SHAPING OUR FUTURE WITH

FORE SIGHT

2019 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.

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, 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



31st Annual Meeting of Stockholders

MAY 6, 2020

Corporate Profile

Great Southern Bank was founded in 1923 with a \$5,000 investment, four employees and 936 customers. Today, it has grown to \$5.0 billion in total assets, with more than 1,200 dedicated associates serving 151,000 households.

Headquartered in Springfield, Mo., the Company operates 104 offices in 11 states, including 97 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, 2019, there were 14,261,052 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, 2019 was \$63.32.

High/Low Stock Price

High/Low Stock Price							
	2019		20	018	2017		
	High	Low	High	Low	High	Low	
First Quarter	\$57.95	\$45.44	\$53.05	\$48.10	\$55.45	\$47.35	
Second Quarter	60.92	52.24	60.20	48.60	55.10	47.25	
Third Quarter	60.94	54.33	61.65	54.50	56.00	47.50	
Fourth Quarter	64.48	54.87	58.49	43.30	58.45	50.55	
Regular Dividend Decl	arations						
	2019	2018	2017				
First Quarter	\$.32	\$.28	\$.22				
Second Quarter	.32	.28	.24				
Third Quarter	.34	.32	.24				
Fourth Quarter	.34	.32	.24				
Special Dividend Declarations							
•	2019	2018	2017				
First Quarter	\$.75						



William V. Turner Chairman of the Board

Joseph W. Turner
President and
Chief Executive Officer

To our Stockholders:

On behalf of our 1,200 associates, we are pleased to present our 2019 Annual Report, entitled "Foresight." One of the most successful investors of all time. Warren Buffett, once said, "Someone's sitting in the shade today because someone planted a tree long ago." Foresight and making decisions for the long term are guiding principles of how we manage Great Southern. Foresight gives us increased power to shape our future, even in the most turbulent of times, and enables us to take advantage of opportunities that may come our way. It is not easy and requires visionary thinking and planning, a sharp focus, patience, and, many times, fortitude. Our Company's historical performance reflects the power of this quiding principle and it will continue to guide us as we move ahead and engage in practices that we

believe will drive sustainability, long-term growth and profitability.

In 2019, we celebrated our 30th year as a public company. We look back over these three decades with a sense of pride about our Company's long-term performance and our past and current associates, whose steadfast dedication to our customers and communities made it all possible. We can see the power of foresight by our Company's track record over the last 30 years growing assets from less than \$500 million and operating almost entirely in southwest Missouri in 1989 to \$5 billion in assets and expanding our footprint to 11 states at the end of 2019. From a stockholder perspective, each share of GSBC stock purchased at \$9 per share in the 1989 initial public offering now has a value of approximately \$760 per share (on a split-adjusted basis), based on the closing stock price of \$63.32 on December 31, 2019. Including dividends, this represents a total return of 18,619% (source: S&P Global Market Intelligence).

Many of our accomplishments in 2019 reflect our long view philosophy and we believe the actions we take today will pay dividends in the years to come. We hope you find our Annual Report insightful and informative and share in our vision to make Great Southern an even better company for those we serve.

2019 IN REVIEW

In 2019, we achieved the highest annual net income and earnings per share in the history of our Company, underscoring the hard work and commitment of our associates. Our record earnings were driven by loan growth, increased net interest income, solid credit quality and well-contained expenses. You can find details of our financial performance in this Annual Report.

In summary, earnings for the year ended December 31, 2019, were \$73.6 million, or \$5.14 per diluted common share. Return on average common equity was 12.88%, return on average assets was 1.52%, and net interest margin was 3.95%. Total stockholders' equity was \$603.1 million, or 12.0% of assets, equivalent to a book value of \$42.29 per common share. Book value increased by \$4.70, or 12.5%, from the end of 2018 to the end of 2019.

Active Capital Management

The capital position of the Company remains strong, significantly exceeding the thresholds established by regulators to be considered "well-capitalized." Tangible common equity increased by 13.8% from the end of 2018, pushing the tangible common equity to tangible assets ratio (a common capital metric) to 11.9% at the end of 2019, a strong level by industry standards⁽¹⁾.

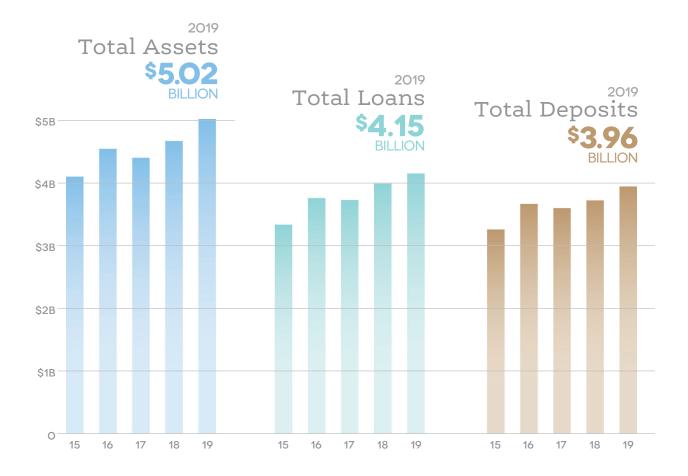
In the banking business, a strong capital base is paramount. Our objective is to actively manage our capital position while maintaining sufficient capacity for organic growth and other corporate initiatives. It is also a priority to return capital to our stockholders. We are proud that Great Southern has declared consecutive quarterly cash dividends since going public in 1989. In 2019, we declared quarterly cash dividends totaling \$1.32 per common share. With our very strong capital levels, we have also recently had the opportunity to declare special cash dividends. The Company

declared a special cash dividend of \$0.75 per common share in January 2019, and declared another special cash dividend of \$1.00 per common share in January 2020.

Solid Lending Activity

Overall loan growth was solid in 2019, amidst strong market competition and intermittent signs of slower deal flow, especially in the commercial lending sector. Total gross loan balances, including the undisbursed portion of loans but excluding the FDIC-assisted acquired loans and mortgage loans held for sale, increased \$99.2 million, or 2.1%, from the end of 2018. Decreases, which were anticipated, in the consumer auto loan portfolio (down about \$101.7 million) and the FDIC-acquired loan portfolios (down about \$40.4 million) acted as headwinds to our overall loan growth. Outstanding net loan receivable balances increased \$165.0 million, from just less than \$4.0 billion at December 31, 2018, to more than \$4.1 billion at December 31, 2019. We ended 2019 with a strong loan pipeline across the franchise.

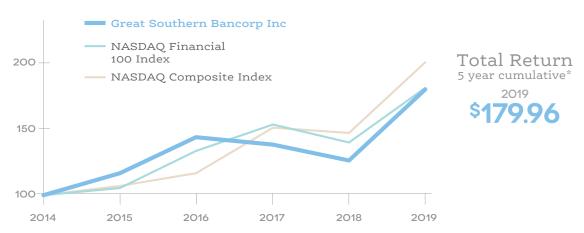
Total loan production occurred across several loan types, primarily commercial real estate loans, owner-occupied one- to four-family residential mortgage loans and multi-family loans, and came from most of Great Southern's primary lending locations. For the fourth year in a row, our commercial lenders originated more than \$1 billion in new loans, with 35% of the production generated through our six loan production offices in Atlanta, Chicago, Dallas, Denver, Omaha and Tulsa. Our Residential Lending team had record production in 2019, driven by hiring additional veteran loan originators and a low interest rate environment. Some of these residential loans were retained in the Company's loan portfolio and some were sold in the secondary market.



Steadfast Credit Quality

Despite intense competition and some signs of a slowing marketplace, our loan growth was not achieved by succumbing to pricing pressures or loosening underwriting standards. Our loan underwriting remains conservative and we strive to grow the loan portfolio one quality relationship at a time. During 2019, credit quality metrics

remained strong with historically low levels of non-performing assets. At December 31, 2019, non-performing assets, excluding FDIC-acquired non-performing assets, were \$8.2 million, a decrease of \$3.6 million from \$11.8 million at December 31, 2018. Non-performing assets as a percentage of total assets were 0.16% at December 31, 2019, compared to 0.25% at



The graph above compares the cumulative total stockholder return on GSBC Common Stock to the cumulative total returns on the NASDAQ U.S. Stock Index and the NASDAQ Financial Stocks Index for the period December 31, 2014, through December 31, 2019. The graph assumes that \$100 was invested in GSBC Stock on December 31, 2014 and that all dividends were reinvested.

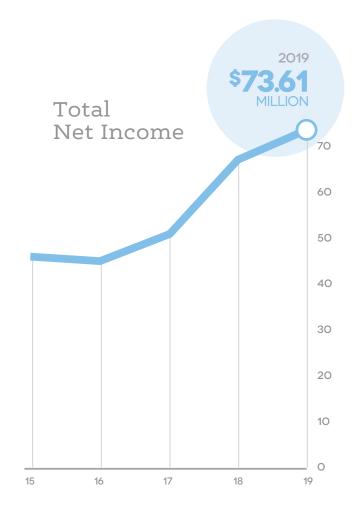
December 31, 2018. Total net charge-offs were \$4.3 million during 2019, compared to \$5.2 million during 2018. In 2019, approximately \$2.9 million of the \$4.3 million of net charge-offs were in the consumer auto category. In addition, two unrelated commercial loan relationships were responsible for \$560,000 of the net charge-off total in 2019.

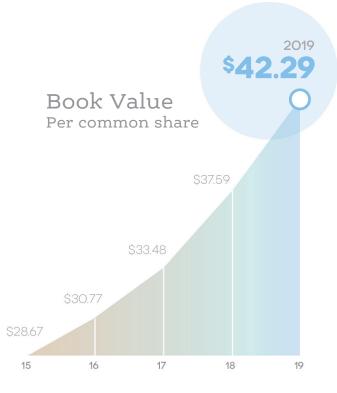
Net Interest Margin Pressure

During 2019, the Federal Reserve's three cuts to the federal funds rate and decreases in other benchmark interest rates led to net interest margin compression for many banks, including Great Southern. In addition, strong pricing competition for loans and deposits continued in most of our markets. Reported net interest margin was 3.95% for the year ended December 31, 2019, compared to 3.99% for 2018, a decrease of four basis points. The Company's core net interest margin⁽²⁾, which excludes the effects of additional yield accretion on loan pools from FDIC-assisted transactions, was 3.79% for the year ended December 31, 2019, compared to 3.87% for 2018, a decrease of eight basis points. Compression in our margin was caused primarily by increases in average interest rates on deposits and other borrowings, partially offset by increases in the average yield on loans and other interest-earning assets. Since the Federal Reserve's rate cuts in the second half of 2019, the Company's yield on loans and other earning assets has declined more rapidly than its rate paid on deposits. Strategies to mitigate margin compression, such as interest rate swaps and balance sheet mix, are in place and reviewed continually.

Long-term Business Initiatives

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 decided 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 was difficult over the last few years. Our core business of direct consumer lending through our extensive banking center network, however, remains an important focus.

To broaden our lending capabilities, during the third quarter of 2019, a Business Banking initiative was implemented to increase the Company's focus on serving the lending needs of business owners. The Business Banking group works with established operating businesses by providing lines of credit, equipment loans, and commercial real estate loans, as well as cash management and depository services.

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 continually 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. In fact, in the last six years, the Company has consolidated 34 banking centers - 24 in Missouri, seven in Iowa, two in Kansas and one in Arkansas. In 2019, two banking centers were consolidated into nearby offices - the Fayetteville, Arkansas, office into the Rogers, Arkansas, office and the Ames, Iowa, banking center into the North Ankeny, Iowa, facility.

Enhancing our online channels was also a priority in 2019. During the first quarter of 2019, we upgraded the online account opening platform to provide a faster and easier experience for customers within and beyond our geographic footprint. We also committed significant time in 2019 to work on upgrading the retail online banking platform and mobile banking application to improve customer functionality and convenience. The new platform and app are expected to be available to customers during 2020.

20/20 VISION

As we look to 2020 and beyond, we will capitalize on our strengths and prepare for the challenges and opportunities that will likely come our way. Our priorities for 2020 are straightforward. We will maintain a sharp focus on developing and expanding customer relationships, closely manage interest rate risk, sustain a strong credit discipline and drive operational efficiencies and continuous improvement throughout our Company.

Coming off a record year in 2019 provides positive momentum, but we do not expect 2020 to be another year of record income. It is unrealistic to expect that record growth – even any growth – is going to be possible every single year. There are too many variables that can affect performance. We understand that at times we will be able to grow and expand, and there will be times when, because of competition and economic conditions, we will not be able to grow. We'll do the best we can every single year in the long-term interests of the Company and our stockholders. For some years, that may mean our loan and deposit totals stay relatively flat. In other years, we may experience significant growth. Discipline is key.

The current flat-to-inverted yield curve, generally low interest rates and competitive landscape will likely present significant obstacles to expanding our net interest margin in 2020. As stated earlier, strategies are in place to manage these pressures, and limit negative impacts on our net interest margin as much as possible.

Economic and political uncertainty continue to pose challenges for the banking industry as a whole. Although the economy remains fairly strong, it is a dangerous time for banks in the current economic cycle. Investor expectations have not fully reset to reflect a slowing economy. This may cause some banks to feel pressure to continue to show loan growth similar to previous periods when the economy was more robust,

leading to unsound credit practices. Seeds for future problems are usually sown in times like these. We will be viligant not to fall into this trap. We do not intend to stretch for questionable loan or deposit growth.

As we look ahead, we recognize that banking as an industry is evolving rapidly, with continuous technological advances. We must stay responsive to continue to meet the demands and expectations of our customers. In 2020, we will continue to analyze all customer access channels to ensure that we are properly positioned for both the current and future generations of customers. Are we serving customers when, where and how they prefer? We must make sure that we can knowledgably answer this question. One way we are doing this is by our engagement with a third-party vendor that is reviewing all 97 banking center facilities, including the in-branch customer experience, to understand how this physical access channel needs to efficiently evolve with customer preferences. We also continue to use J.D. Power, a leader in consumer satisfaction research, and other leading customer experience organizations to help us better understand our customers' desires and their perceptions of our service quality through all of our delivery channels.

We look to 2020 with both optimism and realism. Foresight and discipline will be fundamental as we take on whatever challenges and opportunities that may come our way. As we do this, we pledge to keep in mind the long-term interests of those we serve. For our associates, we want to make our Company a great place to work and grow professionally. For our customers, it is our mission to build winning and lasting relationships by providing the right products and services 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 finally, for our stockholders,

we desire to provide a superior long-term return on investment in our Company.

Finally, we owe a debt a gratitude to our Board of Directors for their guidance and support. We value the diversity of talent, knowledge and experience that each Board member brings to our Company.

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

Sincerely yours,

William V. Turner

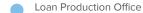
Joseph W. Turner

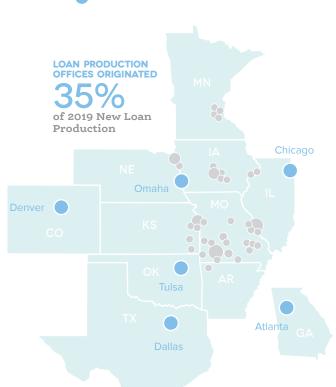
- (1) Non-GAAP Financial Measure. For additional information, including a reconciliation to GAAP, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures" in the Company's Annual Report on Form 10-K.
- (2) For additional information,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

seeing NEW WAYS to create lending opportunity

The foundation of our lending strategy for many years has been to grow our portfolio with high-quality loans. This foundation, paired with the expertise of our expanding lending team, has resulted in overall net outstanding loan portfolio growth of more than 55%, or \$1.4 billion, since the end of 2014. Our steadfast approach to preserving a strong credit discipline is guided by the Bank's Loan Committee, and we continue to look ahead for future opportunities in all markets, including potential new markets.



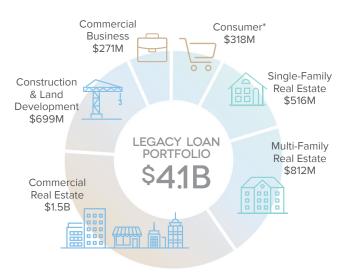




Success in COMMERCIAL Lending

Commercial lending, primarily commercial real estate, has been our forte for several decades. For the fourth consecutive year, our commercial lending team produced more than \$1 billion in loans, 35% of which originated in our stand-alone commercial loan production offices. In 2019, we saw solid growth in commercial construction, commercial real estate, and both multi-family and single-family real estate.

The stand-alone loan production offices are a successful business model for our Company, and they position us to capitalize on opportunities in attractive markets. The success from these offices can be directly attributed to the hiring of experienced lenders with a strong knowledge of both the commercial lending industry and the needs of the market. These offices have augmented our strong lending offices in Springfield, St. Louis, Kansas City, Minneapolis, and Des Moines.



Outstanding balances as of December 31, 2019
*Includes Home Equity Loans of \$119M

A RECORD YEAR for Residential Lending

Purchasing a home is often the largest investment an individual will make; throughout our 97-year history, we've helped countless customers finance their dream of home ownership. We're mindful of the positive impact to the communities we serve when we help individuals and families purchase homes and put down roots. In 2019, our Residential Lending team achieved record production, originating nearly \$314 million in home loan purchases and refinances.

Strategic marketing campaigns played a part in this record-making year. In response to online mortgage lenders, we've sought to raise



in new Residential Loan Production

consumer awareness about our home loan products, our online home loan application, and the tailored, one-on-one support provided by our home loan experts. The success in 2019 was bolstered by a decrease in home loan rates, which increased home purchases and refinances, and the hiring of experienced lenders in key markets.



OPENING DOORS in St. Louis

Our Residential Lending team established a new home loan program for the St. Louis, Missouri, market during 2019. The Open Door Home Loan program is designed to assist low-to moderate-income individuals in specific market areas, many of whom have difficulty qualifying for traditional home loan products, whether it is to purchase a home or make improvements to their existing home.

With the goal of getting these customers on a successful path forward, we're collaborating with our network of nonprofit community partners to provide education and resources prior to loan closing so these borrowers are prepared for home ownership.

NEW TEAM for Business Banking

Through our Company-wide process improvement initiative, Process Matters, we identified an opportunity to better serve the banking needs of operating business owners. We enhanced our Business Banking division by establishing a new team focused on lending opportunities for these customers. At the helm of the team is Kent Lammers, a lending veteran with more than 20 years of experience with Great Southern.

Recognizing a unique potential in the Kansas City market, we also hired two experienced lenders, both of whom have strong, established relationships in the market.

Foresight 20/20

As we look forward, the Business Banking lending team will establish complete banking relationships with these operating business owners by collaborating with the Business Banking services team to offer customized depository and payment solutions. The increased focus on these customers will strengthen not only the businesses themselves and our Bank, but the local communities as well.

using a sharper FOCUS to reach and serve customers

New platform for ONLINE BANKING

It's more important than ever that our Bank be available to customers when, where, and how they prefer. Generations who have grown up in the digital age want the option to bank easily from anywhere.

REACHING OUR Online Banking Text Banking Mobile Banking **ATMs** DIGITAL SERVIC Email Digital & Online Website Print Social TOUCH Media Radio/TV **POINTS** Mail Outdoor Call FACE TO FACE Sports Center Community Volunteering **Events** Banking Education Centers

Optimizing our channels and services as technology evolves has been an ongoing focus. Our enhanced online account opening platform, which we introduced last year, has made it easier for consumers to begin a relationship with our Bank. As of February 1, 2020, we've opened nearly 1,100 new accounts online from various states throughout the country, an impressive increase compared to years prior. The availability of our convenient Online and Mobile Banking services, such as Mobile Check Deposit, has

bled a new population of potential ustomers to bank with us whether or not there are physical locations in their local area.

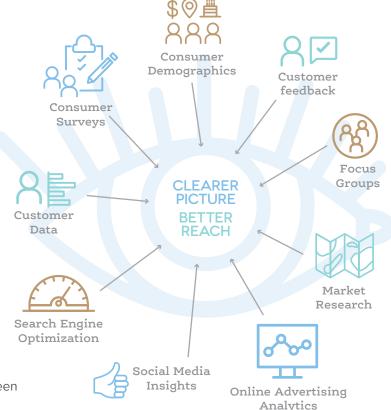
Foresight 20/20

Later this year, we'll introduce our updated Online Banking platform and Mobile Banking app. To create a seamless experience, customers will have access to the same features and services whether they are using our Online Banking website or Mobile Banking app. We're also providing more self-service options, which will make it easier for users to access and update their information when it's convenient.

TARGETING & OPTIMIZING our reach and messages

Using the data available through our marketing analysis and customer feedback platforms, we continue to focus on fine tuning our marketing campaigns and messaging. We know that each consumer is unique and their interpretation of information is based on their specific needs. As consumers are presented with marketing messages through many channels, be it social media, their email inbox, or TV/radio, it's crucial that our marketing efforts form a personal connection between them and our Bank.

This targeted approach not only increases the efficacy of our marketing campaigns by presenting information to the individuals who are most likely to find it useful and relevant, but also better utilizes our marketing dollars.



\$28.5M DEC 2019 \$30 M Growing TFXAS

FEB 2019

JUL 2019

20 M

10 M

As of February 13, 2020.

TEXAS MONEY MARKET DEPOSITS

Growing deposits in the TEXAS MARKET

Using our hyper-targeted approach, we launched a deposit acquisition campaign in February 2019, which focused on several metropolitan Texas markets, including Dallas, Austin, and Houston, and offered a money market account with an attractive, competitive rate. Through optimized marketing both online and by email, we have opened hundreds of accounts in Texas totaling more than \$32 million in deposits related to this campaign.

bringing our \|S|O|\ for stronger communities to life

A GRAND DAY for our smaller communities

In celebration of the global Giving Tuesday initiative, we hosted 'A Grand Day to Celebrate' by donating \$25,000 to rural community nonprofit organizations throughout the Midwest.

Our local banking center managers chose the recipient organizations based on their firsthand knowledge of the unique needs of their communities. We invited our customers and community members to join us in celebrating and to learn more about the services and resources available through these organizations!

The organizations we donated to provide support for families, children, and senior citizens with respect to education, healthcare, nutrition, shelter, and much more.



ENCOURAGING start-ups & small business

The efactory, which provides office space, training events, business consulting, and more for start-ups in Springfield, Missouri, named a room at their facility for Great Southern Bank. This naming ceremony followed a donation we made to help fund an expansion of the efactory as well as foster innovation, support entrepreneurship, and grow businesses in southwest Missouri.

As a member of the efactory's Partner Program over the last five years, we've assisted dozens of client companies through various programs and services. Our Company, along with four other local financial institutions, collectively invested \$100,000 in the efactory's Accelerator Seed Capital Fund, which is used to invest in start-ups.

We're very proud to be part of the positive, long-term economic impact this expansion will have on the Springfield area in the years ahead!



SUPPORTING SIOUX CITY

We're very proud to be a sponsor of the new Siouxland Expo Center in Sioux City, Iowa. The Bank pledged \$250,000 to the project over the next ten years. Part of the Riverfront Development District, the Expo Center is an innovative and dynamic venue that will provide 80,000 square feet of flexible spaces for agricultural, recreational, and community events.

Our local team championed this investment in Sioux City. Bringing many events to the area will drive tourism, which will have a positive impact on the local economy and benefit the entire community for years to come.

