assets</b> |
|   | <b>(In Thousands)</b>    |                          |
| Initial basis for loss sharing determination, net of activity since acquisition date  | \$ 18,965                | \$ 15                    |
| Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date) | (131)                    | —                        |
| Original estimated fair value of assets, net of activity since acquisition date   | (18,605)                 | (15)                     |
| Expected loss remaining   | \$ 229                   | \$ —                     |

**Great Southern Bancorp, Inc.**  
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*Sun Security Bank Loans and Foreclosed Assets.* The following tables present the balances of the acquired loans and foreclosed assets related to the Sun Security Bank transaction at December 31, 2018 and 2017. Through December 31, 2018, gross loan balances (due from borrowers) were reduced approximately \$213.3 million since the transaction date because of \$153.9 million of repayments by the borrowers, \$28.6 million of transfers to foreclosed assets and \$30.8 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 accretible yield as described above.

|   | <b>December 31, 2018</b> |                          |
|---|--------------------------|--------------------------|
|   | <b>Loans</b>             | <b>Foreclosed Assets</b> |
|   | <b>(In Thousands)</b>    |                          |
| Initial basis for loss sharing determination, net of activity since acquisition date  | \$ 21,171                | \$ 91                    |
| Reclassification from nonaccretable discount to accretible discount due to change in expected losses (net of accretion to date) | (342)                    | —                        |
| Original estimated fair value of assets, net of activity since acquisition date   | (20,171)                 | (61)                     |
| Expected loss remaining   | \$ 658                   | \$ 30                    |
|   |                          |                          |
|   | <b>December 31, 2017</b> |                          |
|   | <b>Loans</b>             | <b>Foreclosed Assets</b> |
|   | <b>(In Thousands)</b>    |                          |
| Initial basis for loss sharing determination, net of activity since acquisition date  | \$ 26,787                | \$ 306                   |
| Reclassification from nonaccretable discount to accretible discount due to change in expected losses (net of accretion to date) | (494)                    | —                        |
| Original estimated fair value of assets, net of activity since acquisition date   | (25,348)                 | (299)                    |
| Expected loss remaining   | \$ 945                   | \$ 7                     |

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**InterBank Loans and Foreclosed Assets.** The following tables present the balances of the acquired loans and foreclosed assets related to the InterBank transaction at December 31, 2018 and 2017. Through December 31, 2018, gross loan balances (due from borrowers) were reduced approximately \$308.2 million since the transaction date because of \$265.8 million of repayments by the borrowers, \$20.0 million of transfers to foreclosed assets and \$22.4 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.

|   | <b>December 31, 2018</b> |                          |
|---|--------------------------|--------------------------|
|   | <b>Loans</b>             | <b>Foreclosed Assets</b> |
|   | <b>(In Thousands)</b>    |                          |
| Initial basis for loss sharing determination, net of activity since acquisition date  | \$ 85,106                | \$ 121                   |
| Noncredit premium/(discount), net of activity since acquisition date  | 99                       | —                        |
| Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date) | (1,695)                  | —                        |
| Original estimated fair value of assets, net of activity since acquisition date   | (74,436)                 | (106)                    |
| Expected loss remaining   | \$ 9,074                 | \$ 15                    |
|   | <b>December 31, 2017</b> |                          |
|   | <b>Loans</b>             | <b>Foreclosed Assets</b> |
|   | <b>(In Thousands)</b>    |                          |
| Initial basis for loss sharing determination, net of activity since acquisition date  | \$ 112,399               | \$ 2,012                 |
| Noncredit premium/(discount), net of activity since acquisition date  | 274                      | —                        |
| Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date) | (972)                    | —                        |
| Original estimated fair value of assets, net of activity since acquisition date   | (98,321)                 | (1,785)                  |
| Expected loss remaining   | \$ 13,380                | \$ 227                   |

**Great Southern Bancorp, Inc.**  
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**Valley Bank Loans and Foreclosed Assets.** The following tables present the balances of the acquired loans and foreclosed assets related to the Valley Bank transaction at December 31, 2018 and 2017. Through December 31, 2018, gross loan balances (due from borrowers) were reduced approximately \$139.7 million since the transaction date because of \$127.7 million of repayments by the borrowers, \$4.0 million of transfers to foreclosed assets and \$8.0 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.

|   | <b>December 31, 2018</b> |                          |
|---|--------------------------|--------------------------|
|   | <b>Loans</b>             | <b>Foreclosed Assets</b> |
|   | <b>(In Thousands)</b>    |                          |
| Initial basis, net of activity since acquisition date   | \$ 53,470                | \$ 1,233                 |
| Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date) | (169)                    | —                        |
| Original estimated fair value of assets, net of activity since acquisition date   | <u>(49,124)</u>          | <u>(1,233)</u>           |
| Expected loss remaining   | <u>\$ 4,177</u>          | <u>\$ —</u>              |

|   | <b>December 31, 2017</b> |                          |
|---|--------------------------|--------------------------|
|   | <b>Loans</b>             | <b>Foreclosed Assets</b> |
|   | <b>(In Thousands)</b>    |                          |
| Initial basis, net of activity since acquisition date   | \$ 59,997                | \$ 1,673                 |
| Noncredit premium/(discount), net of activity since acquisition date  | 11                       | —                        |
| Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date) | (411)                    | —                        |
| Original estimated fair value of assets, net of activity since acquisition date   | <u>(54,442)</u>          | <u>(1,667)</u>           |
| Expected loss remaining   | <u>\$ 5,155</u>          | <u>\$ 6</u>              |

**Great Southern Bancorp, Inc.**  
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Changes in the accretible yield for acquired loan pools were as follows for the years ended December 31, 2018, 2017 and 2016:

|   | <u>TeamBank</u> | <u>Vantus Bank</u> | <u>Sun<br/>Security Bank</u><br>(In Thousands) | <u>InterBank</u> | <u>Valley Bank</u> |
|---|-----------------|--------------------|--|------------------|--------------------|
| Balance, January 1, 2016                                      | \$ 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                                    | 2,477           | 2,547              | 4,277  | 8,512            | 4,797              |
| Accretion   | (1,563)         | (1,373)            | (2,251)  | (7,505)          | (5,823)            |
| Reclassification from nonaccretable difference <sup>(1)</sup> | <u>1,157</u>    | <u>676</u>         | <u>875</u>                                     | <u>4,067</u>     | <u>3,721</u>       |
| Balance, December 31, 2017                                    | 2,071           | 1,850              | 2,901  | 5,074            | 2,695              |
| Accretion   | (1,042)         | (1,196)            | (1,667)  | (8,349)          | (3,892)            |
| Reclassification from nonaccretable difference <sup>(1)</sup> | <u>327</u>      | <u>778</u>         | <u>1,008</u>                                   | <u>8,269</u>     | <u>4,260</u>       |
| Balance, December 31, 2018                                    | <u>\$ 1,356</u> | <u>\$ 1,432</u>    | <u>\$ 2,242</u>                                | <u>\$ 4,994</u>  | <u>\$ 3,063</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, 2018, totaling \$312,000, \$778,000, \$756,000, \$4.1 million and \$3.5 million, respectively; for TeamBank, Vantus Bank, Sun Security Bank, InterBank and Valley Bank for the year ended December 31, 2017, totaling \$1.1 million, \$663,000, \$850,000, \$3.5 million and \$3.0 million, respectively; and 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.

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018, 2017 and 2016**

**Note 5: Other Real Estate Owned and Repossessions**

Major classifications of other real estate owned at December 31, 2018 and 2017, were as follows:

|   | <u>2018</u>     | <u>2017</u>      |
|---|-----------------|------------------|
|   | (In Thousands)  |                  |
| Foreclosed assets held for sale and repossessions   |                 |                  |
| One- to four-family construction  | \$ —            | \$ —             |
| Subdivision construction  | 1,092           | 5,413            |
| Land development  | 3,191           | 7,229            |
| Commercial construction   | —               | —                |
| One- to four-family residential   | 269             | 112              |
| Other residential   | —               | 140              |
| Commercial real estate  | —               | 1,694            |
| Commercial business   | —               | —                |
| Consumer  | <u>928</u>      | <u>1,987</u>     |
|   | 5,480           | 16,575           |
| Acquired foreclosed assets no longer covered by<br>FDIC loss sharing agreements, net of discounts         | 167             | 2,133            |
| Acquired foreclosed assets not covered by FDIC<br>loss sharing agreements, net of discounts (Valley Bank) | <u>1,234</u>    | <u>1,666</u>     |
| Foreclosed assets held for sale and repossessions, net  | 6,881           | 20,374           |
| Other real estate owned not acquired through foreclosure  | <u>1,559</u>    | <u>1,628</u>     |
| Other real estate owned and repossessions   | <u>\$ 8,440</u> | <u>\$ 22,002</u> |

At December 31, 2018, other real estate owned not acquired through foreclosure included nine properties, eight of which were branch locations that were closed and are held for sale, and one of which is land acquired for a potential branch location. During the year ended December 31, 2018, one former branch location was sold at a loss of \$24,000, which is included in the net gains on sales of other real estate owned and repossessions amount in the table below.

At December 31, 2017, other real estate owned not acquired through foreclosure included 10 properties, nine of which were branch locations that were closed and are held for sale, and one of which is land acquired for a potential branch location. During the year ended December 31, 2017, seven former branch locations were sold at an aggregate gain of \$250,000, which is included in the net gains on sales of other real estate owned and repossessions amount in the table below.

At December 31, 2018, residential mortgage loans totaling \$1.3 million were in the process of foreclosure, \$1.0 million of which were acquired loans. Of the \$1.0 million of acquired loans, \$873,000 were previously covered by loss sharing agreements and \$171,000 were acquired in the Valley Bank transaction.

At December 31, 2017, residential mortgage loans totaling \$3.2 million were in the process of foreclosure, \$3.0 million of which were acquired loans. Of the \$3.0 million of acquired loans, \$2.8 million were previously covered by loss sharing agreements and \$208,000 were acquired in the Valley Bank transaction.

**Great Southern Bancorp, Inc.**  
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Expenses applicable to other real estate owned and repossessions for the years ended December 31, 2018, 2017 and 2016, included the following:

|   | 2018           | 2017       | 2016     |
|---|----------------|------------|----------|
|   | (In Thousands) |            |          |
| Net gains on sales of other real estate owned and repossessions | \$ (2,522)     | \$ (2,212) | \$ (68)  |
| Valuation write-downs   | 3,897          | 1,585      | 431      |
| Operating expenses, net of rental income                        | 3,544          | 4,556      | 3,748    |
|   | \$ 4,919       | \$ 3,929   | \$ 4,111 |

**Note 6: Premises and Equipment**

Major classifications of premises and equipment at December 31, 2018 and 2017, stated at cost, were as follows:

|                                   | 2018           | 2017       |
|-----------------------------------|----------------|------------|
|                                   | (In Thousands) |            |
| Land                              | \$ 40,508      | \$ 42,312  |
| Buildings and improvements        | 95,039         | 97,464     |
| Furniture, fixtures and equipment | 54,327         | 53,841     |
|                                   | 189,874        | 193,617    |
| Less accumulated depreciation     | 57,450         | 55,599     |
|                                   | \$ 132,424     | \$ 138,018 |

**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, 2018 the Company had 17 such investments, with a net carrying value of \$22.9 million. At December 31, 2017, the Company had 16 such investments, with a net carrying value of \$18.2 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 through 2029 were \$33.1 million as of December 31, 2018, 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 \$29.3 million, assuming all projects currently under construction are completed and funded as planned. The Company's usage of federal affordable housing tax credits approximated \$6.6 million, \$6.6 million and \$6.2 million during 2018, 2017 and 2016, respectively. Investment amortization amounted to \$5.0 million, \$5.2 million and \$4.4 million for the years ended December 31, 2018, 2017 and 2016, respectively.



**Great Southern Bancorp, Inc.**  
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***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, 2018, the Company had one such investment, with a net carrying value of \$365,000. At December 31, 2017, the Company had two such investments, with a net carrying value of \$940,000. 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 through 2019 were \$480,000 as of December 31, 2018. Amortization of the investments in partnerships is expected to be approximately \$365,000. The Company's usage of federal New Market Tax Credits approximated \$480,000, \$1.2 million and \$2.3 million during 2018, 2017 and 2016, respectively. Investment amortization amounted to \$575,000, \$930,000 and \$1.7 million for the years ended December 31, 2018, 2017 and 2016, 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.**  
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**Note 8: Deposits**

Deposits at December 31, 2018 and 2017, are summarized as follows:

|   | <b>Weighted Average<br/>Interest Rate</b> | <b>2018</b>         | <b>2017</b>         |
|---|---|---------------------|---------------------|
| <b>(In Thousands, Except<br/>Interest Rates)</b>  |   |                     |                     |
| Noninterest-bearing accounts                      | —   | \$ 661,061          | \$ 661,589          |
| Interest-bearing checking and<br>savings accounts | 0.46% - 0.32%                             | <u>1,472,535</u>    | <u>1,565,711</u>    |
|   |   | <u>2,133,596</u>    | <u>2,227,300</u>    |
| Certificate accounts                              | 0% - 0.99%                                | 150,656             | 254,502             |
|   | 1% - 1.99%                                | 511,873             | 1,006,373           |
|   | 2% - 2.99%                                | 857,973             | 106,888             |
|   | 3% - 3.99%                                | 69,793              | 701                 |
|   | 4% - 4.99%                                | 1,116               | 1,108               |
|   | 5% and above                              | <u>—</u>            | <u>272</u>          |
|   |   | <u>1,591,411</u>    | <u>1,369,844</u>    |
|   |   | <u>\$ 3,725,007</u> | <u>\$ 3,597,144</u> |

The weighted average interest rate on certificates of deposit was 1.98% and 1.24% at December 31, 2018 and 2017, respectively.

The aggregate amount of certificates of deposit originated by the Bank in denominations greater than \$100,000 was approximately \$733.9 million and \$598.2 million at December 31, 2018 and 2017, respectively. The Bank utilizes brokered deposits as an additional funding source. The aggregate amount of brokered deposits was approximately \$326.9 million and \$260.0 million at December 31, 2018 and 2017, respectively.