MULTIPLYING OUR IMPACT

Last year we introduced a new sports marketing partnership with St. Louis University Athletics. For the first time we directly tied our sponsorship to a community-focused initiative, encouraging attendance while donating books to a local school. This program's success inspired us to do more with our sports marketing partnerships going forward.



#ABearyGoodSummer

Through our partnership with the Springfield Cardinals, we sponsor a co-branded fan giveaway item each season. For 2019, we selected a toy bear and quickly began working to involve a community organization in the giveaway. We partnered with Ronald McDonald House Charities of the Ozarks and co-developed a campaign leading up to the giveaway day at the park. The campaign, named #ABearyGoodSummer, featured social media posts that followed the bear through day-to-day operations at the Ronald McDonald House. This provided a behind-the-scenes look into all of the ways they help and support families in their care. The namesake of the bear, TJ, is a young man who previously stayed at the Ronald McDonald House. Over the years, TJ has been instrumental in raising awareness and funds for Ronald McDonald House through their annual Share-A-Heart fundraiser. TJ and his family joined us at the game to celebrate and he threw out the first pitch! In addition to the bears given away at the game, we provided an additional 500 bears for Ronald McDonald House to give to the children staying with them through the remainder of 2019.



Project Classroom

Our longest-running sports marketing partnership is with Missouri State University. We worked alongside their team to establish Project Classroom, an initiative designed to support local teachers by fulfilling grant requests aimed at enhancing their students' education. At the heart of sporting events is the coming together of people from the community to support a common interest, so we wanted to be sure Bears fans had a participatory role in this initiative. For each men's and women's home basketball game, if fan attendance reached a predetermined level, we donated \$500 to a grant fund. We then worked with the Foundation for Springfield Public Schools to identify teacher grant requests the Foundation was unable to fulfill through their annual budget.

Great Southern associates, Missouri State
Athletics team members, and Boomer, the
Missouri State University mascot, surprised
several teachers and their students with the funds
needed to purchase equipment, software, and
resources for their classrooms! Through this
partnership, we fulfilled more than \$10,000 in
grant requests throughout the 2019-2020
basketball season!

encouraging ALL EYES to look for better solutions

FIGHTING FRAUD with education

As a financial institution, we have a responsibility to educate our customers to identify and protect themselves against fraud, especially those who are most vulnerable. Our ongoing Fraud Fighting Friday initiative began as a social media campaign to educate our customers, including older Americans, on how to protect their financial assets from financial scams. To complement the social media component, we provided formal training for front-line associates, hosted Fraud Fighting Friday events at all of our Banking Centers, and partnered with local senior centers to share fraud prevention tips.

We submitted an application for the American Bankers Association Foundation's Community Commitment Award in the Protecting Older Americans category for the initiative. We recently learned we were selected as a finalist and received one of four honorable mentions in the category! The American Bankers Association received a record number of submissions in 2019 and it was an honor to be recognized as a finalist! These national awards recognize and promote the many valuable ways banks of all sizes contribute to economic growth, community development, and enhancing

the quality of life in their

communities.



We regularly receive positive customer feedback regarding interactions with our associates and take pride in providing excellent customer service in all of our offices. We attribute these excellent customer service skills to our internal Training Department.

Associate training is an investment for the Company, one that pays dividends in the long term. Over the last few years, we've taken a more proactive approach to our training efforts. We've coordinated with various departments to identify specific training needs and opportunities to enhance our customer experience.

Continuing to improve CUSTOMER SERVICE with nCino

nCino, the cloud-based platform we implemented in 2016 for commercial lending, now has multi-purpose use for the Company! During late 2019, we replaced the consumer loan platform in our banking centers with the nCino platform. We're also upgrading the online consumer loan application available on our website through nCino.

In addition to a streamlined application process, this platform provides more transparency between our underwriting and front-line associates, which enables them to better communicate with our customers about the status of their loan application.

Setting the example for POSITIVE impact

Our Chairman, Bill Turner, was awarded the Lifetime Achievement in Business at the Springfield Business Journal's 2019 Economic Impact Awards ceremony. The award recognizes and honors excellence in business and impact on the community. Since joining the Company in



Teams lead the way

Our regional Community Matters Teams help us make the most of our community involvement by providing leadership and tailoring our efforts to the unique needs of their communities.

LEAD

Provide guidance and leadership in their communities to promote economic growth.

DO

Encourage associates to volunteer and help them find opportunities to give back.

GIVE

Help guide our company's philanthropic giving to best meet the needs in their area.

TEACH

Help associates share their financial expertise with seniors, kids, and small business owners. 1974, Mr. Turner was instrumental in transforming Great Southern from a small savings and loan association with \$79 million in assets to a leading, regional financial institution with \$5.0 billion in assets.

While accepting the award, Mr. Turner said, "I've been with Great Southern for 45 years. When I joined, there were 12 employees. Now, there's 1,200. Those employees are the people who earned me this award. They've done the work."

The community-focused mindset of Mr. Turner, and his wife, Ann, is the foundation and driving force behind the Bank's Community Matters program. In their honor, we established the annual Bill and Ann Turner Distinguished Community Service Award to celebrate an outstanding associate for their dedication to volunteerism in their community.

Dedicated to her community's GROWTH & SUCCESS



The 2020 Community Service Award recipient was Terry

Framke, banking center manager in Onawa, lowa. Terry takes great pride in her community and is often referred to as the "heart and soul" of Onawa. As an active member of the Onawa Chamber of Commerce, she understands the importance of a strong local economy and advocates for local businesses to help them succeed and prosper.

Terry also served as a board member of Burgess Health Center for 29 years. In addition to providing valuable guidance, she was instrumental in the organizations' capital campaign to complete necessary hospital renovations. The president of Burgess Health Center said, "Terry has been tireless in her support of healthcare in Onawa. She helped navigate some very troublesome times to establish the stability we have today. She genuinely cares about Onawa and its members, and isn't afraid to work hard to improve the community."

The pride Terry has in her community is contagious, encouraging both her employees and the public to get involved and help others!

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 LEADERSHIP Team



Front row, left to right

Kelly Polonus Director of Communications

and Marketing

John Bugh Chief Lending Officer

Tammy Baurichter Controller

Debbie Flowers Director of Credit Risk Administration

Matt Snyder Director of Human Resources

Bryan Tiede Director of Risk Management

Back row, left to right

Kris Conley Director of Retail Banking

Doug Marrs Director of Operations

Joseph W. Turner President and Chief

Executive Officer

Rex Copeland Chief Financial Officer

Lin Thomason Director of Information

Services

Kevin Baker Chief Credit Officer



In 2019 we celebrated our 30th year on the Nasdaq Exchange.

We would like to thank
all our investors
for their trust in our vision
and support in reaching this
exciting milestone.

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.

			DECEMBER 31	,	
	2019	2018	2017	2016	2015
Summary Statement of		(DOLL	ARS IN THOU	SANDS)	
Financial Condition					
Information:					
Assets	\$5,015,072	\$4,676,200	\$4,414,521	\$4,550,663	\$4,104,189
Loans receivable, net	4,163,224	3,990,651	3,734,505	3,776,411	3,352,797
Allowance for loan losses	40,294	38,409	36,492	37,400	38,149
Available-for-sale securities	374,175	243,968	179,179	213,872	262,856
Other real estate and					
repossessions, net	5,525	8,440	22,002	32,658	31,893
Deposits	3,960,106	3,725,007	3,597,144	3,677,230	3,268,626
Total borrowings and other interest- bearing liabilities	412,374	397,594	324,097	416,786	406,797
Stockholders' equity (retained					
earnings substantially restricted)	603,066	531,977	471,662	429,806	398,227
Common stockholders' equity	603,066	531,977	471,662	429,806	398,227
Average loans receivable	4,155,780	3,910,819	3,814,560	3,659,360	3,235,787
Average total assets	4,855,007	4,503,326	4,460,196	4,370,793	4,067,399
Average deposits	3,889,910	3,556,240	3,598,579	3,475,887	3,203,262
Average stockholders' equity	571,637	498,508	455,704	414,799	438,683
Number of deposit accounts	228,247	227,240	230,456	231,272	217,139
Number of full-service offices	97	99	104	104	110



	FC	OR THE YEA	R ENDED D	ECEMBER 3	31 ,
	2019	2018	2017	2016	2015
Summary Statement of Income Information:		(IN	THOUSANI	DS)	
Interest income:					
Loan	\$ 223,047	\$ 198,226	\$ 176,654	\$ 178,883	\$ 177,240
Investment securities and other	11,947	7,723	6,407	6,292	7,111
	234,994	205,949	183,061	185,175	184,351
Interest expense:					
Deposits	45,570	27,957	20,595	17,387	13,511
Federal Home Loan Bank advances	_	3,985	1,516	1,214	1,707
Short-term borrowings and repurchase agreements	3,635	765	747	1,137	65
Subordinated debentures issued to capital trust	1,019	953	949	803	714
Subordinated notes	4,378	4,097	4,098	1,578	
	54,602	37,757	27,905	22,119	15,997
Net interest income	180,392	168,192	155,156	163,056	168,354
Provision for loan losses	6,150	7,150	9,100	9,281	5,519
Net interest income after provision for loan losses	174,242	161,042	146,056	153,775	162,835
Noninterest income:					
Commissions	889	1,137	1,041	1,097	1,136
Service charges and ATM fees	20,898	21,695	21,628	21,666	19,841
Net realized gains on sales of loans	2,607	1,788	3,150	3,941	3,888
Net realized gains (losses) on sales of available-for-sale securities	(62)	2	_	2,873	2
Late charges and fees on loans	1,432	1,622	2,231	1,747	2,129
Gain (loss) on derivative interest rate products	(104)	25	28	66	(43)
Gain recognized 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 acquisition	_	_	(486)	(6,351)	(18,345)
Other income	5,297	2,535	3,230	4,055	4,973
	30,957	36,218	38,527	28,510	13,581
Noninterest expense:					
Salaries and employee benefits	63,224	60,215	60,034	60,377	58,682
Net occupancy expense	26,217	25,628	24,613	26,077	25,985
Postage	3,198	3,348	3,461	3,791	3,787
Insurance	2,015	2,674	2,959	3,482	3,566
Advertising	2,808	2,460	2,311	2,228	2,317
Office supplies and printing	1,077	1,047	1,446	1,708	1,333
Telephone	3,580	3,272	3,188	3,483	3,235
Legal, audit and other professional fees	2,624	3,423	2,862	3,191	2,713
Expense on other real estate and repossessions	2,184	4,919	3,929	4,111	2,526
Partnership tax credit investment amortization	365	575	930	1,681	1,680
Acquired deposit intangible asset amortization	1,190	1,562	1,650	1,910	1,750
Other operating expenses	6,656	6,187	6,878	8,388	6,776
	115,138	115,310	114,261	120,427	114,350
Income before income taxes	90,061	81,950	70,322	61,858	62,066
Provision for income taxes	16,449	14,841	18,758	16,516	15,564
Net income	73,612	67,109	51,564	45,342	46,502
Preferred stock dividends and discount accretion					554
Net income available to common shareholders	\$73,612	\$ 67,109	\$ 51,564	\$_45,342	\$ 45,948

	AI UR	FOR THE	EAR ENDE	DECEMBE	K 31,
	2019	2018	2017	2016	2015
Per Common Share Data:	(NUMBER OF SHARES IN THOUSANDS)				<u> </u>
Basic earnings per common share	\$ 5.18	\$ 4.75	\$ 3.67	\$ 3.26	\$ 3.33
Diluted earnings per common share	5.14	4.71	3.64	3.21	3.28
Cash dividends declared	2.07	1.20	0.94	0.88	0.86
Book value per common share	42.29	37.59	33.48	30.77	28.67
Book value per common state	12.20	07.00	00.10	30.77	20.07
Average shares outstanding	14,201	14,132	14,032	13,912	13,818
Year-end actual shares outstanding	14,261	14,151	14,088	13,968	13,888
Average fully diluted shares outstanding	14,330	14,260	14,180	14,141	14,000
Earnings Performance Ratios:					
Return on average assets(1)	1.52 %	1.49 %	1.16 %	1.04%	1.14 %
Return on average stockholders' equity(2)	12.88	13.46	11.32	10.93	12.13
Non-interest income to average total assets	0.64	0.80	0.86	0.65	0.33
Non-interest expense to average total assets	2.37	2.56	2.56	2.76	2.81
Average interest rate spread(3)	3.62	3.75	3.59	3.93	4.44
Year-end interest rate spread	3.28	3.60	3.67	3.60	3.80
Net interest margin(4)	3.95	3.99	3.74	4.05	4.53
Efficiency ratio(5)	54.48	56.41	58.99	62.86	62.85
Net overhead ratio(6)	1.73	1.76	1.70	2.10	2.48
Common dividend pay-out ratio(7)	40.27	25.48	25.82	27.41	26.22
Asset Quality Ratios (8):					
Allowance for loan losses/year-end loans	1.00 %	0.98%	1.01%	1.04%	1.20 %
Non-performing assets/year-end loans and foreclosed assets	0.19	0.29	0.73	1.02	1.28
Allowance for loan losses/non-performing loans	891.66	609.67	324.23	265.60	230.24
Net charge-offs/average loans	0.10	0.13	0.26	0.29	0.20
Gross non-performing assets/year end assets	0.16	0.25	0.63	0.86	1.07
Non-performing loans/year-end loans	0.11	0.16	0.30	0.37	0.49
Balance Sheet Ratios:					
Loans to deposits	105.13 %	107.13 %	103.82%	102.70 %	102.58%
Average interest-earning assets as a percentage					
of average interest-bearing liabilities	127.50	126.47	123.74	121.33	121.60
Capital Ratios:					
Average common stockholders' equity to average assets	11.8 %	11.1%	10.2 %	9.5%	9.4%
Year-end tangible common stockholders' equity to tangible assets(9)	11.9	11.2	10.5	9.2	9.6
Great Southern Bancorp, Inc.:					
Tier 1 capital ratio	12.5	11.9	11.4	10.8	11.5
Total capital ratio	15.0	14.4	14.1	13.6	12.6
Tier 1 leverage ratio	11.8	11.7	10.9	9.9	10.2
Common equity Tier 1 ratio	12.0	11.4	10.9	10.2	10.8
Great Southern Bank:					
Tier 1 capital ratio	13.1	12.4	12.3	11.8	11.0
Total capital ratio	14.0	13.3	13.2	12.7	12.1
Tier 1 leverage ratio	12.3	12.2	11.7	10.8	9.8
Common equity Tier 1 ratio	13.1	12.4	12.3	11.8	11.0

⁽¹⁾ Net income divided by average total assets.

AT OR FOR THE YEAR ENDED DECEMBER 31,

⁽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-assisted 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.



2019 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) 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; (ii) changes in economic conditions, either nationally or in the Company's market areas; (iii) fluctuations in interest rates; (iv) 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; (v) the possibility of otherthan-temporary impairments of securities held in the Company's securities portfolio; (vi) the Company's ability to access cost-effective funding; (vii) fluctuations in real estate values and both residential and commercial real estate market conditions; (viii) demand for loans and deposits in the Company's market areas; (ix) the potential adverse effects of the coronavirus or any other pandemic on the ability of the Company's borrowers to satisfy their obligations to the Company, on the demand for the Company's loans or its other products and services, on other aspects of the Company's business operations and on financial markets and economic growth; (x) the ability to adapt successfully to technological changes to meet customers' needs and developments in the marketplace; (xi) the possibility that security measures implemented might not be sufficient to mitigate the risk of a cyber-attack or cyber theft, and that such security measures might not protect against systems failures or interruptions; (xii) legislative or regulatory changes that adversely affect the Company's business, including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and its implementing regulations, the overdraft protection regulations and customers' responses thereto and the Tax Reform Legislation; (xiii) changes in accounting principles, policies or guidelines; (xiv) monetary and fiscal policies of the Federal Reserve Board and the U.S. Government and other governmental initiatives affecting the financial services industry; (xv) results of examinations of the Company and Great Southern Bank by their regulators, including the possibility that the regulators may, among other things, require the Company to limit its business activities, change its business mix, increase its allowance for loan losses, writedown 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; (xvi) costs and effects of litigation, including settlements and judgments; and (xvii) competition. The Company wishes to advise readers that the factors listed above and other risks described from time to time in documents filed or furnished by the Company with the SEC could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

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

Critical Accounting Policies, Judgments and Estimates

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

Allowance for Loan Losses and Valuation of Foreclosed Assets

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

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

Additional discussion of the allowance for loan losses is included in "Item 1. Business - Allowances for Losses on Loans and Foreclosed Assets" in the Company's 2019 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.

Beginning in 2020, the Company will adopt the new accounting standard related to the Allowance for Credit Losses. For assets held at amortized cost basis, this standard eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. See *Note 1* of the accompanying audited financial statements for additional information.

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 continued 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.

As noted above, in 2020, the Company will adopt the new accounting standard related to the Allowance for Credit Losses. The adoption of this standard will require the Company to reclassify any remaining non-accretable yield adjustment to the Allowance for Credit Losses. FDIC-assisted acquired loans will still be evaluated in their original pools that were determined at the acquisition date of the loans. See *Note 1* of the accompanying audited financial statements for additional information.

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, 2019, 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, 2019, 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, 2019, the amortizable intangible assets consisted of core deposit intangibles of \$2.7 million, including \$1.9 million related to the Fifth Third Bank transaction in January 2016, \$600,000 related to the Valley Bank transaction in June 2014 and \$153,000 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 the Company's goodwill or other intangible assets were impaired as of December 31, 2019. While management believes no impairment existed at December 31, 2019, 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.

In December 2019, the economy marked its 111th straight month of net job gains with 145,000 jobs added. Hiring was below economists' estimates of 164,000 added jobs but the national unemployment rate held steady at 3.5%. The rate compares to a 3.9% rate at December 2018 and is still the lowest rate of unemployed Americans recorded since December 1969. Employment in health care and in professional and business services continued to trend higher. As of December 2019, the U.S. labor force participation rate (the share of working-age Americans employed or actively looking for a job) was 63.2% and the employment population ratio was 61.0%, with both ratios unchanged over the past few months. The unemployment rate for the Midwest, where most of the Company's business is conducted, remained stable and in-line with the national average at 3.5% in December 2019. Unemployment rates for December 2019 were: Missouri at 3.3%, Arkansas at 3.6%, Kansas at 3.2%, Iowa at 2.7%, Minnesota at 3.3%, Illinois at 3.7%, Oklahoma at 3.4%, Texas at 3.5%, Georgia at 3.2% and Colorado at 2.5%. Of the metropolitan areas in which the Company does business, the St. Louis area had the highest unemployment level at 3.3% as of December 2019 while the unemployment rate for the Springfield market areas was at 3.2%, below the national average. Metropolitan areas in Iowa, Missouri, Nebraska and Minnesota continued to boast unemployment levels amongst the lowest in the nation.

Sales of newly built single-family homes fell 0.4% in December 2019. However, 2019 was the strongest year for home sales since 2006. Sales were a seasonally adjusted annual rate of 681,000 according to the U.S. Census Bureau and the Department of Housing and Urban Development estimates increased 10.3% from the 2018 seasonally adjusted annual rate of 617,000. The median sales price of new houses sold in December 2019 was \$331,400, up slightly from \$329,700 a year earlier. The December 2019 average sales price of \$382,300 was down slightly from \$384,000 a year ago. The inventory of new homes for sale at the end of December would support 5.7 months' supply at the current sales pace, down from 6.6 months' supply as of December 2018.

According to the National Association of Realtors (NAR), U.S. existing-home sales grew to a seasonally adjusted rate of 5.54 million in December 2019. Overall sales increased by 10.8% from 5.00 million in December 2018. Sales in the Midwest reflected a 1.6% decline from November 2019 but an annual gain of 8.9% during 2019. On a full-year basis, total existing-home sales ended at 5.34 million, the same level as in 2018, with sales in the South region (+2.2%) offsetting declines in the West (-1.8%) and Midwest (-1.6%).

Total housing inventory at the end of December 2019 was at 1.4 million units, down 14.6% from November 2019 and 8.5% from one year ago (1.53 million units). Unsold inventory totals have dropped for seven consecutive months and are causing home sales declines due to a lack of inventory. The median existing home price for all housing types in December 2019 was \$274,500, up 7.8% from December 2018. In the Midwest region, existing home sales decreased 1.5% to an annual rate of 1.30 million units. The median price in the Midwest was \$208,500, a 9.2% increase from December 2018.

First-time buyers accounted for 31% of sales in December 2019, down slightly from 32% seen in November 2019 and December 2018. According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage increased to 3.72% in December 2019, down from 3.70% in November 2019. The average commitment rate for all of 2019 was 3.94%, down from 4.54% in 2018. Since the end of 2019, the average commitment rate for this type of loan has declined further.

The other residential (multi-family) sector rebounded in 2017 - 2019, with demand approaching the highest level on record. National vacancy rates were 6.2% at the end of December 2019, while our market areas reflected the following vacancy levels: Springfield, Mo. at 4.7%, St. Louis at 9.1%, Kansas City at 7.3%, Minneapolis at 4.6%, Tulsa, Okla. at 8.8%, Dallas-Fort Worth at 8.2%, Chicago at 6.5%, Atlanta at 8.5% and Denver at 7.9%. Transaction volume has slowed, but pricing has remained on an upward trajectory. Cap rates are still at low levels. Continued increase in the homeownership rate is the largest risk to the apartment sector. Vacancy rates have increased somewhat in a few of our markets, partially due to the volume of units coming on-line. Developers continue to favor more-expensive submarkets. 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 64.2% in 2019. Per information provided by Integra IRR Viewpoint, the overwhelming majority of other residential (multi-family) markets across the country are deemed to be in expansion with all of the Company's market areas in the expansion phase with the exception of Denver and Atlanta - currently in a hyper-supply phase. Those markets in hyper-supply phase exhibit increasing vacancy rates, moderate/high new construction, low/negative absorption, moderate/low employment growth and medium/low rental rate growth.

Macroeconomic basics such as low unemployment, expectations of continued job growth and sold economies are considered strong for the office sector. Per Integra, nationally approximately 63% 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. While most markets are in recovery or expansion, risk is anticipated to increase in the coming years. The Company's larger market areas in the suburban office market cycle include; Minneapolis, Dallas-Ft. Worth, and St. Louis. Tulsa,

Okla., Chicago 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.

The continued rise of e-commerce has disrupted the retail market segment significantly. In the third quarter of 2019, e-commerce sales accounted for 11.2% of total sales with more than \$145 billion in online transactions. E-commerce is projected to grow its share to 16.2% by 2023, according to industry source eMarketer. This means 55% of all additional retail sales for the next four years will be internet-based, as opposed to the remaining 45% of growth captured by brick and mortar facilities. Approximately 54% of the retail sector is in the expansion phase of the market cycle, with another 35% in recovery mode and the remaining 11% in hyper-supply and recession. The Company's larger market areas in the retail expansion market segments are: Chicago, Kansas City, Dallas-Ft. Worth, and St. Louis. Denver and Minneapolis are in the hyper-supply cycle. The Atlanta and Tulsa, Okla. 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 included in the expansion cycle with prospects of continuing good economic growth. Three market areas, Chicago, Minneapolis 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 terminations of the loss sharing agreements for the TeamBank, Vantus Bank, Sun Security Bank and InterBank transactions have had 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. After 2017, there are no 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, 2019, Great Southern's total assets increased \$338.9 million, or 7.2%, from \$4.68 billion at December 31, 2018, to \$5.02 billion at December 31, 2019. Full details of the current year changes in total assets are provided in the "Comparison of Financial Condition at December 31, 2019 and December 31, 2018" section.