At December 31, 2018, scheduled maturities of certificates of deposit were as follows:

|                       | <b>Retail</b>       | <b>Brokered</b>   | <b>Total</b>        |
|-----------------------|---------------------|-------------------|---------------------|
| <b>(In Thousands)</b> |                     |                   |                     |
| 2019                  | \$ 928,900          | \$ 286,922        | \$ 1,215,822        |
| 2020                  | 219,704             | 40,000            | 259,704             |
| 2021                  | 73,724              | —                 | 73,724              |
| 2022                  | 26,012              | —                 | 26,012              |
| 2023                  | 14,705              | —                 | 14,705              |
| Thereafter            | <u>1,444</u>        | <u>—</u>          | <u>1,444</u>        |
|                       | <u>\$ 1,264,489</u> | <u>\$ 326,922</u> | <u>\$ 1,591,411</u> |

**Great Southern Bancorp, Inc.**  
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A summary of interest expense on deposits for the years ended December 31, 2018, 2017 and 2016, is as follows:

|                               | <b>2018</b>           | <b>2017</b> | <b>2016</b> |
|-------------------------------|-----------------------|-------------|-------------|
|                               | <b>(In Thousands)</b> |             |             |
| Checking and savings accounts | \$ 5,982              | \$ 4,699    | \$ 3,888    |
| Certificate accounts          | 22,149                | 16,009      | 13,598      |
| Early withdrawal penalties    | (174)                 | (113)       | (99)        |
|                               | \$ 27,957             | \$ 20,595   | \$ 17,387   |

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

Advances from the Federal Home Loan Bank at December 31, 2018 and 2017, consisted of the following:

|               | <b>December 31, 2018</b> |   | <b>December 31, 2017</b> |   |
|---------------|--------------------------|---|--------------------------|---|
| <b>Due In</b> | <b>Amount</b>            | <b>Weighted<br/>Average<br/>Interest<br/>Rate</b> | <b>Amount</b>            | <b>Weighted<br/>Average<br/>Interest<br/>Rate</b> |
|               | <b>(In Thousands)</b>    |   |                          |   |
| 2018          | \$ —                     | —%  | \$ 127,500               | 1.53%   |

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 specifically pledged as collateral for advances at December 31, 2018 and 2017. Loans with carrying values of approximately \$1.36 billion and \$1.11 billion were pledged as collateral for outstanding advances at December 31, 2018 and 2017, respectively. The Bank had potentially available \$666.8 million remaining on its line of credit under a borrowing arrangement with the FHLB of Des Moines at December 31, 2018.

**Great Southern Bancorp, Inc.**  
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**Note 10: Short-Term Borrowings**

Short-term borrowings at December 31, 2018 and 2017, are summarized as follows:

|  | <b>2018</b>           | <b>2017</b> |
|--|-----------------------|-------------|
|  | <b>(In Thousands)</b> |             |
| Notes payable – Community Development                |                       |             |
| Equity Funds   | \$ 1,625              | \$ 1,604    |
| Other interest-bearing liabilities                   | 13,100                | —           |
| Overnight borrowings from the Federal Home Loan Bank | 178,000               | 15,000      |
| Securities sold under reverse repurchase agreements  | 105,253               | 80,531      |
|  | \$ 297,978            | \$ 97,135   |

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.

At December 31, 2018, other interest-bearing liabilities consist of cash collateral held by the Company to satisfy minimum collateral posting thresholds with its derivative dealer counterparties representing the termination value of derivatives, which at such time were in a net asset position. Under the collateral agreements between the parties, either party may choose to provide cash or securities to satisfy its collateral requirements.

Short-term borrowings had weighted average interest rates of 1.68% and 0.30% at December 31, 2018 and 2017, respectively. Short-term borrowings averaged approximately \$137.3 million and \$186.4 million for the years ended December 31, 2018 and 2017, respectively. The maximum amounts outstanding at any month end were \$298.0 million and \$297.4 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, 2018 and 2017:

|  | <b>2018</b>                         | <b>2017</b>                         |
|--|-------------------------------------|-------------------------------------|
|  | <b>Overnight and<br/>Continuous</b> | <b>Overnight and<br/>Continuous</b> |
|  | <b>(In Thousands)</b>               |                                     |
| Mortgage-backed securities – GNMA, FNMA, FHLMC | \$ 105,253                          | \$ 80,531                           |

**Note 11: Federal Reserve Bank Borrowings**

At December 31, 2018 and 2017, the Bank had \$460.7 million and \$528.9 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, 2018 or 2017.

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**Note 12: 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 became redeemable at the Company's option 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 4.14% and 2.98% at December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, subordinated debentures issued to capital trusts are summarized as follows:

|                         | <b>2018</b>           | <b>2017</b>      |
|-------------------------|-----------------------|------------------|
|                         | <b>(In Thousands)</b> |                  |
| Subordinated debentures | \$ <u>25,774</u>      | \$ <u>25,774</u> |

**Note 13: 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 years ended December 31, 2018 and 2017, totaled \$154,000 and \$151,000, respectively, 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, 2018 and, 2017, subordinated notes are summarized as follows:

|                                       | <b>2018</b>           | <b>2017</b>      |
|---------------------------------------|-----------------------|------------------|
|                                       | <b>(In Thousands)</b> |                  |
| Subordinated notes                    | \$ 75,000             | \$ 75,000        |
| Less: unamortized debt issuance costs | <u>1,158</u>          | <u>1,312</u>     |
|                                       | <u>\$ 73,842</u>      | <u>\$ 73,688</u> |

**Note 14: Income Taxes**

The Company files a consolidated federal income tax return. As of December 31, 2018 and 2017, 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 \$3.9 million at both December 31, 2018 and 2017, respectively.

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During the years ended December 31, 2018, 2017 and 2016, the provision for income taxes included these components:

|   | <b>2018</b>           | <b>2017</b>      | <b>2016</b>      |
|---|-----------------------|------------------|------------------|
|   | <b>(In Thousands)</b> |                  |                  |
| Taxes currently payable   | \$ 19,291             | \$ 9,335         | \$ 20,137        |
| Deferred income taxes   | (4,450)               | 11,528           | (3,621)          |
| Adjustment of deferred tax asset or liability for enacted changes in tax laws | <u>—</u>              | <u>(2,105)</u>   | <u>—</u>         |
| Income taxes  | <u>\$ 14,841</u>      | <u>\$ 18,758</u> | <u>\$ 16,516</u> |

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

|   | <b>December 31,</b>   |                 |
|---|-----------------------|-----------------|
|   | <b>2018</b>           | <b>2017</b>     |
|   | <b>(In Thousands)</b> |                 |
| Deferred tax assets                                     |                       |                 |
| Allowance for loan losses                               | \$ 8,758              | \$ 8,154        |
| Tax credit carryforward                                 | —                     | 5,816           |
| Interest on nonperforming loans                         | 320                   | 288             |
| Accrued expenses  | 726                   | 684             |
| Write-down of foreclosed assets                         | 600                   | 1,694           |
| Write-down of fixed assets                              | 191                   | 207             |
| Difference in basis for acquired assets and liabilities | <u>4,031</u>          | <u>4,725</u>    |
|   | <u>14,626</u>         | <u>21,568</u>   |
| Deferred tax liabilities                                |                       |                 |
| Tax depreciation in excess of book depreciation         | (5,409)               | (4,483)         |
| FHLB stock dividends                                    | (798)                 | (356)           |
| Partnership tax credits                                 | (404)                 | (706)           |
| Prepaid expenses  | (569)                 | (775)           |
| Unrealized gain on available-for-sale securities        | (83)                  | (435)           |
| Book revenue in excess of tax revenue                   | —                     | (12,177)        |
| Unrealized gain on cash flow derivatives                | (2,761)               | —               |
| Other   | <u>(113)</u>          | <u>(190)</u>    |
|   | <u>(10,137)</u>       | <u>(19,122)</u> |
| Net deferred tax asset                                  | <u>\$ 4,489</u>       | <u>\$ 2,446</u> |

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

|   | <u>2018</u>  | <u>2017</u>  | <u>2016</u>  |
|---|--------------|--------------|--------------|
| Tax at statutory rate                       | 21.0%        | 35.0%        | 35.0%        |
| Nontaxable interest and dividends           | (0.8)        | (1.6)        | (2.1)        |
| Tax credits                                 | (3.4)        | (6.1)        | (7.3)        |
| State taxes                                 | 1.1          | 1.1          | 1.1          |
| Initial impact of enactment of 2017 Tax Act | —            | (0.4)        | —            |
| Other                                       | <u>0.2</u>   | <u>(1.3)</u> | <u>—</u>     |
|   | <u>18.1%</u> | <u>26.7%</u> | <u>26.7%</u> |

The Tax Cuts and Jobs Act ("Tax Act") was signed into law on December 22, 2017, making several changes to U. S. corporate income tax laws, including reducing the corporate Federal income tax rate from 35% to 21% effective for tax years beginning on or after January 1, 2018. U. S. GAAP requires that the impact of the provisions of the Tax Act be accounted for in the period of enactment. The Company recognized the income tax effects of the Tax Act in its 2017 financial statements. The Tax Act is complex and required significant detailed analysis. During the preparation of the Company's 2017 income tax returns in 2018, no additional adjustments related to enactment of the Tax Act were identified.

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 which have been 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 these partnerships advanced during 2016, 2017, and 2018. 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 examination was recently completed by the IRS with no change impacting the Company's tax positions. The Company does not currently expect significant adjustments to its financial statements from the partnership matter at the Tax Court.

The Company is currently under State of Missouri income and franchise tax examinations for its 2014 through 2015 tax years. The Company does not currently expect significant adjustments to its financial statements from this state examination.

**Note 15: 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.

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- 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.

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, 2018 and 2017:

|  | <b>Fair Value Measurements Using</b> |   |  |  |
|--|--------------------------------------|---|--|--|
|  | <b>Fair Value</b>                    | <b>Quoted Prices<br/>in Active<br/>Markets<br/>for Identical<br/>Assets<br/>(Level 1)</b> | <b>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| (In Thousands)                             |                                      |   |  |  |
| <u>December 31, 2018</u>                   |                                      |   |  |  |
| Agency mortgage-backed securities          | \$ 153,258                           | \$ —  | \$ 153,258   | \$ —   |
| Agency collateralized mortgage obligations | 39,260                               | —   | 39,260   | —  |
| States and political subdivisions          | 51,450                               | —   | 51,450   | —  |
| Interest rate derivative asset             | 12,800                               | —   | 12,800   | —  |
| Interest rate derivative liability         | (716)                                | —   | (716)  | —  |
| <u>December 31, 2017</u>                   |                                      |   |  |  |
| Agency mortgage-backed securities          | \$ 122,533                           | \$ —  | \$ 122,533   | \$ —   |
| States and political subdivisions          | 56,646                               | —   | 56,646   | —  |
| Interest rate derivative asset             | 981                                  | —   | 981  | —  |
| Interest rate derivative liability         | (1,030)                              | —   | (1,030)  | —  |

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, 2018 and 2017, 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, 2018.



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**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 values derived from the independent pricing service's proprietary computerized models. There were no recurring Level 3 securities at December 31, 2018 or 2017.

**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, 2018 and 2017:

|                                 | <b>Fair Value Measurements Using</b> |   |  |  |
|---------------------------------|--------------------------------------|---|--|--|
|                                 | <b>Fair Value</b>                    | <b>Quoted<br/>Prices<br/>in Active<br/>Markets<br/>for Identical<br/>Assets<br/>(Level 1)</b> | <b>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| (In Thousands)                  |                                      |   |  |  |
| <u>December 31, 2018</u>        |                                      |   |  |  |
| Impaired loans                  | \$ <u>2,805</u>                      | \$ <u>—</u>   | \$ <u>—</u>  | \$ <u>2,805</u>  |
| Foreclosed assets held for sale | \$ <u>1,776</u>                      | \$ <u>—</u>   | \$ <u>—</u>  | \$ <u>1,776</u>  |
| <u>December 31, 2017</u>        |                                      |   |  |  |
| Impaired loans                  | \$ <u>1,590</u>                      | \$ <u>—</u>   | \$ <u>—</u>  | \$ <u>1,590</u>  |
| Foreclosed assets held for sale | \$ <u>1,758</u>                      | \$ <u>—</u>   | \$ <u>—</u>  | \$ <u>1,758</u>  |

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.

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#### **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, 2018 and 2017, 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.

#### **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 more than one year prior to 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, 2018 and 2017, 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, 2018 and 2017, subsequent to their initial transfer to foreclosed assets.

#### **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.

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

The carrying amount approximates fair value.

***Loans and Interest Receivable***

For 2018, the fair value of loans is estimated on an exit price basis incorporating contractual cash flow, prepayments discount spreads, credit loss and liquidity premiums. For 2017, 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. For 2018, the fair value of fixed maturity certificates of deposit is estimated using a discounted cash flow calculation using the average advances yield curve from 11 districts of the FHLB for the as of date. For 2017, the discounted cash flow calculation applied 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 independent sources and are derived from quoted market prices of the Company's subordinated notes and quoted market prices of other subordinated debt instruments with similar characteristics.

***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.

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|  | December 31, 2018  |               |                    | December 31, 2017  |               |                    |
|--|--------------------|---------------|--------------------|--------------------|---------------|--------------------|
|  | Carrying<br>Amount | Fair<br>Value | Hierarchy<br>Level | Carrying<br>Amount | Fair<br>Value | Hierarchy<br>Level |
| (Dollars in Thousands)   |                    |               |                    |                    |               |                    |
| <b>Financial assets</b>  |                    |               |                    |                    |               |                    |
| Cash and cash equivalents  | \$ 202,742         | \$ 202,742    | 1                  | \$ 242,253         | \$ 242,253    | 1                  |
| Held-to-maturity securities  | —                  | —             | 2                  | 130                | 131           | 2                  |
| Mortgage loans held for sale   | 1,650              | 1,650         | 2                  | 8,203              | 8,203         | 2                  |
| Loans, net of allowance for loan losses                              | 3,989,001          | 3,955,786     | 3                  | 3,726,302          | 3,735,216     | 3                  |
| Accrued interest receivable  | 13,448             | 13,448        | 3                  | 12,338             | 12,338        | 3                  |
| Investment in FHLB stock   | 12,438             | 12,438        | 3                  | 11,182             | 11,182        | 3                  |
| <b>Financial liabilities</b>   |                    |               |                    |                    |               |                    |
| Deposits   | 3,725,007          | 3,717,899     | 3                  | 3,597,144          | 3,606,400     | 3                  |
| FHLB advances  | —                  | —             | 3                  | 127,500            | 127,500       | 3                  |
| Short-term borrowings  | 297,978            | 297,978       | 3                  | 97,135             | 97,135        | 3                  |
| Subordinated debentures  | 25,774             | 25,774        | 3                  | 25,774             | 25,774        | 3                  |
| Subordinated notes   | 73,842             | 75,188        | 2                  | 73,688             | 76,500        | 2                  |
| Accrued interest payable   | 3,570              | 3,570         | 3                  | 2,904              | 2,904         | 3                  |
| <b>Unrecognized financial instruments (net of contractual value)</b> |                    |               |                    |                    |               |                    |
| Commitments to originate loans                                       | —                  | —             | 3                  | —                  | —             | 3                  |
| Letters of credit  | 146                | 146           | 3                  | 85                 | 85            | 3                  |
| Lines of credit  | —                  | —             | 3                  | —                  | —             | 3                  |

**Note 16: 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, 2018, future minimum lease payments were as follows (in thousands):

|            |                 |
|------------|-----------------|
| 2019       | \$ 958          |
| 2020       | 821             |
| 2021       | 648             |
| 2022       | 571             |
| 2023       | 443             |
| Thereafter | <u>837</u>      |
|            | <u>\$ 4,278</u> |

Rental expense was \$816,000, \$912,000 and \$973,000 for the years ended December 31, 2018, 2017 and 2016, respectively.