Loans. In the year ended December 31, 2019, Great Southern's net loans increased \$165.0 million, or 4.1%, from \$3.99 billion at December 31, 2018, to \$4.15 billion at December 31, 2019. Excluding FDIC-assisted acquired loans and mortgage loans held for sale, total gross loans increased \$99.2 million, or 2.1%, from December 31, 2018 to December 31, 2019. This increase was primarily in commercial real estate loans, owner occupied one- to four-family residential loans and other residential (multi-family) loans. These increases were partially offset by decreases in construction loans and consumer auto loans. FDIC-assisted acquired loan portfolios decreased \$40.4 million. 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 2019 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 Atlanta, Chicago, Dallas, Denver, 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, 2019 and 2018, 87.2% and 84.4%, respectively, was secured by real estate, as this is the Bank's primary focus in its lending efforts. At December 31, 2019 and 2018, commercial real estate and commercial construction loans were 47.6% and 49.7% 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, 2019 and 2018, loans made in the Springfield, Mo. metropolitan statistical area (Springfield MSA) were 9% and 9% 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, 2019 and 2018, loans made in the St. Louis, Mo. metropolitan statistical area (St. Louis MSA) were 17% 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 other residential (multi-family) 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 2019 Annual Report on Form 10-K.

The percentage of fixed-rate loans in our loan portfolio has been as much as 58% in recent years and was 50% as of December 31, 2019. This was due to customer preference for fixed rate loans during this period of relatively low interest rates. The majority of the increase in fixed rate loans over the past few years 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, 2019, approximately 79% 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, 2019, 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 "Risk Factors – We may be adversely affected by interest rate changes" in the Company's 2019 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, 2019 and 2018, an estimated 0.0% 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, 2019 and 2018, an estimated 0.6% and 0.9%, respectively, of total non-owner occupied one- to four-family residential loans had loan-to-value ratios above 100% at origination.

At December 31, 2019, troubled debt restructurings totaled \$1.9 million, or 0.05% of total loans, down \$5.0 million from \$6.9 million, or 0.17% of total loans, at December 31, 2018. 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, 2019, five loans totaling \$34,000 were restructured into multiple new loans. For troubled debt restructurings occurring during the year ended December 31, 2018, five loans totaling \$31,000 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, 2019, 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, 2019, available-for-sale securities increased \$130.2 million, or 53.4%, from \$244.0 million at December 31, 2018, to \$374.2 million at December 31, 2019. The increase was primarily due to the purchase of FNMA and GNMA fixed-rate multi-family mortgage-backed securities and FNMA and GNMA fixed rate collateralized mortgage obligation 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, 2019, total deposit balances increased \$235.1 million, or 6.3%. Transaction account balances increased \$105.4 million and retail certificates of deposit increased \$84.9 million

compared to December 31, 2018. The increase in transaction accounts were primarily a result of increases in money market deposit accounts and certain NOW account types. Retail certificates of deposit increased due to an increase of approximately \$127 million in certificates of deposit opened through the Company's internet deposit acquisition channels during 2019, partially offset by a decrease of approximately \$49 million in retail certificates generated through our banking centers. 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 2019. Brokered deposits, including CDARS program purchased funds, were \$371.7 million at December 31, 2019, an increase of \$44.8 million from \$326.9 million at December 31, 2018.

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 term advances were \$-0- at both December 31, 2019 and December 31, 2018. At December 31, 2019 and 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 \$35.5 million from \$192.7 million at December 31, 2018 to \$228.2 million at December 31, 2019. The short term borrowings included overnight FHLBank borrowings of \$196.0 million at December 31, 2019 and \$178.0 million at December 31, 2018. 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 has been 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 has been on-going and increases in cash flow expectations have been recognized as increases in accretable yield through interest income. Decreases in cash flow expectations have been 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 FRB had last changed interest rates on December 16, 2008. This was the first rate increase since September 29, 2006. The FRB also implemented rate change increases of 0.25% on eight additional occasions beginning December 14, 2016 and through December 31, 2018, with the Federal Funds rate reaching as high as 2.50%. After December 2018, the FRB paused its rate increases and, in July, September and October 2019, implemented rate change decreases of 0.25% on each of those occasions. At December 31, 2019, the Federal Funds rate stood at 1.75%. A substantial portion of Great Southern's loan portfolio (\$1.89 billion at December 31, 2019) 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, 2019. Of these loans, \$1.71 billion had interest rate floors. Great Southern also has a portfolio of loans (\$210 million at December 31, 2019) tied to a "prime rate" of interest and will adjust immediately with changes to the "prime rate" of interest. 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 tied to the one-month or three-month LIBOR index and will be subject to adjustment at least once within 90 days or loans which generally adjust immediately as the Federal Funds rate adjusts. Interest rate floors may at least partially mitigate the negative impact of interest rate decreases. 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, 2019, 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 are expected to 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 significantly 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, on net interest income are expected to be greater in the 12 to 36 months following rate changes. During the latter half of 2019, we did experience some compression of our net interest margin percentage due to 0.75% of Federal Funds rate cuts over a 12-week period during July through October. Margin compression primarily resulted from generally unchanged average interest rates on deposits and certain borrowings and lower yields on loans and other interest-earning assets. LIBOR interest rates have decreased, putting pressure on loan yields, and strong pricing competition for loans and deposits remains in most of our markets. For further discussion of the processes used to manage our exposure to interest rate risk, see "Ouantitative 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 2017, 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 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, 2019 and 2018."

Business Initiatives

The Company implemented several business and operational initiatives in 2019.

For the long-term success of the Company, the performance of all business lines is regularly evaluated. From this review, a Business Banking initiative was implemented in 2019 to increase the Company's focus on serving the lending needs of business owners. The Business Banking group works with established operating businesses by providing lines of credit, equipment loans, and commercial real estate loans, as well as cash management and depository services.

In the first quarter of 2019, the Company exited the indirect automobile lending business, which provided financing for customers of automobile dealerships. Market forces, including strong rate competition for well qualified borrowers, made indirect lending through automobile dealerships a significant barrier to efficient and profitable operations over the long term. The Company continues to offer direct consumer loans as normal through its extensive banking center network.

The Company's 97 banking centers are also consistently reviewed to measure performance and to ensure responsiveness to changing customer needs and preferences. As such, the Company may 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 complement to its internal evaluation process, at the end of 2019, the Company engaged a third-party vendor to begin analyzing all banking center facilities and the in-branch customer experience to ensure that this physical access channel is efficiently evolving to the changing landscape.

Several banking center changes were initiated in 2019. In April 2019, the Company consolidated its Fayetteville, Arkansas, location into its Rogers, Arkansas, banking center. The Fayetteville office opened in 2014 and did not meet performance expectations. The Company now operates one banking center in Arkansas.

In September 2019, the Company consolidated its Ames, Iowa, banking center into its North Ankeny, Iowa office. The Company entered the Ames market with only one banking center through an FDIC-assisted acquisition in 2014. The Ames office building was sold during the fourth quarter of 2019. The Company now operates 18 banking centers in Iowa.

During the fourth quarter of 2019, several banking center improvement projects began or were already underway. In the Parsons, Kansas, market, remodeling is proceeding on the downtown office at 1900 Main, which includes the addition of drive-through banking lanes. Once completed in mid-2020, the nearby drive-through facility will be consolidated into the downtown office, leaving one office serving the Parsons market.

In the Joplin market, the Company recently purchased a banking facility vacated by another financial institution. This facility is located in close proximity to other current Great Southern banking centers. After a contractual black-out period that ends in April 2021, the Company expects to consolidate some of these existing operations into the purchased facility, which provides better customer accessibility.

The two-story office in Rogers, Arkansas is currently being remodeled to move the commercial lending offices from the second floor to space adjacent to the retail banking center offices on the first floor. The space vacated on the second floor is expected to be leased to third parties. Four other third-party tenants also lease space in this facility. The banking center at 1701 W. Jackson in Ozark, Missouri, is also undergoing construction to reconfigure excess space to be leased to third parties.

The Company continues to develop or enhance its technology platforms. During the first quarter of 2019, the Company upgraded its online account opening platform to provide a faster and easier customer experience. The online platform, available on GreatSouthernBank.com, allows customers within and beyond the Company's geographic footprint to conveniently open certain depository accounts.

The Company's retail online banking platform and mobile banking application are currently being upgraded to enhance customer functionality and convenience. The new platform and app are expected to be available to customers during the second quarter of 2020.

A transition to a new debit card payment processing vendor was completed at the end of January 2020. The move to MasterCard as the payment processing partner allows for more streamlined processing of debit card transactions and the ability to more quickly respond to advancing technology.

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. In 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 implemented far-reaching changes across the financial regulatory landscape. Certain aspects of the Dodd-Frank Act have been affected by the recently Economic Growth Act, as defined and discussed below under "-Economic Growth 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 rules was January 1, 2015, and, for certain provisions, various phase-in periods and later effective dates apply. The chief features of these 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 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 revised 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.

Economic Growth Act. In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Economic Growth Act"), was enacted to modify or eliminate certain financial reform rules and regulations, including some implemented under the Dodd-Frank Act. While the Economic Growth Act maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than \$10 billion and for large banks with assets of more than \$50 billion. Many of these amendments could result in meaningful regulatory changes.

The Economic Growth Act, among other matters, expands the definition of qualified mortgages which 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 "well-capitalized" under the prompt corrective action rules. Effective January 1, 2020, the Community Bank Leverage Ratio is 9.0%.

In addition, the Economic Growth Act includes regulatory relief in the areas of examination cycles, call reports, 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 Economic Growth Act will ultimately be applied to us or what specific impact the Economic Growth Act and the forthcoming implementing rules and regulations will have on us.

Recent Accounting Pronouncements

See *Note 1* of 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, 2019 and December 31, 2018

During the year ended December 31, 2019, total assets increased by \$338.9 million to \$5.02 billion. The increase was primarily attributable to increases in loans receivable and available-for-sale investment securities.

Cash and cash equivalents were \$220.2 million at December 31, 2019, an increase of \$17.5 million, or 8.6%, from \$202.7 million at December 31, 2018. During 2019, cash increased primarily due to increases in interest-bearing deposits. This increase in cash was partially offset by funding the origination of loans and purchase of available for sale securities.

The Company's available for sale securities increased \$130.2 million, or 53.4%, compared to December 31, 2018. The increase was primarily due to the purchase of FNMA and GNMA fixed-rate multi-family mortgage-backed securities and agency collateralized mortgage obligation 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 7.5% and 5.2% of total assets at December 31, 2019 and 2018, respectively.

Net loans increased \$165.0 million from December 31, 2018, to \$4.15 billion at December 31, 2019. Excluding FDIC-assisted acquired loans and mortgage loans held for sale, total gross loans (including the undisbursed portion of loans) increased \$99.2 million,

or 2.1%, from December 31, 2018 to December 31, 2019. Increases primarily occurred in commercial real estate loans, other residential (multi-family) loans and one- to four-family residential mortgage loans. Outstanding and undisbursed balances of commercial real estate loans increased \$122.7 million, or 8.9%, one- to four-family residential loans increased \$108.1 million, or 27.1%, and other residential (multi-family) loans increased \$81.1 million, or 10.3%. Partially offsetting the increases in these loans were a reduction of \$88.3 million, or 5.9%, in commercial construction loans, a decrease of \$101.7 million, or 40.1%, in consumer auto loans and a decrease of \$40.4 million, or 24.1%, in the FDIC-assisted acquired loan portfolios.

Other real estate owned and repossessions were \$5.5 million at December 31, 2019, a decrease of \$2.9 million, or 34.5%, from \$8.4 million at December 31, 2018. The decrease was primarily due to sales of other real estate properties and properties which were not acquired through foreclosure during the period, and is discussed in more detail in the *Non-performing Assets* section below.

Total liabilities increased \$267.8 million from \$4.14 billion at December 31, 2018 to \$4.41 billion at December 31, 2019. The increase was primarily attributable to an increase in deposits and short-term borrowings, partially offset by a decrease in securities sold under reverse repurchase agreements.

Total deposits increased \$235.1 million, or 6.3%, from \$3.73 billion at December 31, 2018 to \$3.96 billion at December 31, 2019. Customer retail certificates initiated through our banking center network decreased by \$49.5 million during the year ended December 31, 2019 and certificates of deposit opened through the Company's internet deposit acquisition channels increased by \$127.1 million. Brokered deposits, including CDARS program purchased funds, were \$371.7 million at December 31, 2019, an increase of \$44.8 million from \$326.9 million at December 31, 2018.

The Company's Federal Home Loan Bank advances were \$-0- at both December 31, 2019 and 2018. At both December 31, 2019 and 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 \$35.5 million from \$192.7 million at December 31, 2018 to \$228.2 million at December 31, 2019. The short term borrowings included overnight FHLBank borrowings of \$196.0 million at December 31, 2019 and \$178.0 million at December 31, 2018.

Securities sold under reverse repurchase agreements with customers decreased \$21.1 million, or 20.0%, from \$105.3 million at December 31, 2018 to \$84.2 million at December 31, 2019. These balances fluctuate over time based on customer demand for this product.

Total stockholders' equity increased \$71.1 million from \$532.0 million at December 31, 2018 to \$603.1 million at December 31, 2019. The Company recorded net income of \$73.6 million for the year ended December 31, 2019. Accumulated other comprehensive income increased \$22.6 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 \$5.1 million due to stock option exercises. Dividends declared on common stock, which decreased total stockholders' equity, were \$29.4 million. Total stockholders' equity also decreased \$849,000 due to repurchases of the Company's common stock.

Results of Operations and Comparison for the Years Ended December 31, 2019 and 2018

General

Net income increased \$6.5 million, or 9.7%, during the year ended December 31, 2019, compared to the year ended December 31, 2018. Net income was \$73.6 million for the year ended December 31, 2019 compared to \$67.1 million for the year ended December 31, 2018. This increase was due to an increase in net interest income of \$12.2 million, or 7.3%, a decrease in provision for loan losses of \$1.0 million, or 14.0%, and a decrease in non-interest expenses of \$172,000, or 0.1%, partially offset by a decrease in non-interest income of \$5.3 million, or 14.5%, and an increase in provision for income taxes of \$1.6 million, or 10.8%. Net income available to common shareholders was \$73.6 million for the year ended December 31, 2019 compared to \$67.1 million for the year ended December 31, 2018.

Total Interest Income

Total interest income increased \$29.0 million, or 14.1%, during the year ended December 31, 2019 compared to the year ended December 31, 2018. The increase was due to a \$24.8 million, or 12.5%, increase in interest income on loans and a \$4.2 million, or

54.7%, increase in interest income on investment securities and other interest-earning assets. Interest income on loans increased in 2019 compared to 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 2019 compared to 2018 due to higher average rates of interest and higher average balances.

Interest Income - Loans

During the year ended December 31, 2019 compared to the year ended December 31, 2018, interest income on loans increased due to higher average interest rates and higher average balances. Interest income increased \$12.0 million as the result of higher average interest rates on loans. The average yield on loans increased from 5.07% during the year ended December 31, 2018 to 5.37% during the year ended December 31, 2019. Interest income increased \$12.8 million as a result of higher average loan balances, which increased from \$3.91 billion during the year ended December 31, 2018, to \$4.16 billion during the year ended December 31, 2019. The higher average balances were primarily due to organic loan growth in commercial real estate loans, one- to four- family residential loans, and other residential (multi-family) loans, partially offset by decreases in consumer loans.

On an on-going basis, the Company has estimated 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 entire amount of the discount adjustment has been and will be accreted to interest income over time. For the years ended December 31, 2019 and 2018, the adjustments increased interest income and pre-tax income by \$7.4 million and \$5.1 million, respectively.

As of December 31, 2019, the remaining accretable yield adjustment that will affect interest income was \$7.6 million. Of the remaining adjustments affecting interest income, we expect to recognize \$5.6 million of interest income during 2020. In the first quarter of 2020, we will adopt the new accounting standard related to accounting for credit losses. With the adoption of this standard, there will be no more reclassification of discounts from non-accretable to accretable subsequent to December 31, 2019. All adjustments made prior to December 31, 2019 will continue to be accreted to interest income. Apart from the yield accretion, the average yield on loans was 5.19% during the year ended December 31, 2019, compared to 4.94% during the year ended December 31, 2018, 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 1.710% as of December 31, 2019. 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 \$3.1 million and \$673,000 during the years ending December 31, 2019 and 2018, respectively, related to this interest rate swap.

In March 2020, the Company and its swap counterparty mutually agreed to terminate the \$400 million interest rate swap prior to its contractual maturity. The Company received a payment of \$45.9 million from its swap counterparty as a result of this termination. The termination of this interest rate swap is discussed further in *Note 28* of the accompanying audited financial statements. The Company's interest rate derivatives and hedging activities are discussed further in *Note 16* of the accompanying audited financial statements.

Interest Income - Investments and Other Interest-earning Assets

Interest income on investments increased \$4.2 million in the year ended December 31, 2019 compared to the year ended December 31, 2018. Interest income increased \$3.8 million as a result of an increase in average balances from \$201.3 million during the year ended December 31, 2018, to \$326.5 million during the year ended December 31, 2019. Average balances of securities increased primarily due to significant purchases of securities in 2019. Interest income increased \$395,000 due to an increase in average interest rates from 2.90% during the year ended December 31, 2018 to 3.08% during the year ended December 31, 2019, due to higher market rates of interest on investment securities and a decrease in the volume of prepayments on mortgage-backed securities.

Interest income on other interest-earning assets decreased \$7,000 in the year ended December 31, 2019 compared to the year ended December 31, 2018. Interest income decreased \$58,000 as a result of a decrease in average balances from \$104.2 million during the year ended December 31, 2019. Interest income increased \$51,000 due to an increase in average interest rates from 1.81% during the year ended December 31, 2018, to 2.14% during the year ended December 31, 2019, primarily due to higher market rates of interest on other interest-bearing deposits in financial institutions.

Total Interest Expense

Total interest expense increased \$16.8 million, or 44.6%, during the year ended December 31, 2019, when compared with the year ended December 31, 2018, due to an increase in interest expense on deposits of \$17.6 million, or 63.0%, an increase in interest expense on short-term borrowings and repurchase agreements of \$2.9 million, or 375.2%, an increase in interest expense on subordinated notes of \$281,000, or 6.9%, and an increase in interest expense on subordinated debentures issued to capital trust of \$66,000, or 6.9%. Partially offsetting these increases, interest expense decreased \$4.0 million, or 100%, due to having no FHLB advances outstanding during the year ended December 31, 2019.

Interest Expense - Deposits

Interest on demand deposits increased \$2.1 million due to an increase in average rates from 0.39% during the year ended December 31, 2018, to 0.53% during the year ended December 31, 2019. Partially offsetting that increase, interest on demand deposits decreased \$92,000 due to a decrease in average balances from \$1.53 billion in the year ended December 31, 2018, to \$1.51 billion in the year ended December 31, 2019. 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 from December 2016 through the first half of 2019.

Interest expense on time deposits increased \$9.4 million as a result of an increase in average rates of interest from 1.60% during the year ended December 31, 2018, to 2.19% during the year ended December 31, 2019. In addition, interest expense on time deposits increased \$6.3 million due to an increase in average balances of time deposits from \$1.38 billion during the year ended December 31, 2018, to \$1.72 billion during the year ended December 31, 2019. 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 2018 and the first half of 2019. The increase in average balances of time deposits was primarily a result of increases in brokered deposits, including CDARS program purchased funds, and increases in deposits originated through the Company's internet deposit acquisition channels.

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

FHLBank advances were not utilized during the year ended December 31, 2019. The Company had a higher amount of overnight borrowings from the FHLBank in 2019, as discussed below.

Interest expense on short-term borrowings and repurchase agreements increased \$1.8 million due to average rates that increased from 0.56% in the year ended December 31, 2018, to 1.40% in the year ended December 31, 2019. The increase was due to increases in market interest rates and a change in the mix of funding during the period, with more overnight borrowings from the FHLBank in 2019. In addition to this increase, interest expense on short-term borrowings and repurchase agreements increased \$1.1 million due to an increase in average balances from \$137.3 million during the year ended December 31, 2018, to \$260.0 million during the year ended December 31, 2019.

During the year ended December 31, 2019, compared to the year ended December 31, 2018, interest expense on subordinated debentures issued to capital trusts increased \$66,000 due to slightly higher average interest rates. The average interest rate was 3.70% in 2018, compared to 3.95% in 2019. There was no change in the average balance of the subordinated debentures between 2019 and 2018.

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. These issuance costs are amortized over the expected life of the notes, which is five years from the issuance date, and therefore impact the overall interest expense on the notes. Interest expense on the subordinated notes increased \$276,000 due to average rates that increased from 5.55% in the year ended December 31, 2018, to 5.91% in the year ended December 31, 2019.

Net Interest Income

Net interest income for the year ended December 31, 2019 increased \$12.2 million, or 7.3%, to \$180.4 million, compared to \$168.2 million for the year ended December 31, 2018. Net interest margin was 3.95% for the year ended December 31, 2019, compared to 3.99% in 2018, a decrease of four 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-assisted acquired loan pools and the resulting increase to accretable 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, 2019 and 2018 were increases in interest income of \$7.4 million and \$5.1 million, respectively, and increases in net interest margin of 16 basis points and 12 basis points, respectively. Excluding the positive impact of the additional yield accretion, net interest margin decreased eight basis points during the year ended December 31, 2019. The decrease in net interest margin is primarily due to an increase in the average interest rates on interest-bearing demand and time deposits and an increase in the average interest rate on short term borrowings and repurchase agreements including overnight borrowings from the FHLBank, partially offset by increased yields in most loan categories and higher overall yields on investments and interest-earning deposits at the Federal Reserve Bank.

The Company's overall interest rate spread decreased 13 basis points, or 3.5%, from 3.75% during the year ended December 31, 2018, to 3.62% during the year ended December 31, 2019. The decrease was due to a 39 basis point increase in the weighted average rate paid on interest-bearing liabilities, partially offset by a 26 basis point increase in the weighted average yield on interest-earning assets. In comparing the two years, the yield on loans increased 30 basis points, the yield on investment securities increased 18 basis points and the yield on other interest-earning assets increased 33 basis points. The rate paid on deposits increased 45 basis points, the rate paid on FHLBank advances decreased 209 basis points, the rate paid on subordinated debentures issued to capital trust increased 25 basis points, the rate paid on short-term borrowings increased 84 basis points, and the rate paid on subordinated notes increased 36 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 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, 2019 decreased \$1.0 million, to \$6.2 million, compared with \$7.2 million for the year ended December 31, 2018. At December 31, 2019 and December 31, 2018, the allowance for loan losses was \$40.3 million and \$38.4 million, respectively. Total net charge-offs were \$4.3 million and \$5.2 million for the years ended December 31, 2019 and 2018, respectively. During the year ended December 31, 2019, \$2.8 million of the \$4.3 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. In February 2019, the Company ceased providing indirect lending services to automobile dealerships. These actions also reduced origination volume and, as such, the outstanding balance of the Company's automobile loans declined approximately \$102 million in the year ended December 31, 2019. At December 31, 2019, indirect automobile loans totaled approximately \$119 million. We expect this total balance will be largely paid off in the next two years.

General market conditions and unique circumstances related to individual borrowers and projects contributed to the level of provisions and charge-offs. Collateral and repayment evaluations of all assets categorized as potential problem loans, non-performing loans or foreclosed assets were completed with corresponding charge-offs or reserve allocations made 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-assisted acquired loans, was 1.00% and 0.98% at December 31, 2019 and December 31, 2018, respectively. Management considers the allowance for loan losses adequate to cover losses inherent in the Bank's loan portfolio at December 31, 2019, 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.

Effective January 1, 2020, we adopted a new accounting standard, referred to as Current Expected Credit Loss, or CECL. This accounting standard requires FDIC-insured institutions and their holding companies (banking organizations) to recognize credit losses expected over the life of certain financial assets. CECL covers a broader range of assets than the current incurred loss method of recognizing credit losses and generally results in earlier recognition of credit losses.

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, 2019, were \$8.2 million, a decrease of \$3.6 million from \$11.8 million at December 31, 2018. Non-performing assets, excluding all FDIC-assisted acquired assets, as a percentage of total assets were 0.16% at December 31, 2019, compared to 0.25% at December 31, 2018.

Compared to December 31, 2018, non-performing loans decreased \$1.8 million to \$4.5 million at December 31, 2019, and foreclosed assets decreased \$1.8 million to \$3.7 million at December 31, 2019. Non-performing one-to four-family residential loans comprised \$1.4 million, or 30.5%, of the total \$4.5 million of non-performing loans at December 31, 2019. Non-performing consumer loans comprised \$1.3 million, or 28.2%, of the total non-performing loans at December 31, 2019. Non-performing commercial business loans comprised \$1.2 million, or 27.3%, of total non-performing loans at December 31, 2019. Non-performing commercial real estate loans comprised \$632,000, or 14.0%, of total non-performing loans at December 31, 2019.

Non-performing Loans. Activity in the non-performing loans category during the year ended December 31, 2019, was as follows:

	Beginning Balance, January 1		Additions to Non- Performing	Removed from Non- Performing		Transfers to Potential Problem Loans	Fo As Rep	nsfers to reclosed sets and ossessions		Charge- Offs		Payments	-	Ending Balance, December 31
						(In Thous	ands)							
One- to four-family construction	\$ _	\$	_	\$ _	\$	— \$	5	_	\$	_	\$	_	\$	_
Subdivision construction	_		_	_		_		_		_		_		_
Land development	49		3,769	_		_		(3,498)		(220)		(100)		_
Commercial construction One- to four-family	_		_	_		_		_		_		_		_
residential	2,664		1,719	_		(87)		(1,831)		(490)		(596)		1,379
Other residential	_		_	_		_		_		_				_
Commercial real estate	334		4,075	(118)		_		(2,900)		_		(759)		632
Other commercial	1,437		64	_		_				(116)		(150)		1,235
Consumer	1,816	-	1,862		-	(166)		(287)	-	(1,153)	-	(799)	-	1,273
Total	\$ 6,300	\$_	11,489	\$ (118)	\$_	(253) \$	S	(8,516)	\$_	(1,979)	\$_	(2,404)	\$_	4,519

At December 31, 2019, the non-performing one- to four-family residential category included 23 loans, 13 of which were added during 2019. The largest relationship in this category was added in 2019 totaling \$158,000, or 11.5% of the total category, which is collateralized by a residential home in the St. Louis, Mo. area. The non-performing consumer category included 111 loans, 64 of which were added during 2019, and the majority of which are indirect used automobile loans. The non-performing commercial business category included four loans, one of which was added during 2019. The largest relationship in this category was added in 2018, and totaled \$1.1 million, or 85.7% of the total category. This relationship is collateralized by an assignment of an interest in a real estate project. The non-performing commercial real estate category included two loans, one of which was added during 2019. The largest relationship in this category was added in 2019 totaling \$530,000, or 83.9% of the total category, and was collateralized by a multi-tenant building in Arkansas.

The significant increases and decreases in non-performing loans during 2019 primarily related to one borrower. This relationship totaled approximately \$6.7 million, with collateral consisting of commercial development ground and a single-family property in central Missouri and agricultural ground in Iowa. The loans in this relationship were all cross-collateralized. This relationship was represented in the non-performing land development, commercial real estate and one- to four-family categories. During 2019, the borrower deeded the properties to the Bank in lieu of foreclosure and this relationship was then moved to the Other Real Estate Owned and Repossessed category. The land development and commercial real estate assets were then sold prior to the end of 2019.

Other Real Estate Owned and Repossessions. Of the total \$5.5 million of other real estate owned and repossessions at December 31, 2019, \$1.0 million represents the fair value of foreclosed and repossessed assets related to loans acquired in FDIC-assisted transactions and \$871,000 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, 2019, was as follows:

	-	Beginning Balance, January 1	Additions	_	ORE and Repossession Sales		Capitalized Costs	_	ORE and Repossession Write-Downs	_	Ending Balance, December 31
					(In '	Tho	ousands)				
One- to four-family construction	\$	_	\$ 	\$		\$	_	\$	_	\$	_
Subdivision construction		1,092	_		(337)		101		(167)		689
Land development		3,191	3,498		(4,196)		_		(677)		1,816
Commercial construction		_	_						· <u>·</u>		_
One- to four-family residential		269	1,867		(1,555)		20		_		601
Other residential		_	_		· · ·				_		_
Commercial real estate		_	2,900		(2,900)				_		_
Commercial business		_	_		· <u> </u>		_		_		_
Consumer		928	4,003	-	(4,386)			-	<u> </u>	-	545
Total	\$	5,480	\$ 12,268	\$_	(13,374)	\$	121	\$_	(844)	\$_	3,651

Excluding the consumer category, during the year ended December 31, 2019, the Company reduced its foreclosed assets by \$9.0 million through asset sales. At December 31, 2019, the land development category of foreclosed assets included three properties, the largest of which was located in the Branson, Mo. area and had a balance of \$768,000, or 42.3% of the total category. Of the total dollar amount in the land development category of foreclosed assets, 70.3% was located in the Branson, Mo. area, including the largest property previously mentioned. The subdivision construction category of foreclosed assets included three properties, the largest of which was located in the Branson, Mo. area and had a balance of \$350,000, or 50.8% of the total category. Of the total dollar amount in the subdivision construction category of foreclosed assets, 90.0% is located in the Branson, Mo. area, including the largest property previously mentioned. The one- to four-family category of foreclosed assets included two properties, one of which was added during 2019 with a balance of \$291,000. 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 and 2019 compared to 2016 and 2017, though potential problem loans in this category increased in 2019, as indicated below.

The large additions and sales items in the land development and commercial real estate categories are related to the \$6.7 million relationship discussed above under Non-Performing Loans.

Potential Problem Loans. Potential problem loans increased \$1.1 million during the year ended December 31, 2019, from \$3.3 million at December 31, 2018 to \$4.4 million at December 31, 2019. This increase was primarily due to the addition of \$2.5 million of loans to potential problem loans. Partially offsetting the added loans was \$1.1 million in payments on potential problem loans, \$154,000 in loans removed from potential problem loans due to improvements in the credits, and \$173,000 in loans transferred to the non-performing category. 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, 2019, was as follows:

	Beginning Balance, January 1	Additions to Potential Problem	Removed from Potential Problem	Transfers to Non- Performing (In The	Transfers to Foreclosed Assets and Repossessions ousands)	Charge- Offs	Payments	Ending Balance, December 31
One to form family							\$	\$
One- to four-family construction	\$ —	s _ s	_	•	\$ —	s —	\$	3
Subdivision construction	D	φ <u> </u>		.	φ	φ		
Land development								
Commercial construction	_	_	_	_	_	_	_	_
One- to four-family								
residential	1,044	104	(30)	(151)	_	_	(176)	791
Other residential		_		(101)	_	_	(170)	
Commercial real estate	2,053	1,931	(124)	_	_	_	(782)	3,078
Other commercial	_	37	_	_	_	(21)	(16)	_
Consumer	206	467	_	(22)	(6)	(31)	(102)	512
Total	\$ 3,303	\$ 2,539 \$	(154)	\$ (173)	\$(6)	\$ (52)	\$ (1,076)	\$ 4,381

At December 31, 2019, the commercial real estate category of potential problem loans included two loans, one of which was added during 2019. The largest relationship in this category (added during 2018), totaling \$1.8 million, or 60.0% of the total category, is collateralized by a mixed use commercial retail building. The other relationship in the category, which totaled \$1.2 million, or 40.0% of the total category, is collateralized by a commercial retail building. Payments on both loans were current at December 31, 2019. The one- to four-family residential category of potential problem loans included 16 loans, four of which were added during 2019. The consumer category of potential problem loans included 55 loans, 45 of which were added during 2019.

Non-Interest Income

Non-interest income for the year ended December 31, 2019 was \$31.0 million compared with \$36.2 million for the year ended December 31, 2018. The decrease of \$5.2 million, or 14.5%, was primarily as a result of the following items:

Gain on sale of business units: 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.

Other income: Other income increased \$2.8 million compared to the year ended December 31, 2018. This increase was primarily due to gains totaling \$677,000 in 2019 from the sale of, or recovery of, receivables and assets that were acquired several years ago in FDIC-assisted transactions. The Company recognized approximately \$1.1 million more in income as a result of the new debit card contracts than was recognized in the prior year. These contracts became effective at the beginning of 2019. The Company recognized approximately \$787,000 in income related to interest rate swaps in the Company's back-to-back swap program with loan customers and swap counterparties in 2019 compared to \$50,000 in 2018. The Company also recognized approximately \$184,000 in income related to the exit of certain tax credit partnerships in 2019.

Net gains on loan sales: Net gains on loan sales increased \$819,000 compared to the year ended December 31, 2018. This increase was primarily due to an increase in originations of fixed-rate loans during 2019 compared to 2018. Fixed rate single-family mortgage loans originated and generally subsequently sold in the secondary market. In 2019, the Company began originating SBA loans with the intention of selling the guaranteed portion in the secondary market. During 2019, a gain on sale of \$230,000 was recorded related to the Company's SBA loan sales.

Service charges and ATM fees: Service charges and ATM fees decreased \$797,000 compared to the year ended December 31, 2018. This decrease was primarily due to a decrease in net ATM transaction fees and a decrease in overdraft and insufficient funds fees on customer accounts due to decreased levels of such activity. This decrease was partially offset by an increase in point-of-sale transaction fees due to a higher volume of such transactions in 2019. The decrease in net ATM transaction fees resulted from less volume of transactions that generate such fee income and increased costs on a temporary basis as we migrate to a new card transation processor.

Non-Interest Expense

Total non-interest expense decreased \$172,000, or 0.1%, from \$115.3 million in the year ended December 31, 2018, to \$115.1 million in the year ended December 31, 2019 was 54.48%, a decrease from 56.41% for 2018. The improvement in the ratio for 2019 was primarily due to an increase in net interest income, partially offset by a decrease in non-interest income due to the gain on sale of certain branches and deposits in 2018. In the year ended December 31, 2019, the Company's efficiency ratio was positively impacted by a decrease in expense on other real estate and repossessions and negatively impacted by an increase in salaries and employee benefits 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. The Company's ratio of non-interest expense to average assets was 2.37% for the year ended December 31, 2019 compared to 2.56% for the year ended December 31, 2018. This improvement was primarily due to an increase in average assets. Average assets for the year ended December 31, 2019, increased \$351.7 million, or 7.8%, from the year ended December 31, 2018, primarily due to increases in loans receivable and investment securities.

The following were key items related to the decrease in non-interest expense for the year ended December 31, 2019 as compared to the year ended December 31, 2018:

Expense on other real estate and repossessions: Expense on other real estate and repossessions decreased \$2.7 million compared to the year ended December 31, 2018, primarily due to decreased valuation write-downs of certain foreclosed assets of \$958,000 during 2019, compared to \$3.6 million during 2018. Also, the Company recorded lower levels of expense related to consumer repossessions during the year ending December 31, 2019.

<u>Legal</u>, audit and other professional fees: Legal, audit and other professional fees decreased \$799,000 in the year ended December 31, 2019 compared to 2018. The decrease in 2019 was primarily due to higher fees during 2018 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. During 2019, legal fees decreased as a result of fewer foreclosures and repossessions during the year.

<u>Insurance</u>: Insurance decreased \$659,000 from the year ended December 31, 2018. This decrease was primarily due to a decrease in FDIC deposit insurance premiums for the final six months of 2019. The Bank has a credit with the FDIC for a portion of premiums previously paid to the deposit insurance fund. The deposit insurance fund balance was sufficient to result in no premium being due for the second half of 2019. The Bank's remaining credit balance should be sufficient to result in no deposit insurance premiums for the first quarter of 2020, provided the deposit insurance fund balance remains at a sufficient level under the banking regulations.

Acquired deposit intangible asset amortization: Acquired deposit intangible amortization expense decreased \$372,000 in the year ended December 31, 2019 when compared to 2018. The Company generally amortizes its acquired deposit intangibles over a period of seven years. The amortization of the intangible related to the InterBank acquisition was completed during the first quarter of 2019 and the amortization of the intangible related to the Sun Security Bank acquisition was completed during the third quarter of 2018.

<u>Salaries and employee benefits</u>: Salaries and employee benefits increased \$3.0 million from the prior year. This increase was primarily related to increased incentives in the lending and operations areas, annual compensation merit increases, along with staffing additions in the lending areas, including the new loan production offices in Atlanta and Denver, which opened in late 2018. Mortgage lending incentives increased due to the much higher volume of loan originations during 2019.

<u>Net occupancy and equipment expense</u>: Net occupancy expense increased \$589,000 in the year ended December 31, 2019 compared to the year ended December 31, 2018. This increase was primarily due to increased depreciation related to new ATM/ITMs purchased and expenses related to ATM operating software upgrades implemented during 2019.

Provision for Income Taxes

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.

For the years ended December 31, 2019 and 2018, the Company's effective tax rate was 18.3% and 18.1%, respectively. These effective rates were lower than the statutory federal tax rate of 21%, 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 currently expects its effective tax rate (combined federal and state) to be approximately 17.5% to 18.5% in future periods, mainly as a result of the TCJ Act. The Company's effective income tax rate is expected to continue to be less than the statutory rate due primarily the factors noted above. 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.

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 \$4.0 million, \$3.5 million and \$2.9 million for 2019, 2018 and 2017, respectively. Tax-exempt income was not calculated on a tax equivalent basis. The table does not reflect any effect of income taxes.

	Dec. 31 2019 ⁽²⁾		ear Ended aber 31, 2019)		ear Ended ember 31, 2018	;		ear Ended nber 31, 201	7
	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest-earning assets:					(Dollars In Th	nousands)				
Loans receivable:										
One- to four-family residential	4.07%	\$ 532,051	\$ 27,450	5.16%	\$ 449,917	\$ 22,924	5.10%	\$ 459,227	\$ 22,102	4.81%
Other residential	5.00	812,412	43,931	5.41	761.115	38,863	5.11	706,217	31,970	4.53
Commercial real estate	4.84	1,443,435	74,256	5.14	1,325,398	64,605	4.87	1,240,017	54,911	4.43
Construction	5.12	706,581	41,767	5.91	569,570	31,198	5.48	454,907	21,099	4.64
Commercial business	4.89	258,606	13,234	5.12	285,125	14,104	4.95	295,379	14,666	4.97
Other loans	5.72	387,854	21,511	5.55	499,131	25,250	5.06	632,968	30,356	4.80
Industrial revenue bonds (1)		14,841	898	6.05	20,563	1,282	6.23	25,845	1,550	6.00
Total loans receivable	4.97	4,155,780	223,047	5.37	3,910,819	198,226	5.07	3,814,560	176,654	4.63
Investment securities (1)	3.20	326,450	10,066	3.08	201,330	5,835	2.90	207,803	5,195	2.50
Other interest-earning assets	1.75	87,767	1,881	2.14	104,220	1,888	1.81	121,604	1,212	1.00
Total interest-earning assets Non-interest-earning assets:	4.74	4,569,997	234,994	5.14	4,216,369	205,949	4.88	4,143,967	183,061	4.42
Cash and cash equivalents		92,315			97,796			103,505		
Other non-earning assets		192,695			189,161			212,724		
Total assets		\$ 4,855,007			\$ 4,503,326			\$ 4,460,196		
Interest-bearing liabilities: Interest-bearing										
demand and savings	0.55	\$ 1,507,518	7,971	0.53	\$ 1,531,375	5,982	0.39	\$ 1,555,375	4,698	0.30
Time deposits	2.09	1,716,786	37,599	2.19	1,375,508	21,975	1.60	1,414,189	15,897	1.12
Total deposits	1.36	3,224,304	45,570	1.41	2,906,883	27,957	0.96	2,969,564	20,595	0.69
Short-term borrowings, repurchase agreements and other interest-bearing		, ,				·			·	
liabilities	1.25	260,024	3,635	1.40	137,257	765	0.56	186,364	747	0.40
Subordinated debentures										
issued to capital trust	3.51	25,774	1,019	3.95	25,774	953	3.70	25,774	949	3.68
Subordinated notes	5.89	74,070	4,378	5.91	73,772	4,097	5.55	73,613	4,098	5.57
FHLB advances					190,245	3,985	2.09	93,524	1,516	1.62
Total interest-bearing liabilities	1.46	3,584,172	54,602	1.52	3,333,931	37,757	1.13	3,348,839	27,905	0.83
Non-interest-bearing liabilities:										
Demand deposits		665,606			649,357			629,015		
Other liabilities		33,592			21,530			26,638		
Total liabilities		4,283,370			4,004,818			4,004,492		
Stockholders' equity		571,637			498,508			455,704		
Total liabilities and					.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,					
stockholders' equity		\$ 4,855,007			\$ 4,503,326			\$ 4,460,196		
Net interest income:										
Interest rate spread	3.28%		\$ 180,392	3.62 %		\$ 168,192	3.75%		\$ 155,156	3.59%
Net interest margin*				3.95 %			3.99 %			3.74 %
Average interest-earning										
assets to average interest-										
bearing liabilities		127.5%	Ď		126.5 %	o o		123.7 %	Ď	

^{*} 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 \$41.7 million, \$53.6 million and \$61.5 million for 2019, 2018 and 2017, respectively. In addition, average tax-exempt industrial revenue bonds were \$20.8 million, \$24.8 million and \$28.6 million in 2019, 2018 and 2017, respectively. Interest income on tax-exempt assets included in this table was \$2.4 million, \$3.1 million and \$3.3 million for 2019, 2018 and 2017, respectively. Interest income net of disallowed interest expense related to tax-exempt assets was \$2.2 million, \$2.9 million and \$3.1 million for 2019, 2018 and 2017, respectively.

⁽²⁾ The yield/rate on loans at December 31, 2019 does not include the impact of the accretable yield (income) on loans acquired in the FDIC-assisted transactions. See "Net Interest Income" for a discussion of the effect on 2019 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.

	_	1		Year Endecember 31, 20	19		-		ece	Year Ended mber 31, 201 cember 31, 20	18 v	s.
			e (D ue 1	ecrease) to		Total Increase		Increase Du	(De			Total Increase
	_	Rate	_	Volume	_	(Decrease)		Rate	_	Volume	(Decrease)
						(In The	ous	sands)				
Interest-earning assets:												
Loans receivable	\$	12,028	\$	12,793	\$	24,821	\$	17,025	\$	4,547	\$	21,572
Investment securities		395		3,836		4,231		796		(156)		640
Other interest-earning assets	_	51	_	(58)		(7)		819		(143)		676
Total interest-earning assets		12,474		16,571		29,045		18,640		4,248		22,888
Interest-bearing liabilities:					_							
Demand deposits		2,081		(92)		1,989		1,355		(71)		1,284
Time deposits		9,362		6,262		15,624		6,500		(422)		6,078
Total deposits		11,443		6,170	_	17,613		7,855		(493)		7,362
Short-term borrowings and												
repurchase agreements		1,802		1,068		2,870		55		(37)		18
Subordinated debentures issued												
to capital trust		66		_		66		4		_		4
Subordinated notes		276		5		281		(1)		_		(1)
FHLBank advances		_		(3,985)		(3,985)		544		1,925		2,469
Total interest-bearing liabilities	_	13,587	_	3,258	_	16,845		8,457		1,395		9,852
Net interest income	\$	(1,113)	\$	13,313	\$	12,200	\$	10,183	\$	2,853	\$	13,036

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.

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 Structured 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-assisted acquired loan pools and the resulting increase to accretable 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

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. In February 2019, the Company ceased 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.

The Bank's allowance for loan losses as a percentage of total loans, excluding FDIC-assisted acquired loans, was 0.98% and 1.01% at December 31, 2018 and December 31, 2017, respectively.

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:

				Transfers to				
	Beginning		Removed	Potential	Transfers to			Ending
	Balance,		from Non-	Problem	Foreclosed	Charge-		Balance,
_	January 1	Additions	Performing	Loans	Assets	Offs	Payments	December 31
				(In Thousa	nds)			
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
Total \$_	11,255 \$	6,230 \$	(88) \$	(528) \$	(3,752) \$	(3,321) \$	(3,496)	\$ 6,300

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:

	_	Beginning Balance, January 1		Additions		Proceeds from Sales		Capitalized Costs	ORE Expense Write-Downs		Ending Balance, December 31
						(In	Th	nousands)			
One- to four-family construction	\$	_	\$	_	\$	_	\$	— \$	_	\$	_
Subdivision construction		5,413				(2,402)		_	(1,919)		1,092
Land development		7,229		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		1,694		894		(1,932)		10	(166)		_
Commercial business		_		_				_	_		_
Consumer	-	1,987	-	7,711	-	(8,770)	_	<u> </u>	<u> </u>	_	928
Total	\$_	16,575	\$	11,046	\$_	(18,488)	\$_	153 \$	(3,806)	\$_	5,480

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	ginning alance, nuary 1	<u>A</u>	dditions		Proceeds om Sales (In Tho		apitalized Costs ds)	E Expense te-Downs]	Ending Balance, cember 31
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
Total	\$	16,575	\$	11,046	\$	(18,488)	\$	153	\$ (3,806)	\$	5,480

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% was 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 Balance,		A 1197		Removed from Potential		Transfers to Non-			Charge-	D.	4	Ending Balance,
	-	January 1		Additions		Problem		Performing (In The	01100	Assets	Offs	Payme	ents	December 31
								(111 1110	ousa	ilius)				
One- to four-family construction	\$	_	\$	_	\$	_	\$	\$	3	\$	_	\$	\$	
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
Total	\$_	7,937	\$_	2,757	\$_	(5,268)	\$_	(489) \$	<u> </u>	\$	(30)	\$ (1,	604) \$	3,303

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 consisted 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:

<u>2017</u> 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.

<u>Net gains on loan sales</u>: 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.

<u>Late charges and fees on loans</u>: 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.

<u>Legal</u>, 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 2018.

<u>Partnership tax credit</u>: 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 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).