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**Note 17: 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. Five of the seven acquired loans with interest rate swaps have paid off. The notional amount of the two remaining Valley swaps was \$774,000 at December 31, 2018. At December 31, 2018, excluding the Valley Bank swaps, the Company had 18 interest rate swaps totaling \$78.5 million in notional amount with commercial customers, and 18 interest rate swaps with the same notional amount with third parties related to its program. In addition, the Company has three participation loans purchased totaling \$31.2 million, in which the lead institution has an interest rate swap with their customer and the economics of the counterparty swap are passed along to us through the loan participation. As of December 31, 2017, excluding the Valley Bank swaps, the Company had 22 interest rate swaps totaling \$92.7 million in notional amount with commercial customers, and 22 interest rate swaps with the same notional amount with third parties related to its program. During the years ended December 31, 2018, 2017 and 2016, the Company recognized net gains of \$25,000, \$28,000 and \$66,000, respectively, in noninterest income related to changes in the fair value of these swaps.

***Cash Flow Hedges***

***Interest Rate Swap.*** As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, in October 2018, the Company entered into an interest rate swap transaction as part of its ongoing interest rate management strategies to hedge the risk of its floating rate loans. The notional amount of the swap is \$400 million with a termination date of October 6, 2025. Under the terms of the swap, the Company will receive a fixed rate of interest of 3.018% and will pay a floating rate of interest equal to one-month USD-LIBOR. The floating rate will be reset monthly and net settlements of interest due to/from the counterparty will also occur monthly. The floating rate of interest was 2.383% as of December 31, 2018. Therefore, in the near term, the Company will receive net interest settlements which will be recorded as loan interest income, to the extent that the fixed rate of interest continues to exceed one-month USD-LIBOR. If USD-LIBOR exceeds the fixed rate of interest in future periods, the Company will be required to pay net settlements to the counterparty and will record those net payments as a reduction of interest income on loans. The Company recorded interest income of \$673,000 on this interest rate swap during the year ended December 31, 2018. The effective portion of the gain or loss on the

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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 affected 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 year ended December 31, 2018, the Company recognized \$-0- in noninterest income related to changes in the fair value of this derivative.

**Interest Rate Cap.** Previously, 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 terminated in 2015 and one agreement terminated in 2017. 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 affected 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, 2017 and 2016, the Company recognized \$-0- in noninterest income related to changes in the fair value of these derivatives. During the years ended December 31, 2017 and 2016, the Company recognized \$244,000 and \$225,000, respectively, in interest expense related to the amortization of the cost of these interest rate caps.

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<br>Consolidated Statements<br>of Financial Condition | Fair Value           |                      |
|--|--|----------------------|----------------------|
|  |  | December 31,<br>2018 | December 31,<br>2017 |
| (In Thousands)   |  |                      |                      |
| <b>Derivatives designated as hedging instruments</b>     |  |                      |                      |
| Interest rate swap                                       | Prepaid expenses and other assets                                | \$ 12,106            | \$ —                 |
| Total derivatives designated as hedging instruments      |  | <u>\$ 12,106</u>     | <u>\$ —</u>          |
| <b>Derivatives not designated as hedging instruments</b> |  |                      |                      |
| <u>Derivative Assets</u>                                 |  |                      |                      |
| Derivatives not designated as hedging instruments        |  |                      |                      |
| Interest rate products                                   | Prepaid expenses and other assets                                | \$ 694               | \$ 981               |
| Total derivatives not designated as hedging instruments  |  | <u>\$ 694</u>        | <u>\$ 981</u>        |
| <u>Derivative Liabilities</u>                            |  |                      |                      |
| Derivatives not designated as hedging instruments        |  |                      |                      |
| Interest rate products                                   | Accrued expenses and other liabilities                           | \$ 716               | \$ 1,030             |
| Total derivatives not designated as hedging instruments  |  | <u>\$ 716</u>        | <u>\$ 1,030</u>      |

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The following table presents the effect of cash flow hedge accounting on the statements of comprehensive income:

| <b>Cash Flow Hedges</b>  | <b>Year Ended December 31</b> |               |              |
|--|-------------------------------|---------------|--------------|
|  | <b>2018</b>                   | <b>2017</b>   | <b>2016</b>  |
| <b>Amount of Gain (Loss) Recognized in AOCI</b>                                      |                               |               |              |
| <b>(In Thousands)</b>  |                               |               |              |
| Interest rate swap (2018) and interest rate cap (2017 and 2016), net of income taxes | \$ <u>9,345</u>               | \$ <u>161</u> | \$ <u>87</u> |

The following table presents the effect of cash flow hedge accounting on the statements of operations:

| <b>Cash Flow Hedges</b>  | <b>Year Ended December 31</b> |             |             |               |             |               |
|--|-------------------------------|-------------|-------------|---------------|-------------|---------------|
|  | <b>2018</b>                   |             | <b>2017</b> |               | <b>2016</b> |               |
| <b>Interest Income Expense Interest Income Expense Interest Income Expense</b> |                               |             |             |               |             |               |
| <b>(In Thousands)</b>  |                               |             |             |               |             |               |
| Interest rate swap (2018) and interest rate cap (2017 and 2016)                | \$ <u>673</u>                 | \$ <u>—</u> | \$ <u>—</u> | \$ <u>244</u> | \$ <u>—</u> | \$ <u>225</u> |

***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, 2018, the termination value of derivatives with our derivative dealer counterparties (related to loan level swaps with commercial lending customers) in a net asset position, which included accrued interest but excluded any adjustment for nonperformance risk, related to these agreements was \$396,000. In addition, as of December 31, 2018, the termination value of derivatives with our derivative dealer counterparty (related to the balance sheet hedge commenced in October 2018) in a net asset position, which included accrued interest but excluded any adjustment for nonperformance risk, related to these agreements was \$12.3 million. The Company has minimum collateral posting thresholds with its derivative dealer counterparties. At December 31, 2018, the Company's activity with certain of its derivative counterparties met the level at which the minimum collateral posting thresholds take effect (collateral to be received by the Company) and the derivative counterparties had posted collateral of \$704,000 to the Company to satisfy the loan level agreements and collateral of \$12.8 million to the Company to satisfy the balance sheet hedge. As of December 31, 2017, 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 \$336,000. At December 31, 2017, the Company's activity with its derivative counterparties met the level at which the minimum collateral posting thresholds take effect and the Company posted \$809,000 of

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collateral to satisfy the agreements. If the Company had breached any of these provisions at December 31, 2018 or December 31, 2017, it could have been required to settle its obligations under the agreements at the termination value.

#### **Note 18: 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, 2018 and 2017, the Bank had outstanding commitments to originate loans and fund commercial construction loans aggregating approximately \$105.3 million and \$164.0 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 \$24.3 million and \$20.8 million at December 31, 2018 and 2017, respectively.