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.

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, 2019, the Company had commitments of approximately \$161.7 million to fund loan originations, \$1.31 billion of unused lines of credit and unadvanced loans, and \$26.3 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, 2019. Additional information regarding these contractual obligations is discussed further in *Notes 6*, 8, 9, 10, 11, 12, 13 and 18 of the accompanying audited financial statements.

				Payments	Due I	n:		
				Over One to				
		One Year or		Five		Over Five		
	_	Less	_	Years		Years		Total
		_		(In Thou	sands))		
Deposits without a stated maturity	\$	2,238,997	\$	_	\$	_	\$	2,238,997
Time and brokered certificates of deposit		1,383,992		336,288		829		1,721,109
Short-term borrowings		312,324		_		_		312,324
Subordinated debentures		_		_		25,774		25,774
Subordinated notes		_		_		74,276		74,276
Operating leases		1,132		4,377		5,186		10,695
Dividends declared but not paid	_	4,849	_		_		_	4,849
	\$ _	3,941,294	\$ _	340,665	\$ _	106,065	\$ _	4,388,024

The Company's primary sources of funds are customer deposits, short term borrowings at the FHLBank, 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, 2019 and 2018, the Company had these available secured lines and on-balance sheet liquidity:

	December 31, 2019	December 31, 2018
Federal Home Loan Bank line	\$867.1 million	\$666.8 million
Federal Reserve Bank line	367.8 million	460.7 million
Interest-Bearing and Non-Interest-Bearing Deposits	220.2 million	202.7 million
Unpledged Securities	228.5 million	87.1 million

Statements of Cash Flows. During the years ended December 31, 2019, 2018 and 2017, the Company had positive cash flows from operating activities. The Company experienced negative cash flows from investing activities during the years ended December 31, 2019 and 2018 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, 2019 and 2018 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 \$86.4 million, \$94.2 million and \$62.8 million during the years ended December 31, 2019, 2018 and 2017, respectively.

During the years ended December 31, 2019 and 2018, investing activities used cash of \$295.1 million and \$381.3 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 (2019). 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, and dividend payments to stockholders. Financing activities provided cash flows of \$226.1 million and \$247.6 million during the years ended December 31, 2019 and 2018, respectively, primarily due to increases in customer deposit balances and net increases or decreases in various borrowings, 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 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, 2019, total stockholders' equity and common stockholders' equity were each \$603.1 million, or 12.0% of total assets, equivalent to a book value of \$42.29 per common share. 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. At December 31, 2019, the Company's tangible common equity to tangible assets ratio was 11.9%, compared to 11.2% at December 31, 2018. Included in stockholders' equity at December 31, 2019 and 2018, were unrealized gains (net of taxes) on the Company's available-for-sale investment securities and cash flow hedges (interest rate swap) totaling \$32.2 million and \$9.6 million, respectively. This increase in unrealized gains primarily resulted from lower market interest rates which increased the fair value of the derivatives and investment securities.

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, 2019, the Bank's common equity Tier 1 capital ratio was 13.1%, its Tier 1 capital ratio was 13.1%, its total capital ratio was 14.0% and its Tier 1 leverage ratio was 12.3%. As a result, as of December 31, 2019, the Bank was well capitalized, with capital ratios in excess of those required to qualify as such. On December 31, 2018, the Bank's common equity Tier 1 capital ratio was 12.4%, its Tier 1 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.

The FRB has established capital regulations for bank holding companies that generally parallel the capital regulations for banks. On December 31, 2019, the Company's common equity Tier 1 capital ratio was 12.0%, its Tier 1 capital ratio was 12.5%, its total capital ratio was 15.0% and its Tier 1 leverage ratio was 11.8%. 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, 2019, the Company was considered well capitalized, with capital ratios in excess of those required to qualify as such. 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%. As of December 31, 2018, 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 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.

Dividends. During the year ended December 31, 2019, the Company declared common stock cash dividends of \$2.07 per share (40.3% of net income per common share) and paid common stock cash dividends of \$2.05 per share. 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. The Board of Directors meets regularly to consider the level and the timing of dividend payments. The \$0.34 per share dividend declared but unpaid as of December 31, 2019, was paid to stockholders in January 2020.

Common Stock Repurchases and Issuances. The Company has been in various buy-back programs since May 1990. During the years ended December 31, 2019 and 2018, the Company repurchased 16,040 shares of its common stock at an average price of \$52.93 per share and 17,542 shares of its common stock at an average price of \$51.52 per share, respectively. During the years ended December 31, 2019 and 2018, the Company issued 125,894 shares of stock at an average price of \$33.03 per share and 81,207 shares of stock at an average price of \$27.60 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 the ratio of tangible common equity to tangible assets.

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, 2019	I	December 31, 2018		ecember 31, 2017 ars in thousands		December 31, 2016	Ι	December 31, 2015
Common equity at period end Less: Intangible assets at period end	\$	603,066 8,098	\$	531,977 9,288	\$	471,662 10,850	\$	429,806 12,500	\$	398,227 5,758
Tangible common equity at period end (a)	\$	594,968	\$	522,689	\$	460,812	\$	417,306	\$	392,469
Total assets at period end Less: Intangible assets at period end	\$	5,015,072 8,098	\$	4,676,200 9,288	\$	4,414,521 10,850	\$	4,550,663 12,500	\$	4,104,189 5,758
Tangible assets at period end (b)	\$	5,006,974	\$	4,666,912	\$	4,403,671	\$	4,538,163	\$	4,098,431
Tangible common equity to tangible assets (a) / (b)		11.88 %	·	11.20 %	́о <u> </u>	10.46 %	· <u> </u>	9.20 %	<u> </u>	9.58

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 interestrate 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, 2019, 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 significantly 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, on net interest income are expected to be greater in the 12 to 36 months following rate changes.

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 also implemented rate increases of 0.25% on eight additional occasions beginning December 14, 2016 and through December 31, 2018, with the Federal Funds rate reaching as high as 2.50%. After December 31, 2018, the FRB paused its rate increases and, in July, September and October 2019, implemented rate change decreases of 0.25% on each of those occasions. At December 31, 2019, the Federal Funds rate stood at 1.75%. A substantial portion of Great Southern's loan portfolio (\$1.89 billion at December 31, 2019) 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, 2019. Of these loans, \$1.71 billion as of December 31, 2019 had interest rate floors. Great Southern also has a portfolio of loans (\$210 million at December 31, 2019) 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 1.71% as of December 31, 2019. The Company receives 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 is required to pay net settlements to the counterparty and 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.

In March 2020, the Company and its swap counterparty mutually agreed to terminate the \$400 million interest rate swap prior to its contractual maturity. The Company received a payment of \$45.9 million from its swap counterparty as a result of this termination. The termination of this interest rate swap is discussed further in *Note 28* of the accompanying audited financial statements.

The Company's interest rate derivatives and hedging activities are discussed further in *Note 16* 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, 2019. 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

			ember 31,				December 31,		
		2020	2021	2022	2023	2024	Thereafter	Total	2019 Fair Value
	_					Thousands)			7 1111 7 111110
Financial Assets:									
Interest bearing deposits	\$	120,856	_	_	_	_	— \$	120,856 \$	120,856
Weighted average rate		1.75%	_	_	_	_	_	1.75%	
Available-for-sale debt	Φ.	17.660	5.056 A	700 A	12 271 6	706	n 227.702 A	274 175	274 175
securities(1)	\$	17,669 \$	5,956 \$	790 \$	13,371 \$		\$ 335,593 \$	374,175 \$	374,175
Weighted average rate	· C	5.26%	4.89%	5.32%	3.12%	3.78%	3.00%	3.15%	2.467.610
Adjustable rate loans	\$	537,982 \$ 4.85%	564,379 \$ 4.81%	363,777 \$ 4.75%	307,267 \$ 4.73%	139,603 S 457%	\$ 606,150 \$ 3.87%	2,519,158 \$ 4.56%	2,467,618
Weighted average rate Fixed rate loans	\$	338.899 \$	345,292 \$	261,295 \$	239,456 \$		\$ 352,079 \$	1,700,833 \$	1 662 266
Weighted average rate	Ф	4.57%	4.86%	5.43%	239,430 \$ 5.47%	5.27%	5.21%	5.09%	1,662,366
Federal Home Loan Bank stock		4.3770	4.0070	3.43/0	3.47/0		\$ 13,473 \$	13,473 \$	13,473
Weighted average rate							4.71%	4.71%	13,473
weighted average rate	_		 _				4./1/0	4./1/0	
Total financial assets	\$_	1,015,406 \$	915,627 \$	625,862 \$	560,094 \$	304,211	\$ 1,307,295 \$	4,728,495	
Financial Liabilities:	Φ.	1 202 002	105 122 0	67.500 A	60.210	22.264	n 020 h	1.721.100 6	1 724 070
Time deposits	\$	1,383,992 \$	185,122 \$	67,592 \$	60,210 \$	23,364		1,721,109 \$	1,724,878
Weighted average rate Interest-bearing demand	\$	2.07% 1,551,929	2.35%	2.18%	2.07%	2.21%	1.92% — \$	2.09% 1,551,929 \$	1,551,929
Weighted average rate	Ф	0.55%	_	_	_	_	— 5	0.55%	1,331,929
Non-interest-bearing demand	\$	687,068						687,068 \$	687,068
Weighted average rate	Ψ			_	_	_		-	007,000
Short-term borrowings	\$	312,324			_	_	— \$	312,324 \$	312,324
Weighted average rate	-	1.25%	_	_	_	_		1.25%	,
Subordinated notes		_	_	_		_ 5	\$ 75,000 \$	75,000 \$	76,875
Weighted average rate		_	_	_			5.89%	5.89%	, in the second second
Subordinated debentures		_	_	_		_ 5	\$ 25,774 \$	25,774 \$	25,774
Weighted average rate		_	_	_	_	_	3.51%	3.51%	,
-	_								
Total financial liabilities	\$_	3,935,313 \$	185,122 \$	67,592 \$	60,210 \$	23,364	\$ 101,603 \$	4,373,204	

Available-for-sale debt securities include approximately \$317.0 million of mortgage-backed securities and collateralized mortgage obligations which pay interest and principal monthly to the Company. Of this total, \$20.7 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

	_		Dece	mber 31,					December 31, 2019
		2020	2021	2022	2023	2024	Thereafter	Total	Fair Value
	_					Thousands)			
Financial Assets:					`	,			
Interest bearing deposits	\$	120,856	_	_	_	_	- \$	120,856 \$	120,856
Weighted average rate		1.75%	_	_	_		_	1.75%	
Available-for-sale debt									
securities(1)	\$	17,669 \$	5,956 \$	8,300 \$	26,566 \$		\$ 314,888 \$	374,175 \$	374,175
Weighted average rate	Φ	5.26%	4.89%	2.44%	2.54%	3.78%	3.06%	3.15%	2.467.610
Adjustable rate loans	\$	2,183,580 \$	53,020 \$	16,472 \$	31,366 \$	26,266		2,519,158 \$	2,467,618
Weighted average rate Fixed rate loans	\$	4.67% 338,899 \$	4.21% 345,292 \$	3.95% 261,295 \$	4.27% 239,456 \$	4.21% 163,812	3.70% \$ 352,079 \$	4.56% 1,700,833 \$	1.662.266
Weighted average rate	Э	338,899 \$ 4.57%	345,292 \$ 4.86%	5.43%	239,456 \$ 5.47%	5.27%	\$ 332,079 \$ 5.27%	1,700,833 \$ 5.09%	1,662,366
Federal Home Loan Bank stock	\$	13,473	4.80%	3.4370	3.4770	3.2770	3.27% — \$	13,473 \$	13,473
Weighted average rate	Ф	4.71%	_	_	_	_	— ə	4.71%	15,4/5
weighted average rate	-	4./1/0						4./1/0	
Total financial assets	\$_	2,674,477 \$	404,268 \$	286,067 \$	297,388 \$	190,874	\$ 875,421 \$	4,728,495	
Financial Liabilities:									
Time deposits	\$	1,451,391 \$	185,122 \$	53,841 \$	17,762 \$	12,164	\$ 829 \$	1,721,109 \$	1,724,878
Weighted average rate		2.01%	2.35%	2.24%	2.29%	2.41%	1.92%	2.09%	, , ,
Interest-bearing demand	\$	1,551,929	_	_	_	_	- \$	1,551,929 \$	1,551,929
Weighted average rate		0.55%	_	_	_	_	_	0.55%	
Non-interest-bearing									
demand(2)		_	_	_	_	_	\$ 687,068 \$	687,068 \$	687,068
Weighted average rate		_	_	_	_	_	_		
Short-term borrowings	\$	312,324	_	_	_	_	— \$	312,324 \$	312,324
Weighted average rate		1.25%	_	_	_	_		1.25%	
Subordinated notes		_	_	_	_	_	\$ 75,000 \$	75,000 \$	76,875
Weighted average rate	Ф	25.774	_	_	_	_	5.89%	5.89%	25 774
Subordinated debentures	\$	25,774	_	_	_	_	— \$	25,774 \$	25,774
Weighted average rate	-	3.51%						3.51%	
Total financial liabilities	\$_	3,341,418 \$	185,122 \$	53,841 \$	17,762 \$	12,164	\$ 762,897 \$	4,373,204	
Periodic repricing GAP	\$	(666,941) \$	219,146 \$	232,226 \$	279,626 \$	178,710	\$ 112,524 \$	355,291	
1 &	=	<u> </u>						,	
Cumulative repricing GAP	\$_	(666,941) \$	(447,795) \$	(215,569) \$	64,057 \$	242,767	\$ 355,291		

⁽¹⁾ Available-for-sale debt securities include approximately \$317.0 million of mortgage-backed securities which pay interest and principal monthly to the Company. Of this total, \$20.7 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 deposits are 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.

Auditor's Report and Consolidated Financial Statements

December 31, 2019 and 2018



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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, 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, 2019, based on *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 6, 2020 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

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

Springfield, Missouri March 6, 2020

BKD, LLP



Consolidated Statements of Financial Condition December 31, 2019 and 2018 (In Thousands, Except Per Share Data)

Assets

	 2019	2018
Cash	\$ 99,299	\$ 110,108
Interest-bearing deposits in other financial institutions	 120,856	 92,634
Cash and cash equivalents	220,155	202,742
Available-for-sale securities	374,175	243,968
Mortgage loans held for sale	9,242	1,650
Loans receivable, net of allowance for loan losses of \$40,294 and \$38,409 at December 31, 2019 and 2018, respectively	4,153,982	3,989,001
Interest receivable	13,530	13,448
Prepaid expenses and other assets	74,984	55,336
Other real estate owned and repossessions, net	5,525	8,440
Premises and equipment, net	141,908	132,424
Goodwill and other intangible assets	8,098	9,288
Federal Home Loan Bank stock	13,473	12,438
Current and deferred income taxes	 	 7,465
Total assets	\$ 5,015,072	\$ 4,676,200

Consolidated Statements of Financial Condition December 31, 2019 and 2018 (In Thousands, Except Per Share Data)

Liabilities and Stockholders' Equity

		2019		2018
Liabilities				
Deposits	\$	3,960,106	\$	3,725,007
Securities sold under reverse repurchase agreements with customers		84,167		105,253
Short-term borrowings and other interest-bearing liabilities		228,157		192,725
Subordinated debentures issued to capital trust		25,774		25,774
Subordinated notes		74,276		73,842
Accrued interest payable		4,250		3,570
Advances from borrowers for taxes and insurance		7,484		5,092
Accrued expenses and other liabilities		24,904		12,960
Current and deferred income taxes	_	2,888		
Total liabilities	_	4,412,006		4,144,223
Commitments and Contingencies	_			<u> </u>
Stockholders' Equity				
Capital stock				
Serial preferred stock, \$.01 par value; authorized 1,000,000 shares;				
issued and outstanding 2019 and 2018 – -0- shares				
Common stock, \$.01 par value; authorized 20,000,000 shares;				
issued and outstanding 2019 – 14,261,052 shares, 2018 –				
14,151,198 shares		143		142
Additional paid-in capital		33,510		30,121
Retained earnings		537,167		492,087
Accumulated other comprehensive income, net of income taxes of \$9,525				
and \$2,844 at December 31, 2019 and 2018, respectively		32,246	_	9,627
Total stockholders' equity	_	603,066		531,977
Total liabilities and stockholders' equity	\$	5,015,072	\$	4,676,200

Consolidated Statements of Income Years Ended December 31, 2019, 2018 and 2017 (In Thousands, Except Per Share Data)

		2019		2018		2017
Interest Income						
Loans	\$	223,047	\$	198,226	\$	176,654
Investment securities and other		11,947		7,723		6,407
		234,994		205,949		183,061
Interest Expense						
Deposits		45,570		27,957		20,595
Federal Home Loan Bank advances				3,985		1,516
Short-term borrowings and repurchase agreements		3,635		765		747
Subordinated debentures issued to capital trust		1,019		953		949
Subordinated notes		4,378		4,097		4,098
	_	54,602	_	37,757	_	27,905
Net Interest Income		180,392		168,192		155,156
Provision for Loan Losses		6,150		7,150		9,100
Net Interest Income After Provision for Loan Losses		174,242		161,042		146,056
Noninterest Income						
Commissions		889		1,137		1,041
Service charges and ATM fees		20,898		21,695		21,628
Net gains on loan sales		2,607		1,788		3,150
Net realized gains (losses) on sales of available-for-sale						
securities		(62)		2		
Late charges and fees on loans		1,432		1,622		2,231
Gain (loss) on derivative interest rate products		(104)		25		28
Gain on sale of business units				7,414		_
Gain on termination of loss sharing agreements		_		_		7,705
Amortization of income/expense related to business						
acquisitions		_		_		(486)
Other income		5,297		2,535		3,230
		30,957		36,218		38,527
Noninterest Expense						
Salaries and employee benefits		63,224		60,215		60,034
Net occupancy expense		26,217		25,628		24,613
Postage		3,198		3,348		3,461
Insurance		2,015		2,674		2,959
Advertising		2,808		2,460		2,311
Office supplies and printing		1,077		1,047		1,446
Telephone		3,580		3,272		3,188
Legal, audit and other professional fees		2,624		3,423		2,862
Expense on other real estate and repossessions		2,184		4,919		3,929
Partnership tax credit investment amortization		365		575		930
Acquired deposit intangible asset amortization		1,190		1,562		1,650
Other operating expenses	_	6,656		6,187		6,878
		115,138	_	115,310	_	114,261

Consolidated Statements of Income Years Ended December 31, 2019, 2018 and 2017 (In Thousands, Except Per Share Data)

	 2019		2018	2017
Income Before Income Taxes	\$ 90,061	\$	81,950	\$ 70,322
Provision for Income Taxes	 16,449		14,841	 18,758
Net Income and Net Income Available to Common Shareholders	\$ 73,612	\$ <u></u>	67,109	\$ 51,564
Earnings Per Common Share Basic	\$ 5.18	\$ <u></u>	4.75	\$ 3.67
Diluted	\$ 5.14	\$	4.71	\$ 3.64

Consolidated Statements of Comprehensive Income Years Ended December 31, 2019, 2018 and 2017 (In Thousands)

	20	19	2	2018	2017	
Net Income	\$	73,612	\$	67,109	\$	51,564
Unrealized appreciation (depreciation) on available-for- sale securities, net of taxes (credit) of \$2,574, \$(353) and \$(272) for 2019, 2018 and 2017, respectively		8,714		(1,229)		(478)
Less: reclassification adjustment for losses (gains) included in net income, net of taxes (credit) of \$14, \$0 and \$0 for 2019, 2018 and 2017, respectively		48		(2)		_
Change in fair value of cash flow hedge, net of taxes of \$4,093, \$2,761 and \$93 for 2019, 2018 and 2017, respectively		13,857		9,345		161
Other comprehensive income (loss)		22,619		8,114		(317)
Comprehensive Income	\$	96,231	\$	75,223	\$	51,247

Consolidated Statements of Stockholders' Equity Years Ended December 31, 2019, 2018 and 2017 (In Thousands, Except Per Share Data)

	_	nmon tock
Balance, January 1, 2017	\$	140
Net income		_
Stock issued under Stock Option Plan		_
Common dividends declared, \$0.94 per share		_
Other comprehensive gain (loss)		_
Reclassification of treasury stock per Maryland law		<u> </u>
Balance, December 31, 2017		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 income tax rate		
Other comprehensive gain (loss)		
Reclassification of treasury stock per Maryland law		1
Reclassification of freastry stock per Maryland law		1
Balance, December 31, 2018		142
Net income		_
Stock issued under Stock Option Plan		_
Common dividends declared, \$2.07 per share		_
Purchase of the Company's common stock		_
Other comprehensive gain (loss)		_
Reclassification of treasury stock per Maryland law		1
Balance, December 31, 2019	\$	143

		Retained Earnings	C	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total		
\$	25,942 — 2,261 — —	\$	402,166 51,564 — (13,202) — 1,549	\$	1,558 ———————————————————————————————————	\$ 1,550 — — — — — — — (1,550)	\$	429,806 51,564 3,811 (13,202) (317)
	28,203 — 1,918 —		442,077 67,109 — (16,966)		1,241 — — —	1,043 — (903)		471,662 67,109 2,961 (16,966) (903)
		_	(272) — 139	-	272 8,114 —		_	8,114 —
	30,121	_	492,087 73,612 — (29,373) — 841	_	9,627 ————————————————————————————————————	1,691 — (849) — (842)	_	531,977 73,612 5,080 (29,373) (849) 22,619
\$	33,510	\$ _	537,167	\$	32,246	\$ <u> </u>	\$_	603,066

Consolidated Statements of Cash Flows Years Ended December 31, 2019, 2018 and 2017 (In Thousands)

		2019	2018	2017		
Operating Activities						
Net income	\$	73,612	\$ 67,109	\$ 51,564		
Proceeds from sales of loans held for sale		131,014	92,422	138,659		
Originations of loans held for sale		(135,937)	(83,806)	(126,215)		
Items not requiring (providing) cash			, , ,	, ,		
Depreciation		9,557	9,118	9,120		
Amortization		2,068	2,291	2,731		
Compensation expense for stock option grants		922	737	564		
Provision for loan losses		6,150	7,150	9,100		
Net gains on loan sales		(2,607)	(1,788)	(3,150)		
Net realized (gains) losses on available-for-sale						
securities		62	(2)			
Loss on sale of premises and equipment		77	193	297		
(Gain) loss on sale/write-down of other real estate						
and repossessions		316	1,886	(449)		
Gain on sale of business units		_	(7,414)	_		
Gain realized on termination of loss sharing agreements		_	_	(7,705)		
Accretion of deferred income, premiums, discounts						
and other		(3,899)	(2,918)	(1,947)		
(Gain) loss on derivative interest rate products		104	(25)	(28)		
Deferred income taxes		1,074	(4,450)	9,423		
Changes in						
Interest receivable		(82)	(1,110)	(463)		
Prepaid expenses and other assets		(1,336)	3,002	(5,227)		
Accrued expenses and other liabilities		2,725	280	1,821		
Income taxes refundable/payable	_	2,599	 11,520	 (15,278)		
Net cash provided by operating activities		86,419	94,195	 62,817		

Consolidated Statements of Cash Flows Years Ended December 31, 2019, 2018 and 2017 (In Thousands)

	 2019	2018			2017
Investing Activities					
Net change in loans	\$ (81,320)	\$	(147,945)	\$	136,596
Purchase of loans	(97,162)		(128,038)		(133,018)
Cash received from FDIC loss sharing reimbursements					16,246
Cash paid for sale of business units			(50,356)		_
Purchase of premises and equipment	(11,789)		(9,317)		(7,404)
Proceeds from sale of premises and equipment	204		2,328		565
Proceeds from sale of other real estate and repossessions	15,244		20,426		33,640
Capitalized costs on other real estate owned	(121)		(153)		(117)
Proceeds from maturities, calls and repayments of held-to-	· /		()		,
maturity securities			130		117
Proceeds from sale of available-for-sale securities	53,695		502		
Proceeds from maturities, calls and repayments of available-	ŕ				
for-sale securities	34,769		25,734		36,754
Purchase of available-for-sale securities	(207,634)		(93,378)		(3,852)
Redemption (purchase) of Federal Home Loan Bank stock	 (1,035)	_	(1,256)	_	1,852
Net cash provided by (used in) investing activities	 (295,149)	_	(381,323)	_	81,379
Financing Activities					
Net increase (decrease) in certificates of deposit	129,748		242,955		(114,714)
Net increase (decrease) in checking and savings accounts	105,400		(53,956)		34,796
Proceeds from Federal Home Loan Bank advances			2,621,500		1,420,500
Repayments of Federal Home Loan Bank advances			(2,749,000)		(1,324,435)
Net increase (decrease) in short-term borrowings and other					
interest-bearing liabilities	14,346		200,843		(188,888)
Advances from (to) borrowers for taxes and insurance	2,392		(227)		676
Purchase of the Company's common stock	(849)		(903)		_
Dividends paid	(29,052)		(15,819)		(12,894)
Stock options exercised	 4,158	_	2,224	_	3,247
Net cash provided by (used in) financing activities	 226,143	_	247,617	_	(181,712)
Increase (Decrease) in Cash and Cash Equivalents	17,413		(39,511)		(37,516)
Cash and Cash Equivalents, Beginning of Year	 202,742	_	242,253	_	279,769
Cash and Cash Equivalents, End of Year	\$ 220,155	\$	202,742	\$_	242,253

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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 Atlanta, Ga., Chicago, Ill., Dallas, Texas, Denver, Co., Omaha, Neb. and Tulsa, Okla. 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 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. 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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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 uncollectability 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 collectability 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.