##### ***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 \$28.9 million and \$20.0 million at December 31, 2018 and 2017, respectively, with \$28.4 million and \$19.1 million, respectively, of the letters of credit having terms up to five years and \$476,000 and \$885,000, respectively, of the letters of credit having terms over five years. Of the amount having terms over five years, \$476,000 and \$885,000 at December 31, 2018 and 2017, 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, 2018 and 2017, 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



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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, 2018, the Bank had granted unused lines of credit to borrowers aggregating approximately \$1.1 billion and \$150.9 million for commercial lines and open-end consumer lines, respectively. At December 31, 2017, the Bank had granted unused lines of credit to borrowers aggregating approximately \$912.2 million and \$133.6 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 \$750.3 million and \$674.0 million at December 31, 2018 and 2017, respectively, are secured primarily by apartments, condominiums, residential and commercial land developments, industrial revenue bonds and other types of commercial properties in the St. Louis, Missouri, area.

**Note 19: Additional Cash Flow Information**

|   | <b>2018</b>           | <b>2017</b> | <b>2016</b> |
|---|-----------------------|-------------|-------------|
|   | <b>(In Thousands)</b> |             |             |
| <b>Noncash Investing and Financing Activities</b>         |                       |             |             |
| Real estate acquired in settlement of loans               | \$12,044              | \$23,780    | \$26,076    |
| Sale and financing of foreclosed assets                   | 2,578                 | 603         | 3,334       |
| Conversion of premises and equipment to foreclosed assets | —                     | —           | 6,985       |
| Dividends declared but not paid                           | 4,528                 | 3,381       | 3,073       |
| <b>Additional Cash Payment Information</b>                |                       |             |             |
| Interest paid   | 37,091                | 27,724      | 20,476      |
| Income taxes paid   | 2,569                 | 17,563      | 9,554       |

**Note 20: 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, 2018, 2017 and 2016, were approximately \$1.3 million, \$1.1 million and \$725,000, 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, 2018 and 2017, was 96.3% and 98.2%, respectively. The funded status was calculated by taking the market value of plan assets, which reflected contributions received through June 30, 2018 and 2017, respectively, divided by the funding target. No collective bargaining agreements are in place that require contributions to the Pentegra DB Plan.

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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, 2018, 2017 and 2016, were approximately \$1.4 million, \$1.3 million and \$1.2 million, respectively.

#### **Note 21: 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 outstanding awards under the 2003 Plan were not affected. At December 31, 2018, 81,023 options were outstanding under the 2003 Plan.

The Company established the 2013 Stock Option and Incentive Plan (the "2013 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 700,000 shares of common stock. On May 9, 2018, the Company's stockholders approved the Great Southern Bancorp, Inc. 2018 Omnibus Incentive Plan (the "2018 Plan"). Upon the stockholders' approval of the 2018 Plan, the Company's 2013 Plan was frozen. As a result, no new stock options or other awards may be granted under the 2013 Plan; however, existing outstanding awards under the 2003 Plan were not affected. At December 31, 2018, 507,063 options were outstanding under the 2013 Plan.

The 2018 Plan provides for the grant from time to time to directors, emeritus directors, officers, employees and advisory directors of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and performance units. The number of shares of Common Stock available for awards under the 2018 Plan is 800,000 (the "2018 Plan Limit"). Shares utilized for awards other than stock options and stock appreciation rights will be counted against the 2018 Plan Limit on a 2.5-to-1 basis. At December 31, 2018, 185,150 options were outstanding under the 2018 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.

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The table below summarizes transactions under the Company's stock compensation plans, all of which related to stock options granted under such plans:

|                                   | <b>Available to<br/>Grant</b> | <b>Shares Under<br/>Option</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> |
|-----------------------------------|-------------------------------|--------------------------------|--|
| Balance, January 1, 2016          | 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        | 219,475                       | 661,203                        | 33.672   |
| Granted from 2013 Plan            | (157,800)                     | 157,800                        | 52.118   |
| Exercised                         | —                             | (119,692)                      | 27.352   |
| Forfeited from terminated plan(s) | —                             | (675)                          | 24.690   |
| Forfeited from current plan(s)    | <u>15,837</u>                 | <u>(15,837)</u>                | 41.916   |
| Balance, December 31, 2017        | 77,512                        | 682,799                        | 38.860   |
| Granted from 2013 Plan            | (1,000)                       | 1,000                          | 52.500   |
| Exercised                         | —                             | (81,940)                       | 27.597   |
| Forfeited from 2013 Plan          | 13,773                        | (13,773)                       | 45.692   |
| Termination of 2013 Plan          | <u>(90,285)</u>               | <u>—</u>                       |  |
|                                   | —                             | 588,086                        |  |
| Available to grant from 2018 Plan | 800,000                       | —                              |  |
| Granted from 2018 Plan            | (185,750)                     | 185,750                        | 55.297   |
| Forfeited from current plan(s)    | <u>600</u>                    | <u>(600)</u>                   | 55.000   |
| Balance, December 31, 2018        | <u>614,850</u>                | <u>773,236</u>                 | \$ 43.886                                      |

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. 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, 2018, 2017 and 2016:

|  | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|--|-------------|-------------|-------------|
| Expected dividends per share                               | \$1.27      | \$0.95      | \$0.88      |
| Risk-free interest rate                                    | 2.86%       | 2.03%       | 1.27%       |
| Expected life of options                                   | 5 years     | 5 years     | 5 years     |
| Expected volatility  | 17.61%      | 23.49%      | 22.08%      |
| Weighted average fair value of options granted during year | \$8.30      | \$10.04     | \$6.59      |

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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, 2018:

|  | <b>Options</b>  | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term</b> |
|--|-----------------|--|--|
| Options outstanding, January 1, 2018   | 682,799         | \$38.860   | 7.38 years   |
| Granted                                | 186,750         | 55.282   |  |
| Exercised                              | (81,940)        | 27.597   |  |
| Forfeited                              | <u>(14,373)</u> | 46.081   |  |
| Options outstanding, December 31, 2018 | <u>773,236</u>  | 43.886   | 7.44 years   |
| Options exercisable, December 31, 2018 | <u>266,742</u>  | 32.233   | 5.15 years   |

For the years ended December 31, 2018, 2017 and 2016, options granted were 186,750, 157,800, and 131,000, 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, 2018, 2017 and 2016, was \$2.2 million, \$3.0 million and \$1.4 million, respectively. Cash received from the exercise of options for the years ended December 31, 2018, 2017 and 2016, was \$2.3 million, \$3.3 million and \$2.1 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled \$1.6 million, \$2.7 million and \$1.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. The total intrinsic value of options outstanding at December 31, 2018, 2017 and 2016, was \$4.7 million, \$8.8 million and \$13.9 million, respectively. The total intrinsic value of options exercisable at December 31, 2018, 2017 and 2016, was \$3.9 million, \$5.7 million and \$7.5 million, respectively.

The following table presents the activity related to nonvested options under all plans for the year ended December 31, 2018.

|                                      | <b>Options</b>  | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</b> |
|--------------------------------------|-----------------|--|---|
| Nonvested options, January 1, 2018   | 441,937         | \$44.842   | \$7.981   |
| Granted                              | 186,750         | 55.282   | 8.297   |
| Vested this period                   | (107,895)       | 38.433   | 6.398   |
| Nonvested options forfeited          | <u>(14,298)</u> | 46.057   | 8.143   |
| Nonvested options, December 31, 2018 | <u>506,494</u>  | 50.023   | 8.431   |

At December 31, 2018, there was \$3.8 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 2023, with the majority of this expense recognized in 2019 and 2020.

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The following table further summarizes information about stock options outstanding at December 31, 2018:

| Range of Exercise Prices | Options Outstanding |   |                                 | Options Exercisable |                                 |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
|                          | Number Outstanding  | Weighted Average Remaining Contractual Term | Weighted Average Exercise Price | Number Exercisable  | Weighted Average Exercise Price |
| \$16.810 to 29.640       | 139,920             | 3.89 years                                  | \$25.093                        | 139,920             | \$25.093                        |
| \$32.590 to 38.610       | 97,047              | 5.87 years                                  | 33.038                          | 62,291              | 32.819                          |
| \$41.300 to 47.800       | 111,436             | 7.80 years                                  | 41.357                          | 24,658              | 41.386                          |
| \$50.710 to 52.500       | 239,683             | 8.11 years                                  | 51.608                          | 39,873              | 50.710                          |
| \$55.000 to 59.750       | <u>185,150</u>      | 9.88 years                                  | 55.298                          | <u>—</u>            | <u>—</u>                        |
|                          | <u>773,236</u>      | 7.44 years                                  | 43.886                          | <u>266,742</u>      | 32.233                          |

**Note 22: 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 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 23: Accumulated Other Comprehensive Income**

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

|  | 2018            | 2017            |
|--|-----------------|-----------------|
|  | (In Thousands)  |                 |
| Net unrealized gain on available-for-sale securities         | \$ 365          | \$ 1,949        |
| Net unrealized gain on derivatives used for cash flow hedges | <u>12,106</u>   | <u>—</u>        |
|  | 12,471          | 1,949           |
| Tax effect   | <u>(2,844)</u>  | <u>(708)</u>    |
| Net-of-tax amount  | <u>\$ 9,627</u> | <u>\$ 1,241</u> |

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Amounts reclassified from AOCI and the affected line items in the statements of income during the years ended December 31, 2018, 2017 and 2016, were as follows:

|   | Amounts Reclassified<br>from AOCI |             |                 | Affected Line Item in the<br>Statements of Income  |
|---|-----------------------------------|-------------|-----------------|--|
|   | 2018                              | 2017        | 2016            |  |
|   | (In Thousands)                    |             |                 |  |
| Unrealized gains on available-for-sale securities | \$ 2                              | \$ —        | \$ 2,873        | Net realized gains on available-for-sale securities (total reclassified amount before tax) |
| Income taxes                                      | —                                 | —           | (1,043)         | Tax (expense) benefit  |
| Total reclassifications out of AOCI               | \$ <u>2</u>                       | \$ <u>—</u> | \$ <u>1,830</u> |  |

**Note 24: 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.

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, 2018) 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, 2018, that the Bank met all capital adequacy requirements to which it was then subject.

As of December 31, 2018, 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, 2018, 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.

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, 2018 and 2017, 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 ratios in order to avoid restrictions on paying dividends, repurchasing shares, and paying certain discretionary bonuses. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

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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    |       | Minimum For Capital Adequacy Purposes |       | Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions |       |
|------------------------------|-----------|-------|---------------------------------------|-------|--|-------|
|                              | Amount    | Ratio | Amount                                | Ratio | Amount   | Ratio |
| (Dollars In Thousands)       |           |       |                                       |       |  |       |
| As of December 31, 2018      |           |       |                                       |       |  |       |
| Total capital                |           |       |                                       |       |  |       |
| Great Southern Bancorp, Inc. | \$651,469 | 14.4% | \$360,826                             | 8.0%  | N/A  | N/A   |
| Great Southern Bank          | \$599,509 | 13.3% | \$360,767                             | 8.0%  | \$450,959  | 10.0% |
| Tier I capital               |           |       |                                       |       |  |       |
| Great Southern Bancorp, Inc. | \$538,060 | 11.9% | \$270,619                             | 6.0%  | N/A  | N/A   |
| Great Southern Bank          | \$561,100 | 12.4% | \$270,575                             | 6.0%  | \$360,767  | 8.0%  |
| Tier I leverage capital      |           |       |                                       |       |  |       |
| Great Southern Bancorp, Inc. | \$538,060 | 11.7% | \$184,088                             | 4.0%  | N/A  | N/A   |
| Great Southern Bank          | \$561,100 | 12.2% | \$184,050                             | 4.0%  | \$230,062  | 5.0%  |
| Common equity Tier I capital |           |       |                                       |       |  |       |
| Great Southern Bancorp, Inc. | \$513,060 | 11.4% | \$202,965                             | 4.5%  | N/A  | N/A   |
| Great Southern Bank          | \$561,100 | 12.4% | \$202,931                             | 4.5%  | \$293,123  | 6.5%  |
| As of December 31, 2017      |           |       |                                       |       |  |       |
| Total capital                |           |       |                                       |       |  |       |
| Great Southern Bancorp, Inc. | \$597,177 | 14.1% | \$339,649                             | 8.0%  | N/A  | N/A   |
| Great Southern Bank          | \$558,668 | 13.2% | \$339,575                             | 8.0%  | \$424,468  | 10.0% |
| Tier I capital               |           |       |                                       |       |  |       |
| Great Southern Bancorp, Inc. | \$485,685 | 11.4% | \$254,737                             | 6.0%  | N/A  | N/A   |
| Great Southern Bank          | \$522,176 | 12.3% | \$254,681                             | 6.0%  | \$339,575  | 8.0%  |
| Tier I leverage capital      |           |       |                                       |       |  |       |
| Great Southern Bancorp, Inc. | \$485,685 | 10.9% | \$177,881                             | 4.0%  | N/A  | N/A   |
| Great Southern Bank          | \$522,176 | 11.7% | \$177,844                             | 4.0%  | \$222,305  | 5.0%  |
| Common equity Tier I capital |           |       |                                       |       |  |       |
| Great Southern Bancorp, Inc. | \$460,661 | 10.9% | \$191,053                             | 4.5%  | N/A  | N/A   |
| Great Southern Bank          | \$522,152 | 12.3% | \$191,011                             | 4.5%  | \$275,904  | 6.5%  |

**Note 25: 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.

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**Note 26: Summary of Unaudited Quarterly Operating Results**

Following is a summary of unaudited quarterly operating results for the years 2018, 2017 and 2016:

|  | <b>2018</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  | \$ 46,882                                    | \$ 49,943      | \$ 52,982           | \$ 56,142          |
| Interest expense                                       | 7,444  | 8,731          | 9,997               | 11,585             |
| Provision for loan losses                              | 1,950  | 1,950          | 1,300               | 1,950              |
| Net realized gains on<br>available-for-sale securities | —  | —              | 2                   | —                  |
| Noninterest income                                     | 6,935  | 7,459          | 14,604              | 7,220              |
| Noninterest expense                                    | 28,312                                       | 29,915         | 28,309              | 28,774             |
| Provision for income taxes                             | 2,645  | 2,967          | 5,464               | 3,765              |
| Net income available to common<br>shareholders         | 13,466                                       | 13,839         | 22,516              | 17,288             |
| Earnings per common share – diluted                    | 0.95   | 0.97           | 1.57                | 1.21               |

|   | <b>2017</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   | \$ 45,413                                    | \$ 44,744      | \$ 46,368           | \$ 46,536          |
| Interest expense  | 6,712  | 6,843          | 7,087               | 7,263              |
| Provision for loan losses                                       | 2,250  | 1,950          | 2,950               | 1,950              |
| Net realized gains (losses)<br>on available-for-sale securities | —  | —              | —                   | —                  |
| Noninterest income  | 7,698  | 15,800         | 7,655               | 7,374              |
| Noninterest expense   | 28,573                                       | 28,371         | 28,034              | 29,283             |
| Provision for income taxes                                      | 4,058  | 7,204          | 4,289               | 3,207              |
| Net income  | 11,518                                       | 16,176         | 11,663              | 12,207             |
| Net income available to common<br>shareholders                  | 11,518                                       | 16,176         | 11,663              | 12,207             |
| Earnings per common share – diluted                             | 0.81   | 1.14           | 0.82                | 0.86               |