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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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. Subsequent to acquisition date, the Company has estimated 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 have been recognized as increases to the accretable yield while decreases have been recognized as increases to the accretable yield while decreases have been recognized 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 with FASB ASC 805, each FDIC Indemnification Asset was initially recorded at its fair value, and

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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.

Material lease obligations consist of leases for various loan offices and banking centers, all of which are categorized as "operating leases." Under current accounting guidance, lessees are required to recognize a lease liability and a right-of-use asset for these leases. This right-of-use asset is included in Premises and Equipment.

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.

No asset impairment was recognized during the years ended December 31, 2019, 2018 and 2017. At December 31, 2019, the remaining valuation allowance related to various properties was \$220,000.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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:

	December 31,					
	2019		2018			
	(In Thousands)					
Goodwill – Branch acquisitions	\$5,	<u>396</u> \$	5,396			
Deposit intangibles						
InterBank		_	36			
Boulevard Bank		153	275			
Valley Bank	(600	1,000			
Fifth Third Bank	1,	949	2,581			
		702	3,892			
	\$8,	<u>098</u> \$	9,288			

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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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

	2019	2018	2017					
	(In Thousands, Except Per Share Data)							
Net income and net income available to common shareholders	\$ 73,612	\$ 67,109	\$ <u>51,564</u>					
Average common shares outstanding	14,201	14,132	14,032					
Average common share stock options outstanding	129	128	<u> 148</u>					
Average diluted common shares	14,330	14,260	14,180					
Earnings per common share – basic	\$5.18	\$4.75	\$3.67					
Earnings per common share – diluted	\$5.14	\$ <u>4.71</u>	\$3.64					

Options outstanding at December 31, 2019, 2018 and 2017, to purchase 201,400, 424,833 and 253,711 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, 2019, 2018 and 2017, respectively.

Stock Compensation Plans

The Company has stock-based employee compensation plans, which are described more fully in *Note 20*. 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, 2019, 2018 and 2017, share-based compensation expense totaling \$922,000, \$737,000 and \$564,000, 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, 2019 and 2018, cash equivalents consisted of interest-bearing deposits in other financial institutions. At December 31, 2019, 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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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, 2019 and 2018, 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 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 16*.

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, 2019 and 2018, respectively, was \$69.4 million and \$62.6 million.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 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 are required to recognize a lease liability and a right-of-use asset for all leases. The Update became effective for the Company on January 1, 2019. Adoption of the standard required 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 occurred 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 \$9.5 million based on the lease portfolio at that time. 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

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

of lease expense occurred in the year ended December 31, 2019. The Company's lease activities are discussed further in *Note* 6.

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. The Update became effective for the Company on January 1, 2020. The Company applied the amendments in this update on a modified retrospective basis, through a cumulative-effect adjustment to retained earnings in the first quarter of 2020. The adoption of the CECL model required us to recognize a one-time cumulative adjustment to our allowance for loan losses and a liability for potential losses related to the unfunded portion of our loans and commitments in order to fully transition from the incurred loss model to the CECL model. Upon adoption, we expect to increase the balance of our allowance for credit losses in a range of \$11 million to \$14 million and created a liability for potential losses related to the unfunded portion of our loans and commitments in a range of \$7 million to \$10 million. The after-tax effect of this is expected to result in a decrease in our retained earnings of \$14 million to \$18 million. These estimates are subject to change as material assumptions are refined and model validations are completed as we finalize our first quarter 2020 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 in this update should be adopted for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The impact of adopting this new guidance in 2020 is not expected to have a material impact on the Company's consolidated financial statements.

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. The impact of adopting this new guidance in 2020 is not expected to have a material impact on the Company's consolidated financial statements.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

Note 2: Investments in Securities

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

				Decembe	er 31, 20	19		
	Amortized Cost		Uni	Gross realized Gains	Unr	ross ealized osses		Fair Value
				(In Tho	usands)			
Agency mortgage-backed securities Agency collateralized mortgage	\$	156,591	\$	8,716	\$	265	\$	165,042
obligations		149,980		2,891		921		151,950
States and political subdivisions Small Business Administration securities		33,757		1,368		_		35,125
		22,132				74	_	22,058
	\$	362,460	\$	12,975	\$	1,260	\$	374,175
			December 31, 2018					
				Pross	_	ross		
	Ar	nortized		realized		ealized		Fair
		Cost		Sains		osses		Value
				(in i no	usands)			
Agency mortgage-backed securities Agency collateralized mortgage	\$	154,557	\$	1,272	\$	2,571	\$	153,258
obligations		39,024		250		14		39,260
States and political subdivisions		50,022		1,428				51,450
	\$	243,603	\$	2,950	\$	2,585	\$	243,968

At December 31, 2019, the Company's agency mortgage-backed securities portfolio consisted of FNMA securities totaling \$147.6 million, FHLMC securities totaling \$13.3 million and GNMA securities totaling \$4.1 million. At December 31, 2019, agency collateralized mortgage obligations consisted of GNMA securities totaling \$122.7 million, FNMA securities totaling \$23.9 million, and FHLMC securities totaling \$5.4 million. At December 31, 2019, \$144.3 million of the Company's agency mortgage-backed securities had fixed rates of interest and \$20.7 million had variable rates of interest. At December 31, 2019, \$149.9 million of the Company's agency collateralized mortgage obligations had fixed rates of interest and \$2.1 million had variable rates of interest.

The amortized cost and fair value of available-for-sale securities at December 31, 2019, 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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

		ortized Cost		Fair Value				
	(In Thousands)							
After one through five years After five through ten years After ten years Securities not due on a single maturity date	\$	9,253 24,504 328,703	\$	9,547 25,578 339,050				
	\$	362,460	\$	374,175				

There were no securities classified as held to maturity at December 31, 2019 or December 31, 2018.

The amortized cost and fair values of securities pledged as collateral was as follows at December 31, 2019 and 2018:

	2019				2018				
		Amortized Cost		Fair Value	Ar	nortized Cost		Fair Value	
				(In Tho	usand	s)			
Public deposits Collateralized borrowing	\$	8,578	\$	8,913	\$	9,482	\$	9,802	
accounts Other		122,771 7,021		129,643 7,107	_	148,050 763		146,337 761	
	\$	138,370	\$	145,663	\$	158,295	\$	156,900	

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, 2019 and 2018, was approximately \$116.2 million and \$95.7 million, respectively, which is approximately 31.1% and 39.2% 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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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, 2019 and 2018:

						20	19					
	Less than 12 Months				12 Months or More				Total			
	Fair		Unrealized		Fair		Unrealized		Fair		Unrealized	
Description of Securities	\	/alue	Losses		Value		Losses		Value		Losses	
						(In Tho	usand	s)				
Agency mortgage-backed						•		•				
securities	\$	_	\$	_	\$	24,762	\$	(265)	\$	24,762	\$	(265)
Agency collateralized												
mortgage obligations		69,372		(921)		_		_		69,372		(921)
States and political												
subdivisions		_		_		_		_		_		_
Small Business												
Administration securities		22,058		(74)						22,058		(74)
	\$	91,430	\$	<u>(995</u>)	\$	24,762	\$	(265)	\$	116,192	\$	(1,260)

						20	18					
		Less than	12 Moi	nths	12 Months or More					Total		
Description of Securities	Fair Value		Unrealized Losses		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses	
-						(In Tho	usano	ds)				
Agency mortgage-backed securities Agency collateralized	\$	11,255	\$	(82)	\$	74,186	\$	(2,489)	\$	85,441	\$	(2,571)
mortgage obligations States and political		9,725		(14)		_		_		9,725		(14)
subdivisions	_	511			_		_		_	511	_	
	\$	21,491	\$	(96)	\$	74,186	\$	(2,489)	\$	95,677	\$_	(2,585)

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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

The Company routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. The Company considers the length of time a security has been in an unrealized loss position, the relative amount of the unrealized loss compared to the carrying value of the security, the type of security and other factors. If certain criteria are met, the Company performs additional review and evaluation using observable market values or various inputs in economic models to determine if an unrealized loss is other than temporary. The Company uses quoted market prices for marketable equity securities and uses broker pricing quotes based on observable inputs for equity investments that are not traded on a stock exchange. For non-agency 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 2019, 2018 and 2017, no securities were determined to have impairment that had become other-than-temporary.

Credit Losses Recognized on Investments

During 2019, 2018 and 2017, there were no debt securities that 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, 2019 and 2018, included:

	2019	2018
	(In The	ousands)
One- to four-family residential construction	\$ 33,963	\$ 26,177
Subdivision construction	16,088	13,844
Land development	40,431	44,492
Commercial construction	1,322,861	1,417,166
Owner occupied one- to four-family residential	387,016	276,866
Non-owner occupied one- to four-family residential	120,343	122,438
Commercial real estate	1,494,172	1,371,435
Other residential	866,006	784,894
Commercial business	313,209	322,118
Industrial revenue bonds	13,189	13,940
Consumer auto	151,854	253,528
Consumer other	46,720	57,350
Home equity lines of credit	118,988	121,352
Loans acquired and accounted for under ASC 310-30,		
net of discounts	127,206	167,651
	5,052,046	4,993,251
Undisbursed portion of loans in process	(850,666)	(958,441)
Allowance for loan losses	(40,294)	(38,409)
Deferred loan fees and gains, net	(7,104)	(7,400)
-	\$ 4,153,982	\$ 3,989,001

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

Classes of loans by aging were as follows:

	December 31, 2019								
							Total Loans		
						Total	> 90 Days Past		
	•	60-89 Days	•			Loans	Due and		
	Past Due	Past Due	Past Due	Due	Current	Receivable	Still Accruing		
				(In Thousa	ands)				
One- to four-family	Ф	Ф	Ф	A	Φ 22.0.62	Φ 22.0.62	Φ.		
residential construction	\$ —	\$ —	\$ —	\$ —	\$ 33,963	\$ 33,963	\$ —		
Subdivision construction			_		16,088	16,088	_		
Land development		27	_	27	40,404	40,431	_		
Commercial construction	15,085	_	_	15,085	1,307,776	1,322,861	_		
Owner occupied one- to four-									
family residential	1,453	1,631	1,198	4,282	382,734	387,016	_		
Non-owner occupied one- to									
four-family residential	152	_	181	333	120,010	120,343	_		
Commercial real estate	549	119	632	1,300	1,492,872	1,494,172	_		
Other residential	376		_	376	865,630	866,006	_		
Commercial business	60	_	1,235	1,295	311,914	313,209	_		
Industrial revenue bonds	_	_			13,189	13,189	_		
Consumer auto	1,101	259	558	1,918	149,936	151,854	_		
Consumer other	278	233	198	709	46,011	46,720	_		
Home equity lines of credit	296	_	517	813	118,175	118,988	_		
Loans acquired and accounted					•				
for under ASC 310-30,									
net of discounts	2,177	709	6,191	9,077	118,129	127,206	_		
	21,527	2,978	10,710	35,215	5,016,831	5,052,046			
Less loans acquired and	ŕ	ŕ							
accounted for under ASC	2 177	700	6 101	0.077	110 120	127.206			
310-30, net of discounts	2,177	709	6,191	9,077	118,129	127,206	<u></u>		
Total	\$ <u>19,350</u>	\$ <u>2,269</u>	\$ <u>4,519</u>	\$ <u>26,138</u>	\$ <u>4,898,702</u>	\$ <u>4,924,840</u>	\$		

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

December 31, 201	8	í
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					,		
							Total Loans
						Total	> 90 Days
	30-59 Days	60-89 Days	90+ Days	Total Past		Loans	Past Due and
	Past Due	Past Due	Past Due	Due	Current	Receivable	Still Accruing
				(In Thousar	nds)		
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	,		,	,	,	Ź	
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						ŕ	
for under ASC 310-30,							
net of discounts	2,195	1,416	6,827	10,438	157,213	167,651	_
	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	2,195	1,416	6,827	10,438	157,213	167,651	
•							
Total	\$ 10,117	\$ <u>1,960</u>	\$ <u>6,300</u>	\$ 18,377	\$ <u>4,807,223</u>	\$ <u>4,825,600</u>	\$

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

Non-accruing loans are summarized as follows:

	December 31,					
	20	19	2018			
	(In Thousands)					
One- to four-family residential construction	\$	_	\$			
Subdivision construction				49		
Land development		_		_		
Commercial construction		_				
Owner occupied one- to four-family residential		1,198		1,206		
Non-owner occupied one- to four-family residential		181		1,458		
Commercial real estate		632		334		
Other residential						
Commercial business		1,235		1,437		
Industrial revenue bonds		_		_		
Consumer auto		558		1,490		
Consumer other		198		240		
Home equity lines of credit		517		86		
Total	\$	4,519	\$	6,300		

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

The following tables present the activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2019, 2018 and 2017, 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, 2019, 2018, and 2017, respectively:

			Dec	ember 31, 201	19		
	One- to Four- Family Residential and Construction	Other Residential	Commercial Real Estate	Commercial Construction In Thousands)	Commercial Business	Consumer	Total
Allowance for Loan Losses Balance, January 1, 2019 Provision (benefit) charged to expense Losses charged off Recoveries	\$ 3,122 1,625 (534) 126	\$ 4,713 603 (189) 	\$ 19,803 4,651 (144) 24	\$ 3,105 22 (101) 50	\$ 1,568 (309) (371) 467	\$ 6,098 (442) (6,723) 3,104	\$ 38,409 6,150 (8,062) 3,797
Balance, December 31, 2019	\$ <u>4,339</u>	\$ <u>5,153</u>	\$ <u>24,334</u>	\$ <u>3,076</u>	\$ <u>1,355</u>	\$	\$ <u>40,294</u>
Ending balance: Individually evaluated for impairment Collectively evaluated for impairment Loans acquired and accounted for under ASC 310-30	\$198 \$3,973 \$168	\$ \$5,101 \$52	\$ <u>517</u> \$ <u>23,570</u> \$ <u>247</u>	\$ \$2,940 \$136	\$13 \$1,306 \$36	\$201 \$1,814 \$22	\$ <u>929</u> \$ <u>38,704</u> \$ <u>661</u>
Loans Individually evaluated for impairment Collectively evaluated	\$ 2,960	\$	\$ <u>4,020</u>	\$	\$ <u>1,286</u>	\$ 2,001	\$ <u>10,267</u>
for impairment Loans acquired and accounted for under ASC 310-30	\$ <u>554,450</u> \$ <u>74,562</u>	\$ <u>866,006</u> \$ <u>5,334</u>	\$ <u>1,490,152</u> \$ <u>29,158</u>	\$ <u>1,363,292</u> \$ <u>3,606</u>	\$ <u>325,112</u> \$ <u>3,356</u>	\$ <u>315,561</u> \$ <u>11,190</u>	\$ <u>4,914,573</u> \$ <u>127,206</u>

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

Decem	ber 3′	1, 20	18
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			Dec	Jennber 31, 20	10		
	One- to Four- Family Residential						
	and	Other	Commercial	Commercial	Commercial		
	Construction	Residential	Real Estate	Construction	Business	Consumer	Total
			(In Thousands)			
Allowance for Loan Losses							
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	334	417	172	394	755	4,051	6,123
					·		·
Balance,							
December 31, 2018	\$3,122	\$ <u>4,713</u>	\$19,803	\$3,105	\$ 1,568	\$ 6,098	\$ 38,409
,	· 			· ·		-	·
Ending balance:							
Individually evaluated							
for impairment	\$694	\$ —	\$613	\$ —	\$309	\$ 425	\$ 2,041
Collectively evaluated	*	*	*	*	*	*	*
for impairment	\$2,392	\$ 4,681	\$18,958	\$3,029	\$ 1,247	\$ 5,640	\$ 35,947
Loans acquired and	Ψ <u> </u>	4 1,001	<u> </u>	Ψ <u>υ,υ</u> 2)	<u> </u>	<u> </u>	Φ
accounted for under							
ASC 310-30	\$ 36	\$32	\$ <u>232</u>	\$ <u>76</u>	\$ <u>12</u>	\$33	\$421
1150 510 50	Ψ	Ψ <u>52</u>	ψ <u></u>	Ψ	Ψ12	Ψ	Ψ
Loans							
Individually evaluated							
for impairment	\$ 6,116	\$ —	\$ 3,501	\$ 14	\$ 1,844	\$ 2,464	\$ <u>13,939</u>
Collectively evaluated	Ψ	Ψ	ψ <u> 3,301</u>	Ψ <u>1</u> -τ	Ψ1,0++	Ψ 2,π0π	Ψ <u>13,737</u>
for impairment	\$ 433,209	\$_784,894	\$ 1,367,934	\$ 1,461,644	\$ 334,214	\$ 429,766	\$ <u>4,811,661</u>
Loans acquired and	Φ <u>433,209</u>	\$ <u>704,074</u>	Φ <u>1,307,934</u>	\$ <u>1,401,044</u>	Φ <u>334,214</u>	φ <u>429,700</u>	\$ 4,811,001
accounted for under							
	¢ 02.941	¢ 12.700	e 22.620	¢ 4.002	\$ 4.347	\$ 18,960	¢ 167.651
ASC 310-30	\$ <u>93,841</u>	\$ <u>12,790</u>	\$33,620	\$ <u>4,093</u>	\$ <u>4,347</u>	\$ <u>18,960</u>	\$ <u>167,651</u>

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

One to Four

December 31, 2017

	One- to Four- Family Residential and Construction	Other Residential	Commercial Real Estate	Commercial Construction	Commercial Business	Consumer	Total
			(In Thousands)			
Allowance for Loan Losses							
Balance, January 1, 2017 Provision (benefit)	\$ 2,322	\$ 5,486	\$ 15,938	\$ 2,284	\$ 3,015	\$ 8,355	\$ 37,400
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	109	<u> </u>	123	546	580	4,514	6,069
Balance,							
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 for impairment	\$5 <u>13</u>	\$	\$599	\$ —	\$ 2,140	\$ 699	\$ 3,951
Collectively evaluated	Ψ	Ψ	Ψ <u></u>	Ψ	Ψ <u>2,110</u>	Φ	ψ <u> 3,751</u>
for impairment Loans acquired and	\$1,564	\$2,813	\$ <u>17,843</u>	\$ <u>1,690</u>	\$ <u>1,369</u>	\$6,802	\$ <u>32,081</u>
accounted for under ASC 310-30	\$31	\$ <u>26</u>	\$ <u>197</u>	\$ <u>77</u>	\$ <u>72</u>	\$ <u>57</u>	\$ <u>460</u>
Loans Individually evaluated							
for impairment Collectively evaluated	\$ <u>6,950</u>	\$ <u>2,907</u>	\$ <u>8,315</u>	\$ <u>15</u>	\$3,018	\$ <u>4,129</u>	\$ <u>25,334</u>
for impairment Loans acquired and accounted for under	\$341,888	\$ <u>742,738</u>	\$ <u>1,227,014</u>	\$ <u>1,112,308</u>	\$ <u>372,192</u>	\$531,820	\$ <u>4,327,960</u>
ASC 310-30	\$ <u>120,295</u>	\$ <u>14,877</u>	\$ 39,210	\$3,806	\$ <u>5,275</u>	\$ <u>26,206</u>	\$ <u>209,669</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, 2019 and 2018, was 4.97% and 5.16%, respectively.

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, 2019, was \$349.9 million, consisting of \$283.0 million of commercial loan participations sold to other financial institutions and \$66.9 million of residential

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

mortgage loans sold. 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. In addition, available lines of credit on these loans were \$102.1 million and \$121.0 million at December 31, 2019 and 2018, 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, 2019, 2018 and 2017:

	December 31, 2019							Year Ended December 31, 2019			
	Recorded Balance		Unpaid Principal Balance		Specific Allowance		Average Investment in Impaired Loans		Inc	terest come ognized	
		(In Thousands)									
One- to four-family residential construction	\$	_	\$	_	\$		\$		\$	_	
Subdivision construction		251		251		96		277		9	
Land development		_		_		_		328		101	
Commercial construction											
Owner occupied one- to four-family											
residential		2,300		2,423		82		2,598		131	
Non-owner occupied one- to four-family											
residential		409		574		20		954		43	
Commercial real estate		4,020		4,049		517		4,940		264	
Other residential		_									
Commercial business		1,286		1,771		13		1,517		81	
Industrial revenue bonds		_				_				_	
Consumer auto		1,117		1,334		181		1,128		125	
Consumer other		356		485		16		383		48	
Home equity lines of credit		528		548		4		362		37	
Total	\$	10,267	\$	11,435	\$	929	\$	12,487	\$	839	

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

Year Ended

		De	cemb	er 31, 20)18		December 31, 2018			
	Recorded Balance		Unpaid Principal Balance			ecific owance	Inve in li	verage estment mpaired oans	In	terest come ognized
)					
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		111		128		17		412		28
Total	\$	13,939	\$	15,579	\$	2,041	\$	20,004	\$	1,346

		De	cemb	per 31, 20	Year Ended December 31, 2017					
	Recorded Balance		Unpaid Principal Balance		Specific Allowance (In Thousands)		Average Investment in Impaired Loans		ln	terest come ognized
	¢		¢		\$		¢	102	¢	
One- to four-family residential construction	\$	240	\$	267	3	114	\$	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		591		648		91		498		33
Total	\$	25,334	\$	27,655	\$	3,951	\$	30,193	\$	1,588

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

At December 31, 2019, \$5.2 million of impaired loans had specific valuation allowances totaling \$929,000. 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. For impaired loans which were non-accruing, interest of approximately \$761,000, \$1.0 million and \$1.2 million would have been recognized on an accrual basis during the years ended December 31, 2019, 2018 and 2017, 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 the years ended December 31, 2019, 2018 and 2017 by type of modification:

					2019			
					2013			Total
	Intere	st Only	т	erm	Com	bination	Мо	dification
					nousan			
	Ф		ф	126	ф		Ф	126
Consumer	\$ \$		\$ \$	136 136	\$ \$		\$ \$	136 136
	Φ		Φ	130	Ψ		Ψ	150
					2018			
			_					Total
	Intere	st Only	T	erm		bination	Мо	dification
				(In II	nousan	as)		
Mortgage loans on real estate:								
Residential one-to-four family	\$	1,348	\$	_	\$	_	\$	1,348
Construction and land development		_		31		_		31
Commercial		_				106		106
Consumer	•	1,348	•	535 566	•	106	•	535 2,020
	Φ	1,348	Φ	300	Φ	100	Φ	2,020
					2017			
								Total
	Intere	st Only	T	erm		bination	Мо	dification
				(In Th	nousan	ds)		
Mortgage loans on real estate:								
Commercial	\$	_	\$	_	\$	5,759	\$	5,759
Commercial business		_		16		274		290
Consumer				245				245
	\$		\$	261	\$	6,033	\$	6,294

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

At December 31, 2019, the Company had \$1.9 million of loans that were modified in troubled debt restructurings and impaired, as follows: \$251,000 of construction and land development loans, \$768,000 of single family residential mortgage loans, \$412,000 of commercial real estate loans, \$156,000 of commercial business loans and \$343,000 of consumer loans. Of the total troubled debt restructurings at December 31, 2019, \$1.4 million were accruing interest and \$562,000 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, 2019. 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, 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. During the year ended December 31, 2019, borrowers with loans designated as troubled debt restructurings totaling \$63,000, 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, 2019 and 2018 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, 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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

The loan grading system is presented by loan class below:

	December 31, 2019									
			Special	•						
	Satisfactory	Watch	Mention	Substandard	Doubtful	Total				
	_		(In The	ousands)						
One- to four-family residential										
construction	\$ 33,963	\$ —	\$ —	\$ —	\$ —	\$ 33,963				
Subdivision construction	16,061	27	_	_	_	16,088				
Land development	40,431		_	_		40,431				
Commercial construction	1,322,861	_	_	_		1,322,861				
Owner occupied one- to-four-										
family residential	385,001	26	_	1,989		387,016				
Non-owner occupied one- to-										
four-family residential	119,743	419	_	181		120,343				
Commercial real estate	1,458,400	32,063	_	3,709		1,494,172				
Other residential	866,006		_	_		866,006				
Commercial business	307,322	4,651	_	1,236		313,209				
Industrial revenue bonds	13,189					13,189				
Consumer auto	150,874	47	_	933		151,854				
Consumer other	46,294	92	_	334		46,720				
Home equity lines of credit	118,428	43	_	517		118,988				
Loans acquired and accounted										
for under ASC 310-30,										
net of discounts	127,192			14		127,206				
Total	\$ <u>5,005,765</u>	\$ <u>37,368</u>	\$	\$ <u>8,913</u>	\$	\$ <u>5,052,046</u>				

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

	December 31, 2018											
					Spec	ial						
	Sati	sfactory	W	atch	Ment	ion	Subs	tandard	Doub	tful		Total
					(Ir	ո Tho	usand	ls)				
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		167,632						19				167,651
Total	\$ <u>4</u> ,	958,837	\$	24,792	\$		\$	9,622	\$		\$ <u>4</u> ,	993,251

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, and their related interests, 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, 2019 and 2018, loans outstanding to these directors and executive officers, and their related interests, are summarized as follows:

	2019		2018
	 (In Thou	ısands)	
Balance, beginning of year New loans Payments	\$ 29,017 15,062 (28,839)	\$	40,041 17,141 (28,165)
Balance, end of year	\$ 15,240	\$	29,017

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

Note 4: FDIC-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 2019, 2018 and 2017 was \$99,000, \$175,000 and \$269,000, respectively.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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 2019, 2018 and 2017 was \$-0-, \$11,000 and \$217,000, 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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

The following table presents the balances of the acquired loans related to the various FDIC-assisted transactions at December 31, 2019 and December 31, 2018.

					S	un		
			V	antus	Sec	urity		Valley
	Tea	mBank	E	Bank	Ba	ınk	InterBanl	k Bank
				(In	Thou	sands)		_
December 31, 2019	_							
Gross loans receivable	\$	7,304	\$	9,899	\$ 1	7,906	\$ 60,430	\$ 41,032
Balance of accretable discount due								
to change in expected losses		(159)		(89)		(374)	(5,143) (1,803)
Net carrying value of loans receivable		(7,118)		(9,797)	(1'	7,392)	(54,442	(38,452)
Expected loss remaining	\$	27	\$	13	\$	140	\$ 845	
December 31, 2018								
Gross loans receivable	\$	10,602	\$	14,097	\$ 2	1,171	\$ 85,205	\$ 53,470
Balance of accretable discount due								
to change in expected losses		(399)		(58)		(342)	(1,695	(169)
Net carrying value of loans								
receivable		(10,106)	_	(13,809)	(20	0,171)	(74,436	(49,124)
Expected loss remaining	\$	97	\$	230	\$	658	\$ 9,074	\$ <u>4,177</u>

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. On an ongoing basis, the Company has evaluated 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, 2019, 2018 and 2017, improvements in expected cash flows related to the acquired loan portfolios resulted in adjustments to the accretable yield to be spread over the estimated remaining lives of the loans on a level-yield basis. The increases in expected cash flows also reduced the amount of expected reimbursements under the loss sharing agreements, when applicable, until they were terminated or expired. This resulted in corresponding adjustments during the year ended December 31, 2017, 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:

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

		Year Ended December 31,							
		2019		2018	2	017			
	(In Thousands)								
Increase in accretable yield due to increased									
cash flow expectations	\$	12,323	\$	5,202	\$	1,333			

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

	Year Ended December 31,								
		2019		2018	2	017			
			(In	Thousands)		_			
Interest income	\$	7,431	\$	5,134	\$	5,014			
Noninterest income						(634)			
Net impact to pre-tax income	\$	7,431	\$	5,134	\$	4,380			

On an on-going basis the Company has estimated 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 \$12.3 million were recorded in the year ended December 31, 2019 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, 2019, the remaining accretable yield adjustment that will affect interest income was \$7.6 million. Of the remaining adjustments affecting interest income, we expect to recognize \$5.6 million of interest income during 2020. 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). During the three months ending March 31, 2020, we will adopt the new accounting standard related to accounting for credit losses. With the adoption of this standard, there will be no more reclassification of discounts from non-accretable to accretable subsequent to December 31, 2019. All adjustments made prior to December 31, 2019 will continue to be accreted to interest income.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

Changes in the accretable yield for acquired loan pools were as follows for the years ended December 31, 2019, 2018 and 2017:

						Sun					
	Te	amBank	Vai	ntus Bank	Sec	curity Bank	Int	erBank	Va	lley Bank	
					(In Ti	nousands)					_
Balance, January 1, 2017 Accretion Reclassification from nonaccretable	\$	2,477 (1,563)	\$	2,547 (1,373)	\$	4,277 (2,251)	\$	8,512 (7,505)	\$	4,797 (5,823)	
difference ⁽¹⁾	_	1,157		676	_	<u>875</u>	_	4,067	_	3,721	
Balance, December 31, 2017 Accretion Reclassification from nonaccretable		2,071 (1,042)		1,850 (1,196)		2,901 (1,667)		5,074 (8,349)		2,695 (3,892)	
difference ⁽¹⁾	_	327	_	778		1,008	_	8,269	_	4,260	
Balance, December 31, 2018 Accretion Reclassification from nonaccretable		1,356 (955)		1,432 (1,006)		2,242 (1,562)		4,994 (8,798)		3,063 (4,302)	
difference ⁽¹⁾	_	756		697	_	1,268		12,081		5,817	
Balance, December 31, 2019	\$	1,157	\$	1,123	\$	1,948	\$	8,277	\$	4,578	

⁽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, 2019, totaling \$667,000, \$480,000, \$810,000, \$3.9 million and \$2.5 million, respectively; 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; and 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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

Note 5: Other Real Estate Owned and Repossessions

Major classifications of other real estate owned at December 31, 2019 and 2018, were as follows:

	2019			2018	
		(In The	usands)		
Foreclosed assets held for sale and repossessions					
One- to four-family construction	\$	_	\$		
Subdivision construction		689		1,092	
Land development		1,816		3,191	
Commercial construction				_	
One- to four-family residential		601		269	
Other residential				_	
Commercial real estate		_			
Commercial business		_			
Consumer		545		928	
		3,651		5,480	
Acquired foreclosed assets no longer covered by					
FDIC loss sharing agreements, net of discounts		_		167	
Acquired foreclosed assets not covered by FDIC					
loss sharing agreements, net of discounts (Valley Bank)		1,003		1,234	
Foreclosed assets held for sale and repossessions, net		4,654		6,881	
Other real estate owned not acquired through foreclosure		871		1,559	
Other real estate owned and repossessions	\$	5,525	\$	8,440	

At December 31, 2019, other real estate owned not acquired through foreclosure included six properties all of which were branch locations that were closed and held for sale. During the year ended December 31, 2019, one former branch location was both added to this category and sold at a gain of \$115,000, 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, other real estate owned not acquired through foreclosure included nine properties, eight of which were branch locations that were closed and 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, 2019, residential mortgage loans totaling \$1.6 million were in the process of foreclosure, \$1.4 million of which were acquired loans. Of the \$1.4 million of acquired loans, \$738,000 were previously covered by loss sharing agreements and \$689,000 were acquired in the Valley Bank transaction.

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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

Expenses applicable to other real estate owned and repossessions for the years ended December 31, 2019, 2018 and 2017, included the following:

	2019		2018	2017
		(In Ti	nousands)	_
Net gains on sales of other real estate owned and repossessions Valuation write-downs Operating expenses, net of rental income	\$ (750) 926 2,008	\$	(2,522) 3,897 3,544	\$ (2,212) 1,585 4,556
	\$ 2,184	\$	4,919	\$ 3,929

Note 6: Premises and Equipment

Major classifications of premises and equipment at December 31, 2019 and 2018, stated at cost, were as follows:

	2019			2018
		(In The	ousands	5)
Land	\$	40,632	\$	40,508
Buildings and improvements		96,959		95,039
Furniture, fixtures and equipment		56,986		54,327
Operating leases right of use asset		8,668		
		203,245		189,874
Less accumulated depreciation		61,337		57,450
	\$	141,908	\$	132,424

Leases. The Company adopted ASU 2016-02, Leases (Topic 842), on January 1, 2019, using the modified retrospective transition approach whereby comparative periods were not restated. The Company also elected certain relief options under the ASU, including the option not to recognize right of use asset and lease liabilities that arise from short-term leases (leases with terms of twelve months or less). The Company has 17 total lease agreements in which it is the lessee, with lease terms exceeding twelve months, substantially all of which are for branch locations and commercial loan production offices. All of our lease agreements where we have offsite ATMs are for terms not exceeding twelve months. Adoption of this ASU resulted in the Company initially recognizing a right of use asset and corresponding lease liability of \$9.5 million during the three months ended March 31, 2019. The amount of the right of use asset and corresponding lease liability will fluctuate based on the Company's lease terminations, new leases and lease modifications and renewals. As of December 31, 2019, the lease right of use asset value was \$8.7 million and the corresponding lease liability was \$8.7 million.

All of our leases are classified as operating leases (as they were prior to January 1, 2019), and therefore were previously not recognized on the Company's consolidated statements of financial condition. With the adoption of ASU 2016-02, these operating leases are now included as a right of use asset in the premises and equipment line item on the Company's consolidated statements of financial condition. The corresponding lease liability is included in the accrued expenses and other liabilities line item on the Company's consolidated statements of financial condition. Because these leases are classified as operating leases, the adoption of the new standard did not have a material effect on lease expense on the Company's consolidated statements of income.

ASU 2016-02 provides a number of optional practical expedients in transition. The Company has elected the "package of practical expedients," which permits the Company not to reassess under the new standard the prior conclusions about lease identification, lease classification and initial direct costs. The Company also elected the use of the hindsight, a practical expedient which permits the use of information available after lease inception to

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

determine the lease term via the knowledge of renewal options exercised not available as of the lease's inception. The practical expedient pertaining to land easements is not applicable to the Company.

ASU 2016-02 also requires certain other accounting elections. The Company elected the short-term lease recognition exemption for all leases that qualify, meaning those with terms under twelve months. Right of use assets or lease liabilities are not to be recognized for short-term leases. The Company also elected the practical expedient to not separate lease and non-lease components for all leases. The Company's short-term leases related to offsite ATMs have both fixed and variable lease payment components, based on the number of transactions at the various ATMs. The variable portion of these lease payments is not material and the total lease expense related to ATMs was \$286,000 for the year ended December 31, 2019.

The calculated amounts of the right of use assets and lease liabilities in the table below are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company's lease agreements often include one or more options to renew extended term in the calculation of the right of use asset and lease liability. Regarding the discount rate, the ASU requires the use of the rate implicit in the lease at the Company's discretion. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the right of use asset and lease liability. Regarding the discount rate, the ASU requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception over a similar term. The discount rate utilized was the FHLBank borrowing rate for the term corresponding to the expected term of the lease. The expected lease terms range from 2.3 years to 18.9 years with a weighted-average lease term of 10.6 years. The weighted-average discount rate was 3.40%.

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	At or For the Year Ended December 31, 2019		
	(In Tho	usands)	
Statement of Financial Condition			
Operating leases right of use asset	\$	8,668	
Operating leases liability	\$	8,747	
Statement of Income			
Operating lease costs classified as occupancy and equipment expense	\$	1,460	
(includes short-term lease costs and amortization of right of use			
asset)			
Supplemental Cash Flow Information			
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	\$	1,381	
Right of use assets obtained in exchange for lease obligations:			
Operating leases	\$	9,538	

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

For the years ended December 31, 2019 and 2018, lease expense was \$1.5 million and \$1.2 million, respectively.

At December 31, 2019, future expected lease payments for leases with terms exceeding one year were as follows (in thousands):

2020	\$ 1,132
2021	1,148
2022	1,131
2023	1,099
2024	999
Thereafter	 5,186
Future lease payments expected	10,695
Less interest portion of lease payments	 (1,948)
Lease liability	\$ 8,747

The Company does not sublease any of its leased facilities; however, it does lease to other third parties portions of facilities that it owns. In terms of being the lessor in these circumstances, all of these lease agreements are classified as operating leases. In the years ended December 31, 2019 and 2018, income recognized from these lessor agreements was \$1.1 million and \$1.0 million, respectively, and was included in occupancy and equipment expense.

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, 2019 the Company had 15 such investments, with a net carrying value of \$22.8 million. At December 31, 2018 the Company had 17 such investments, with a net carrying value of \$22.9 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 \$25.2 million as of December 31, 2019, 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 \$22.8 million, assuming all projects currently under construction are completed and funded as planned. The Company's usage of federal affordable housing tax credits approximated \$8.0 million, \$6.6 million and \$6.6 million during 2019, 2018 and 2017, respectively. Investment amortization amounted to \$5.8 million, \$5.0 million and \$5.2 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Investments in Community Development Entities

The Company has invested in certain limited partnerships that were formed to develop and operate business and real estate projects located in low-income communities. At December 31, 2019, the Company had no such investment. At December 31, 2018, the Company had one such investment, with a net carrying value of \$365,000. Due to the Company's inability to exercise any significant influence over any of the investments in

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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 Company's usage of federal New Market Tax Credits approximated \$480,000, \$480,000 and \$1.2 million during 2019, 2018 and 2017, respectively. Investment amortization amounted to \$365,000, \$575,000 and \$930,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

Investments in Limited Partnerships for Federal Rehabilitation/Historic Tax Credits

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From time to time, the Company has invested in certain limited partnerships that were formed to provide certain federal rehabilitation/historic tax credits. Previously, the Company utilized these credits in their entirety in the year the project was placed in service and the impact to the Consolidated Statements of Income has not been material. In future periods, such partnerships provide federal rehabilitation/historic tax credits over a five-year credit allowance period.

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.

Note 8: Deposits

Deposits at December 31, 2019 and 2018, are summarized as follows:

	Weighted Average		2012		0040		
	Interest Rate		2019		2018		
		(In Thousands, Except Interest Rates)					
Noninterest-bearing accounts Interest-bearing checking and	_	\$	687,068	\$	661,061		
savings accounts	0.55% and 0.46%		1,551,929		1,472,535		
-			2,238,997		2,133,596		
Certificate accounts	0% - 0.99%		122,649		150,656		
	1% - 1.99%		523,816		511,873		
	2% - 2.99%		1,053,914		857,973		
	3% - 3.99%		19,849		69,793		
	4% - 4.99%		881		1,116		
	5% and above						
			1,721,109		1,591,411		
		\$	3,960,106	\$	3,725,007		

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

The weighted average interest rate on certificates of deposit was 2.09% and 1.98% at December 31, 2019 and 2018, respectively.

The aggregate amount of certificates of deposit originated by the Bank in denominations greater than \$100,000 was approximately \$830.8 million and \$733.9 million at December 31, 2019 and 2018, respectively. The Bank utilizes brokered deposits as an additional funding source. The aggregate amount of brokered deposits was approximately \$371.7 million and \$326.9 million at December 31, 2019 and 2018, respectively.

At December 31, 2019, scheduled maturities of certificates of deposit were as follows:

	Retail Brokered				Total
		(In T	housands)		
2020	\$ 1,079,690	\$	304,302	\$	1,383,992
2021	185,122		_		185,122
2022	53,841		13,751		67,592
2023	17,762		42,448		60,210
2024	12,164		11,200		23,364
Thereafter	 829			_	829
	\$ 1,349,408	\$	371,701	\$	1,721,109

A summary of interest expense on deposits for the years ended December 31, 2019, 2018 and 2017, is as follows:

	 2019	(ln T	2018 housands)	2017
Checking and savings accounts Certificate accounts Early withdrawal penalties	\$ 7,971 37,723 (124)	\$	5,982 22,149 (174)	\$ 4,699 16,009 (113)
	\$ 45,570	\$	27,957	\$ 20,595

Note 9: Advances From Federal Home Loan Bank

At December 31, 2019 and 2018, there were no outstanding term advances from the Federal Home Loan Bank of Des Moines (FHLBank advances). There were overnight funds from the Federal Home Loan Bank of Des Moines, which are included below in *Note 10*.

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, 2019 and 2018. Loans with carrying values of approximately \$1.60 billion and \$1.36 billion were pledged as collateral for outstanding advances at December 31, 2019 and 2018, respectively. The Bank had potentially available \$867.1 million remaining on its line of credit under a borrowing arrangement with the FHLB of Des Moines at December 31, 2019.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

Note 10: Short-Term Borrowings

Short-term borrowings at December 31, 2019 and 2018, are summarized as follows:

	2019		2018	
	(In Thousands)			
Notes payable – Community Development Equity Funds Other interest-bearing liabilities Overnight borrowings from the Federal Home Loan Bank Securities sold under reverse repurchase agreements	\$	1,267 30,890 196,000 84,167	\$	1,625 13,100 178,000 105,253
	\$	312,324	\$	297,978

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, 2019, 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 1.25% and 1.68% at December 31, 2019 and 2018, respectively. Short-term borrowings averaged approximately \$260.0 million and \$137.3 million for the years ended December 31, 2019 and 2018, respectively. The maximum amounts outstanding at any month end were \$346.9 million and \$298.0 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, 2019 and 2018:

	2019 Overnight and Continuous		2018 Overnight and Continuous	
	(In Thousands)			
Mortgage-backed securities – GNMA, FNMA, FHLMC	\$	84,167	\$	105,253

Note 11: Federal Reserve Bank Borrowings

At December 31, 2019 and 2018, the Bank had \$367.8 million and \$460.7 million, respectively, available under a line-of-credit borrowing arrangement with the Federal Reserve Bank. The line is secured primarily by commercial loans. There were no amounts borrowed under this arrangement at December 31, 2019 or 2018.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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 3.51% and 4.14% at December 31, 2019 and 2018, respectively.

At December 31, 2019 and 2018, subordinated debentures issued to capital trusts are summarized as follows:

	2	2019 2018			
		(In Thousands)			
Subordinated debentures	\$	25,774	\$	25,774	

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 five years from the issuance date. Amortization of the debt issuance costs during the years ended December 31, 2019 and 2018, totaled \$434,000 and \$154,000, respectively, and is included in interest expense on subordinated notes in the consolidated statements of income, resulting in an imputed interest rate of 5.89%.

At December 31, 2019 and, 2018, subordinated notes are summarized as follows:

	2019			2018
		usands)		
Subordinated notes	\$	75,000	\$	75,000
Less: unamortized debt issuance costs		724		1,158
	\$	74,276	\$	73,842

Note 14: Income Taxes

The Company files a consolidated federal income tax return. As of December 31, 2019 and 2018, 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, 2019 and 2018, respectively.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

During the years ended December 31, 2019, 2018 and 2017, the provision for income taxes included these components:

	2019		2018		2017		
	(In Thousands)						
Taxes currently payable Deferred income taxes	\$	15,375 1,074	\$	19,291 (4,450)	\$	9,335 11,528	
Adjustment of deferred tax asset or liability for enacted changes in tax laws		<u> </u>				(2,105)	
Income taxes	\$	16,449	\$	14,841	\$	18,758	

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

	December 31,			
	2019		2018	
	,	(In The	usands)	
Deferred tax assets				
Allowance for loan losses	\$	9,188	\$	8,758
Interest on nonperforming loans		161		320
Accrued expenses		821		726
Write-down of foreclosed assets		185		600
Write-down of fixed assets		50		191
Partnership tax credits		732		
Deferred income		509		
Difference in basis for acquired assets and liabilities		2,540		4,031
•		14,186		14,626
Deferred tax liabilities				
Tax depreciation in excess of book depreciation		(5,986)		(5,409)
FHLB stock dividends		(817)		(798)
Partnership tax credits				(404)
Prepaid expenses		(891)		(569)
Unrealized gain on available-for-sale securities		(2,671)		(83)
Unrealized gain on cash flow derivatives		(6,853)		(2,761)
Other		(233)		(113)
		(17,451)		(10,137)
Net deferred tax asset (liability)	\$	(3,265)	\$	4,489

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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

	2019	2018	2017
Tax at statutory rate	21.0%	21.0%	35.0%
Nontaxable interest and dividends	(0.5)	(0.8)	(1.6)
Tax credits	(3.6)	(3.4)	(6.1)
State taxes	1.3	1.1	1.1
Initial impact of enactment of			
2017 Tax Act	_	_	(0.4)
Other	0.1	0.2	(1.3)
	<u> 18.3</u> %	<u> 18.1</u> %	<u>26.7</u> %

The Tax Cuts and Jobs Act ("TCJ 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 TCJ Act be accounted for in the period of enactment. The Company recognized the income tax effects of the TCJ Act in its 2017 financial statements. The TCJ 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 TCJ Act were identified.