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|   | <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) on<br>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<br>shareholders                  | 9,793  | 12,534         | 11,221              | 11,794             |
| Earnings per common share – diluted                             | 0.70   | 0.89           | 0.80                | 0.83               |

**Note 27: Condensed Parent Company Statements**

The condensed statements of financial condition at December 31, 2018 and 2017, and statements of income, comprehensive income and cash flows for the years ended December 31, 2018, 2017 and 2016, for the parent company, Great Southern Bancorp, Inc., were as follows:

|   | <b>December 31,</b>   |                   |
|---|-----------------------|-------------------|
|   | <b>2018</b>           | <b>2017</b>       |
|   | <b>(In Thousands)</b> |                   |
| <b>Statements of Financial Condition</b>        |                       |                   |
| <b>Assets</b>                                   |                       |                   |
| Cash  | \$ 56,648             | \$ 41,977         |
| Investment in subsidiary bank                   | 580,016               | 533,153           |
| Deferred and accrued income taxes               | 411                   | 133               |
| Prepaid expenses and other assets               | <u>889</u>            | <u>903</u>        |
|   | <u>\$ 637,964</u>     | <u>\$ 576,166</u> |
| <b>Liabilities and Stockholders' Equity</b>     |                       |                   |
| Accounts payable and accrued expenses           | \$ 6,371              | \$ 5,042          |
| Subordinated debentures issued to capital trust | 25,774                | 25,774            |
| Subordinated notes                              | 73,842                | 73,688            |
| Common stock                                    | 142                   | 141               |
| Additional paid-in capital                      | 30,121                | 28,203            |
| Retained earnings                               | 492,087               | 442,077           |
| Accumulated other comprehensive income          | <u>9,627</u>          | <u>1,241</u>      |
|   | <u>\$ 637,964</u>     | <u>\$ 576,166</u> |

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|  | 2018           | 2017      | 2016      |
|--|----------------|-----------|-----------|
|  | (In Thousands) |           |           |
| <b>Statements of Income</b>  |                |           |           |
| Income   |                |           |           |
| Dividends from subsidiary bank   | \$ 34,000      | \$ 17,500 | \$ 12,000 |
| Interest and dividend income   | —              | 48        | —         |
| Gain on redemption of trust preferred securities and sale of non-marketable securities | —              | —         | 2,735     |
| Other income   | —              | —         | 2         |
|  | 34,000         | 17,548    | 14,737    |
| Expense  |                |           |           |
| Operating expenses   | 1,793          | 1,330     | 1,322     |
| Interest expense   | 5,050          | 5,047     | 2,381     |
|  | 6,843          | 6,377     | 3,703     |
| Income before income tax and equity in undistributed earnings of subsidiaries          | 27,157         | 11,171    | 11,034    |
| Credit for income taxes  | (1,204)        | (1,709)   | (241)     |
| Income before equity in earnings of subsidiaries                                       | 28,361         | 12,880    | 11,275    |
| Equity in undistributed earnings of subsidiaries                                       | 38,748         | 38,684    | 34,067    |
| Net income   | \$ 67,109      | \$ 51,564 | \$ 45,342 |

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|   | 2018             | 2017             | 2016             |
|---|------------------|------------------|------------------|
|   | (In Thousands)   |                  |                  |
| <b>Statements of Cash Flows</b>   |                  |                  |                  |
| <b>Operating Activities</b>   |                  |                  |                  |
| Net income  | \$ 67,109        | \$ 51,564        | \$ 45,342        |
| Items not requiring (providing) cash  |                  |                  |                  |
| Equity in undistributed earnings of subsidiary                                    | (38,748)         | (38,684)         | (34,067)         |
| Compensation expense for stock option grants                                      | 737              | 564              | 483              |
| Net realized gains on sales of available-for-sale securities                      | —                | —                | (2,735)          |
| Amortization of interest rate derivative and deferred costs on subordinated notes | 154              | 441              | 289              |
| Changes in  |                  |                  |                  |
| Prepaid expenses and other assets   | 13               | 132              | 175              |
| Accounts payable and accrued expenses   | 182              | (115)            | 1,495            |
| Income taxes  | (278)            | 6                | (206)            |
| Net cash provided by operating activities   | <u>29,169</u>    | <u>13,908</u>    | <u>10,776</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)              |
| Net cash used in investing activities   | <u>—</u>         | <u>—</u>         | <u>(56,419)</u>  |
| <b>Financing Activities</b>   |                  |                  |                  |
| Proceeds from issuance of subordinated notes                                      | —                | —                | 73,472           |
| Purchases of the Company's common stock   | (903)            | —                | —                |
| Dividends paid  | (15,819)         | (12,894)         | (12,232)         |
| Stock options exercised   | 2,224            | 3,247            | 2,110            |
| Net cash provided by (used in) financing activities                               | <u>(14,498)</u>  | <u>(9,647)</u>   | <u>63,350</u>    |
| <b>Increase in Cash</b>   | 14,671           | 4,261            | 17,707           |
| <b>Cash, Beginning of Year</b>  | <u>41,977</u>    | <u>37,716</u>    | <u>20,009</u>    |
| <b>Cash, End of Year</b>  | <u>\$ 56,648</u> | <u>\$ 41,977</u> | <u>\$ 37,716</u> |
| <b>Additional Cash Payment Information</b>  |                  |                  |                  |
| Interest paid   | \$ 5,001         | \$ 5,059         | \$ 846           |

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|   | 2018             | 2017             | 2016             |
|---|------------------|------------------|------------------|
|   | (In Thousands)   |                  |                  |
| <b>Statements of Comprehensive Income</b>   |                  |                  |                  |
| <b>Net Income</b>   | \$ 67,109        | \$ 51,564        | \$ 45,342        |
| Unrealized appreciation on available-for-sale securities,<br>net of taxes (credit) of \$0, \$0 and \$(90), for 2018,<br>2017 and 2016, respectively | —                | —                | (158)            |
| Reclassification adjustment for gains included in net<br>income, net of taxes of \$0, \$0 and \$(993), for 2018,<br>2017 and 2016, respectively     | —                | —                | (1,742)          |
| Change in fair value of cash flow hedge, net of taxes<br>of \$0, \$93 and \$50 for 2018, 2017 and<br>2016, respectively                             | —                | 161              | 87               |
| Comprehensive income (loss) of subsidiaries   | <u>8,114</u>     | <u>(478)</u>     | <u>(2,293)</u>   |
| <b>Comprehensive Income</b>   | <u>\$ 75,223</u> | <u>\$ 51,247</u> | <u>\$ 41,236</u> |

**Note 28: Sale of Branches and Related Deposits**

On July 20, 2018, the Company closed on the sale of four banking centers and related deposits in the Omaha, Neb., metropolitan market to Lincoln, Neb.-based West Gate Bank. Pursuant to the purchase and assumption agreement, the Bank sold branch deposits of approximately \$56 million and sold substantially all branch-related real estate, fixed assets and ATMs. The Company recorded a pre-tax gain (excluding transaction expenses of \$165,000) of \$7.4 million on the sale based on the contractual deposit premium and the sales price of the branch assets.

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