The Company and its consolidated subsidiaries have not been audited recently by the Internal Revenue Service (IRS), except as described here. The Company, through one of its subsidiaries, is a partner in two partnerships which were under IRS examination for 2006 and 2007. As a result, the Company's 2006 and subsequent tax years remained open for examination. The examinations of these partnerships were completed during 2019. The completion of these examinations did not result in significant changes to the Company's tax positions. As a result, federal tax years through December 31, 2015 are now closed.

The Company is currently under State of Missouri income and franchise tax examinations for its 2014 and 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.
- 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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

• 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, 2019 and 2018:

	Fair Value Measurements Usin					s Using		
	_ Fa	air Value	in A Ma for lo As	ed Prices Active arkets dentical asets avel 1)		Other oservable Inputs Level 2)	Unob In	nificant servable puts evel 3)
D				(In Tho	usand	s)		
December 31, 2019 Agency mortgage-backed securities Agency collateralized mortgage	\$	165,042	\$	_	\$	165,042	\$	_
obligations		151,950		_		151,950		_
States and political subdivisions Small Business Administration		35,125		_		35,125		_
securities		22,058		_		22,058		_
Interest rate derivative asset		31,476		_		31,476		_
Interest rate derivative liability		(1,547)		_		(1,547)		_
December 31, 2018								
Agency mortgage-backed securities Agency collateralized mortgage	\$	153,258	\$	_	\$	153,258	\$	_
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)		_

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, 2019 and 2018, 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, 2019.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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. There were no recurring Level 1 securities at December 31, 2019 or 2018. 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, 2019 or 2018.

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, 2019 and 2018:

		Fair Value Measurements Using					
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			
		(In Tho	usands)				
December 31, 2019 Impaired loans	\$ <u>635</u>	\$	\$	\$ <u>635</u>			
Foreclosed assets held for sale	\$ <u>1,112</u>	\$	\$	\$ <u>1,112</u>			
December 31, 2018 Impaired loans	\$ <u>2,805</u>	\$	\$	\$ <u>2,805</u>			
Foreclosed assets held for sale	\$ <u>1,776</u>	\$ <u> </u>	\$ <u> </u>	\$ <u>1,776</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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

Cash and Cash Equivalents and Federal Home Loan Bank Stock

The carrying amount approximates fair value.

Loans and Interest Receivable

The fair value of loans is estimated on an exit price basis incorporating contractual cash flow, prepayments discount spreads, credit loss and liquidity premiums. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying amount of accrued interest receivable approximates its fair value.

Deposits and Accrued Interest Payable

The fair value of demand deposits and savings accounts is the amount payable on demand at the reporting date, i.e., their carrying amounts. The fair value of fixed maturity certificates of deposit is estimated using a discounted cash flow calculation using the average advances yield curve from 11 districts of the FHLB for the as of date.

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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

	D	ecember 31, 20	19		December 31, 2018		
	Carrying	Fair	Hierarchy		•		
	Amount	Value	Level	Amount	Value	Level	
			(Dollars i	n Thousands)			
Financial assets							
Cash and cash equivalents	\$ 220,155	\$ 220,155	1	\$ 202,742	\$ 202,742	1	
Mortgage loans held for sale	9,242	9,242	2	1,650	1,650	2	
Loans, net of allowance for							
loan losses	4,153,982	4,129,984	3	3,989,001	3,955,786	3	
Accrued interest receivable	13,530	13,530	3	13,448	13,448	3	
Investment in FHLB stock	13,473	13,473	3	12,438	12,438	3	
Financial liabilities							
Deposits	3,960,106	3,963,875	3	3,725,007	3,717,899	3	
Short-term borrowings	312,324	312,324	3	297,978	297,978	3	
Subordinated debentures	25,774	25,774	3	25,774	25,774	3	
Subordinated notes	74,276	76,875	2	73,842	75,188	2	
Accrued interest payable	4,250	4,250	3	3,570	3,570	3	
Unrecognized financial instruments (net of contractual value)							
Commitments to originate loans	_	_	3	_	_	3	
Letters of credit	109	109	3	146	146	3	
Lines of credit	_	_	3	_	_	3	

Note 16: 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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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 \$689,000 at December 31, 2019. At December 31, 2019, excluding the Valley Bank swaps, the Company had 19 interest rate swaps totaling \$96.0 million in notional amount with commercial customers, and 19 interest rate swaps with the same notional amount with third parties related to its program. In addition at December 31, 2019, the Company had five participation loans purchased totaling \$37.4 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. 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 at December 31, 2018, the Company had 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. During the years ended December 31, 2019, 2018 and 2017, the Company recognized net gains (losses) of \$(104,000), \$25,000 and \$28,000, 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 1.71% as of December 31, 2019. 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 \$3.1 million and \$673,000 on this interest rate swap during the year ended December 31, 2019 and 2018, respectively. 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 each of the years ended December 31, 2019 and 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 year ended December 31, 2017, the Company recognized \$-0- in noninterest income related to changes in the fair value of these derivatives. During the year ended December 31, 2017, the Company recognized \$244,000 in interest expense related to the amortization of the cost of these interest rate caps.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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	Fair \	Value	
	Consolidated Statements of Financial Condition	December 31, 2019	December 31, 2018	
Derivatives designated as hedging instruments		(In Thou	usands)	
Interest rate swap	Prepaid expenses and other assets	\$ <u>30,056</u>	\$ <u>12,106</u>	
Total derivatives designated as hedging instruments		\$ <u>30,056</u>	\$ <u>12,106</u>	
Derivatives not designated as hedging instruments				
Derivative Assets Derivatives not designated as hedging instruments Interest rate products	Prepaid expenses and other assets	\$ <u>1,420</u>	\$ <u>694</u>	
Total derivatives not designated as hedging instruments		\$ <u>1,420</u>	\$ <u>694</u>	
Derivative Liabilities Derivatives not designated as hedging instruments Interest rate products	Accrued expenses and other liabilities	\$ <u>1,547</u>	\$ <u>716</u>	
Total derivatives not designated as hedging instruments		\$ <u>1,547</u>	\$ <u>716</u>	
The following table presents the elincome:	ffect of cash flow hedge accounting on the	statements of comprehe	ensive	
	Amou	nded December 31 Int of Gain (Loss) ognized in AOCI		
Cash Flow Hedges	2019	2018	2017	
Interest rate swap (2019 and 201) interest rate cap (2017), net of taxes	8) and income	n Thousands) \$ 9,345	\$161	

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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

	Year Ended December 31					
Cash Flow Hedges	20)19	20	018	20	017
	Interest Income	Interest Expense	Interest Income	Interest Expense	Interest Income	Interest Expense
			(In Tho	usands)		
Interest rate swap (2019 and 2018) and interest rate cap (2017), net of income						
taxes	\$3,082	\$	\$673	\$	\$	\$ <u>244</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.

At December 31, 2019, the termination value of derivatives with our derivative dealer counterparties (related to loan level swaps with commercial lending customers) in a net liability position, which included accrued interest but excluded any adjustment for nonperformance risk, related to these agreements was \$1.1 million. In addition, as of December 31, 2019, 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 \$30.1 million. The Company has minimum collateral posting thresholds with its derivative dealer counterparties. At December 31, 2019, the Company's activity with one 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 \$30.9 million to the Company to satisfy the balance sheet hedge agreement. Additionally, the Company's activity with one of its derivative counterparties met the level at which the minimum collateral posting thresholds take effect (collateral to be given by the Company) and the Company had posted collateral of \$1.1 million to the derivative counterparties to satisfy the loan level agreements. If the Company had breached any of these provisions at December 31, 2019 or December 31, 2018, it could have been required to settle its obligations under the agreements at the termination value. At 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. 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 agreement.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

Note 17: 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, 2019 and 2018, the Bank had outstanding commitments to originate loans and fund commercial construction loans aggregating approximately \$92.4 million and \$105.3 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 \$69.3 million and \$24.3 million at December 31, 2019 and 2018, 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 \$26.3 million and \$28.9 million at December 31, 2019 and 2018, respectively, with \$26.3 million and \$28.4 million, respectively, of the letters of credit having terms up to five years and \$-0- and \$476,000, respectively, of the letters of credit having terms over five years. Of the amount having terms over five years, \$-0- and \$476,000 at December 31, 2019 and 2018, 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 \$-0- and \$2.1 million at December 31, 2019 and 2018, respectively, and they expire in less than one year from issuance.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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, 2019, the Bank had granted unused lines of credit to borrowers aggregating approximately \$1.2 billion and \$155.8 million for commercial lines and open-end consumer lines, respectively. 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.

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 \$725.0 million and \$750.3 million at December 31, 2019 and 2018, 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 18: Additional Cash Flow Information

	2019	2018	2017	
	(In Thousands)			
Noncash Investing and Financing Activities				
Real estate acquired in settlement of loans	\$12,729	\$12,044	\$23,780	
Sale and financing of foreclosed assets	1,340	2,578	603	
Conversion of premises and equipment				
to foreclosed assets	1,135	_	_	
Dividends declared but not paid	4,849	4,528	3,381	
Additional Cash Payment Information				
Interest paid	53,922	37,091	27,724	
Income taxes paid	5,719	2,569	17,563	

Note 19: 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, 2019, 2018 and 2017, were approximately \$1.8 million, \$1.3 million and \$1.1 million, 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, 2019 and 2018, was 93.7% and 96.3%, respectively. The funded status was calculated by taking the market value of plan assets, which reflected contributions received through June 30, 2019 and 2018, respectively, divided by the funding target. No collective bargaining agreements are in place that require contributions to the Pentegra DB Plan.

The Company has a defined contribution retirement plan covering substantially all employees. The Company matches 100% of the employee's contribution on the first 3% of the employee's compensation and also matches an additional 50% of the employee's contribution on the next 2% of the employee's compensation. Employer contributions charged to expense for this plan for the years ended December 31, 2019, 2018 and 2017, were approximately \$1.4 million, \$1.4 million and \$1.3 million, respectively.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

Note 20: 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, 2019, 42,941 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 2013 Plan were not affected. At December 31, 2019, 401,827 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, 2019, 363,100 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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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

	Available to Grant	Shares Under Option	Weighted Average Exercise Price
Balance, January 1, 2017	219,475	661,203	\$ 33.672
Granted from 2013 Plan	(157,800)	157,800	52.118
Exercised	(127,000)	(119,692)	27.352
Forfeited from terminated plan(s)	_	(675)	24.690
Forfeited from current plan(s)	15,837	(15,837)	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	(90,285)		
	_	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)	600	(600)	55.000
Balance, December 31, 2018	614,850	773,236	43.886
Granted from 2018 Plan	(186,400)	186,400	60.086
Exercised	_	(125,894)	33.031
Forfeited from terminated plan(s)	_	(17,424)	44.163
Forfeited from current plan(s)	8,450	(8,450)	55.000
Balance, December 31, 2019	436,900	807,868	\$ 49.139

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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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, 2019, 2018 and 2017:

	2019	2018	2017
Expected dividends per share	\$ 1.36	\$ 1.27	\$ 0.95
Risk-free interest rate	1.59%	2.86%	2.03%
Expected life of options	5 years	5 years	5 years
Expected volatility	25.15%	17.61%	23.49%
Weighted average fair value of			
options granted during year	\$ 11.20	\$ 8.30	\$ 10.04

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, 2019:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Options outstanding, January 1, 2019	773,236	\$43.886	7.44 years
Granted	186,400	60.086	7.44 years
Exercised	(125,894)	33.031	
Forfeited	(25,874)	49.395	
Options outstanding, December 31, 2019	807,868	49.139	7.54 years
Options exercisable, December 31, 2019	255,491	37.310	5.10 years

For the years ended December 31, 2019, 2018 and 2017, options granted were 186,400, 186,750, and 157,800, 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, 2019, 2018 and 2017, was \$3.1 million, \$2.2 million and \$3.0 million, respectively. Cash received from the exercise of options for the years ended December 31, 2019, 2018 and 2017, was \$4.2 million, \$2.3 million and \$3.3 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled \$2.7 million, \$1.6 million and \$2.7 million for the years ended December 31, 2019, 2018 and 2017, respectively. The total intrinsic value of options outstanding at December 31, 2019, 2018 and 2017, was \$11.5 million, \$4.7 million and \$8.8 million, respectively. The total intrinsic value of options exercisable at December 31, 2019, 2018 and 2017, was \$6.6 million, \$3.9 million and \$5.7 million, respectively.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

The following table presents the activity related to nonvested options under all plans for the year ended December 31, 2019:

	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
	•		
Nonvested options, January 1, 2019	506,494	\$50.023	\$ 8.431
Granted	186,400	60.086	11.195
Vested this period	(115,393)	44.327	7.744
Nonvested options forfeited	(25,124)	49.998	8.394
Nonvested options, December 31, 2019	552,377	54.610	9.509

At December 31, 2019, there was \$4.7 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 2024, with the majority of this expense recognized in 2020 and 2021.

The following table further summarizes information about stock options outstanding at December 31, 2019:

	Opt	tions Outstanding	g		
		Weighted	_	Options Ex	ercisable
Range of Exercise Prices	Number Outstanding	Average Remaining Contractual Term	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Φ1 C 010 + 2 0 C40	70.402	2.01	Ф 2 5. 400	70.402	Ф 2 5.400
\$16.810 to 29.640	79,493	3.01 years	\$25.408	79,493	\$25.408
\$32.590 to 38.610	66,231	4.89 years	33.043	62,606	32.794
\$41.300 to 47.800	90,193	6.81 years	41.323	35,586	41.300
\$50.710 to 52.500	208,851	7.18 years	51.656	77,806	51.280
\$55.000 to 60.150	363,100	9.39 years	57.763	<u> </u>	_
	807,868	7.54 years	49.139	255,491	37.310

Note 21: 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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

Note 22: Accumulated Other Comprehensive Income

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

	 2019		2018
	(In Tho	usand	s)
Net unrealized gain on available-for-sale securities	\$ 11,715	\$	365
Net unrealized gain on derivatives used for cash flow hedges	 30,056 41,771		12,106 12,471
Tax effect	 (9,525)		(2,844)
Net-of-tax amount	\$ 32,246	\$	9,627

Amounts reclassified from AOCI and the affected line items in the statements of income during the years ended December 31, 2019, 2018 and 2017, were as follows:

	Amounts Reclassified from AOCI				d	Affected Line Item in the
	2	019	2018		2017	Statements of Income
		(In	Thousand	s)		
Unrealized gains (losses) on available-for-sale securities	\$	(62)	S 2	\$	_	Net realized gains on available-for-sale securities (total reclassified amount before tax)
Income taxes		14		: .		Tax (expense) benefit
Total reclassifications out of AOCI	\$	<u>48</u> 5	S <u>2</u>	\$	<u> </u>	

Note 23: 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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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, 2019) 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, 2019, that the Bank met all capital adequacy requirements to which it was then subject.

As of December 31, 2019, 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, 2019, 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, 2019 and 2018, 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.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

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.

Minimum

								Minim To Be V	Well
					Minim			Capitalized	
		Aotu	ام		For Cap dequacy P			Prompt Corrective Action Provisions	
		Actu Amount	Ratio	A	dequacy P Amount	Ratio		Action Provisions Amount Ratio	
	•	Amount	Katio	0	Dollars In		(sh	Amount	Katto
				(-	onur y m	1 HOUSKII	u 5)		
As of December 31, 2019									
Total capital									
Great Southern Bancorp, Inc.	\$	698,085	15.0%	\$	372,387	8.0%		N/A	N/A
Great Southern Bank	\$	650,280	14.0%	\$	372,316	8.0%	\$	465,395	10.0%
Tier I capital									
Great Southern Bancorp, Inc.	\$	582,791	12.5%	\$	279,290	6.0%		N/A	N/A
Great Southern Bank	\$	609,986	13.1%	\$	279,237	6.0%	\$	372,316	8.0%
0.10m 20mm. 2mm	Ψ	007,700	101170	Ψ	,	0,0,0	Ψ	0,2,010	0.070
Tier I leverage capital									
Great Southern Bancorp, Inc.	\$	582,791	11.8%	\$	198,320	4.0%		N/A	N/A
Great Southern Bank	\$	609,986	12.3%	\$	198,010	4.0%	\$	247,512	5.0%
					,			,	
Common equity Tier I capital									
Great Southern Bancorp, Inc.	\$	557,791	12.0%	\$	209,468	4.5%		N/A	N/A
Great Southern Bank	\$	609,986	13.1%	\$	209,428	4.5%	\$	302,507	6.5%
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%
Great Southern Bank	Ψ	577,507	13.370	Ψ	500,707	0.070	Ψ	130,333	10.070
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%

Note 24: 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 the outcome of such litigation will not have a material adverse effect on the Company's business, financial condition or results of operations.

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

Note 25: Summary of Unaudited Quarterly Operating Results

Following is a summary of unaudited quarterly operating results for the years 2019, 2018 and 2017:

	2019	
Three	Months	Ended

	Tillee Molitils Lilded					
	March 31	June 30	September 30	December 31		
	(In 1	housands, E	xcept Per Share	Data)		
Interest income	\$ 57,358	\$ 58,723	\$ 60,187	\$ 58,726		
Interest expense	12,753	13,802	14,263	13,784		
Provision for loan losses	1,950	1,600	1,950	650		
Net realized gains (losses) on available-for-sale						
securities	10	_	_	(72)		
Noninterest income	7,450	7,157	8,655	7,695		
Noninterest expense	28,495	28,383	28,725	29,535		
Provision for income taxes	3,998	3,720	4,172	4,559		
Net income available to common shareholders	17,612	18,375	19,732	17,893		
Earnings per common share – diluted	1.23	1.28	1.38	1.24		

2018 Three Months Ended

	March 31	June 30	September 30	December 31		
	(In Thousands, Except Per Share Data)					
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 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 shareholders	13,466	13,839	22,516	17,288		
Earnings per common share – diluted	0.95	0.97	1.57	1.21		

2017 Three Months Ended

	March 31	June 30	September 30	December 31		
	(In Thousands, Except Per Share Data)					
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 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 available to common shareholders	11,518	16,176	11,663	12,207		
Earnings per common share – diluted	0.81	1.14	0.82	0.86		

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

Note 26: Condensed Parent Company Statements

The condensed statements of financial condition at December 31, 2019 and 2018, and statements of income, comprehensive income and cash flows for the years ended December 31, 2019, 2018 and 2017, for the parent company, Great Southern Bancorp, Inc., were as follows:

	Decem	ber 31,	
	 2019		2018
	 (In Tho	usands)	
Statements of Financial Condition			
Assets			
Cash	\$ 58,726	\$	56,648
Investment in subsidiary bank	650,329		580,016
Deferred and accrued income taxes	111		411
Prepaid expenses and other assets	 868		889
	\$ 710,034	\$	637,964
Liabilities and Stockholders' Equity			
Accounts payable and accrued expenses	\$ 6,918	\$	6,371
Subordinated debentures issued to capital trust	25,774		25,774
Subordinated notes	74,276		73,842
Common stock	143		142
Additional paid-in capital	33,510		30,121
Retained earnings	537,167		492,087
Accumulated other comprehensive income	 32,246		9,627
	\$ 710,034	\$	637,964

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

	2019		2018		2017		
			(In T	housands)			
Statements of Income							
Income	_		_		_		
Dividends from subsidiary bank	\$	32,000	\$	34,000	\$	17,500	
Interest and dividend income						48	
Loss on other investments	-	(23)		<u> </u>			
		31,977		34,000		17,548	
Expense							
Operating expenses		2,044		1,793		1,330	
Interest expense		5,397		5,050	-	5,047	
		7,441		6,843		6,377	
Income before income tax and equity in undistributed earnings							
of subsidiaries		24,536		27,157		11,171	
Credit for income taxes		(1,381)		(1,204)		(1,709)	
Income before equity in earnings		25.015		20.261		12 000	
of subsidiaries		25,917		28,361		12,880	
Equity in undistributed earnings of							
subsidiaries		47,695		38,748		38,684	
Net income	\$	73,612	\$	67,109	\$	51,564	

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

	2019			2018		2017	
		(In Thousands)					
tatements of Cash Flows			·	•			
Operating Activities							
Net income	\$	73,612	\$	67,109	\$	51,564	
Items not requiring (providing) cash							
Equity in undistributed earnings of subsidiary		(47,695)		(38,748)		(38,684)	
Compensation expense for stock option grants		922		737		564	
Amortization of interest rate derivative and							
deferred costs on subordinated notes		434		154		441	
Loss on other investments		23				_	
Changes in							
Prepaid expenses and other assets		(3)		13		132	
Accounts payable and accrued expenses		226		182		(115)	
Income taxes		300		(278)		6	
Net cash provided by operating activities		27,819		29,169		13,908	
Investing Activities							
(Investment)/Return of principal - other investments		2		_		_	
Net cash provided by investing activities		2					
Financing Activities							
Purchases of the Company's common stock		(849)		(903)		_	
Dividends paid		(29,052)		(15,819)		(12,894)	
Stock options exercised		4,158		2,224		3,247	
Net cash used in financing activities		(25,743)		(14,498)		(9,647)	
Increase in Cash		2,078		14,671		4,261	
Cash, Beginning of Year	_	56,648		41,977		37,716	
Cash, End of Year	\$	58,726	\$	56,648	\$	41,977	
Additional Cash Payment Information							
Interest paid	\$	5,424	\$	5,001	\$	5,059	

Notes to Consolidated Financial Statements December 31, 2019, 2018 and 2017

		2019		2018		2017		
Statements of Comprehensive Income		(In Thousands)						
Net Income	\$	73,612	\$	67,109	\$	51,564		
Change in fair value of cash flow hedge, net of taxes of \$0, \$0 and \$93 for 2019, 2018 and 2017, respectively		_		_		161		
Comprehensive income (loss) of subsidiaries		22,619		8,114		(478)		
Comprehensive Income	\$	96,231	\$	75,223	\$	51,247		

Note 27: 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.

Note 28: Subsequent Event – Interest Rate Swap Termination

As discussed in *Note 16*, in October 2018, the Company entered into an interest rate swap transaction with a notional amount of \$400 million. The swap's contractual termination date was October 6, 2025.

On March 2, 2020, the Company and its swap counterparty mutually agreed to terminate the swap, effective immediately. The Company received a payment of \$45.9 million, including accrued but unpaid interest, from its swap counterparty as a result of this termination. This \$45.9 million, less the accrued interest portion and net of deferred income taxes, will be reflected in the Company's equity as Accumulated Other Comprehensive Income and a portion of it will be accreted to interest income monthly through the original contractual termination date of October 6, 2025. This will have the effect of reducing Accumulated Other Comprehensive Income and increasing Net Interest Income and Retained Earnings over the period.



