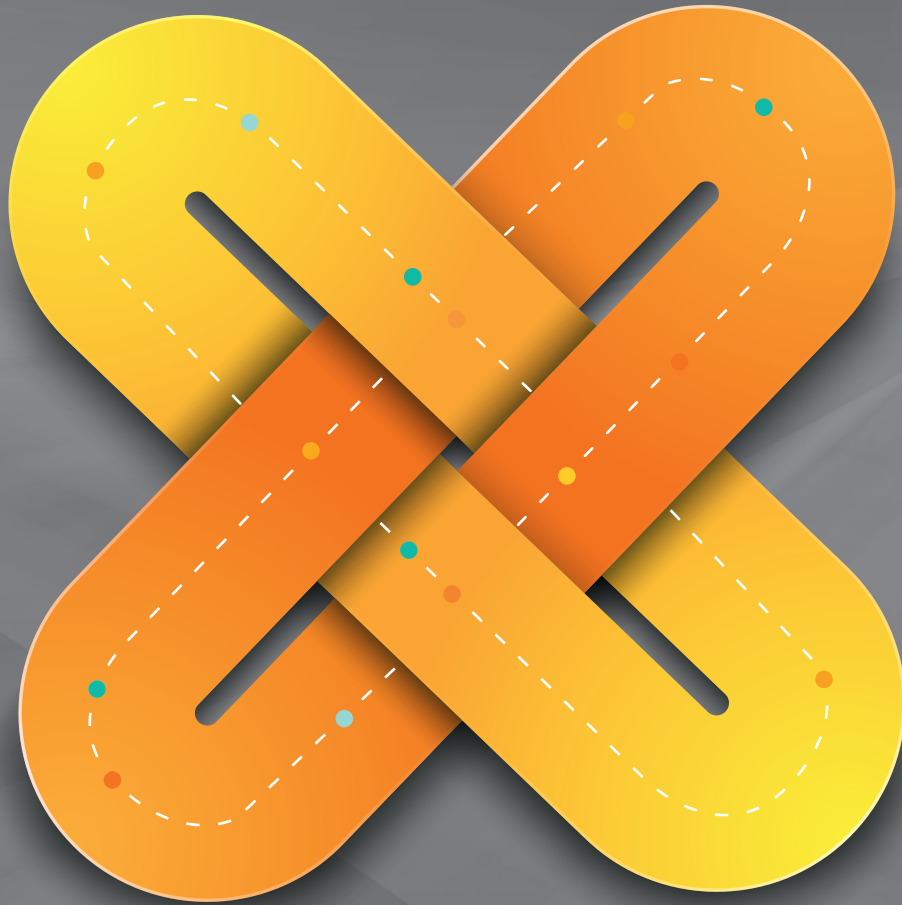




**GREAT SOUTHERN  
BANCORP, INC.**



**STRENGTH • THAT • CONNECTS**

2020

ANNUAL REPORT  
FOR STOCKHOLDERS

### **CORPORATE HEADQUARTERS**

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

### **MAILING ADDRESS**

P.O. Box 9009  
Springfield, MO 65808

### **DIVIDEND REINVESTMENT**

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

### **FORM 10-K**

The Annual Report on Form 10-K filed with the Securities and Exchange Commission may be obtained from the Company's website at [GreatSouthernBank.com](http://GreatSouthernBank.com), the SEC website or without charge by request to:  
Kelly Polonus  
Great Southern Bancorp, Inc.  
P.O. Box 9009  
Springfield, MO 65808

### **INVESTOR RELATIONS**

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

### **AUDITORS**

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

### **LEGAL COUNSEL**

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

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

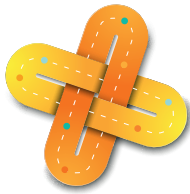
### **TRANSFER AGENT AND REGISTRAR**

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

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

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

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



# 32nd Annual Meeting of Stockholders

MAY 12, 2021

Virtual Meeting – 10 am CDT

## Corporate Profile

Great Southern Bank was founded in 1923 with a \$5,000 investment, four employees and 936 customers. Today, it has grown to \$5.5 billion in total assets, with nearly 1,200 dedicated associates serving 141,000 households.

Headquartered in Springfield, Mo., the Company operates 101 offices in 11 states, including 94 retail banking centers in Missouri, Arkansas, Iowa, Kansas, Nebraska and Minnesota, six commercial loan offices in Dallas, Texas, Tulsa, Oklahoma, Chicago, Illinois, Omaha, Nebraska, Atlanta, Georgia, and Denver, Colorado, and one home loan office in Springfield, Missouri. 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, Online Banking, Mobile Banking, an ATM 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, 2020, there were 13,752,605 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, 2020 was \$48.90.

### High/Low Stock Price

|                | 2020    |         | 2019    |         | 2018    |         |
|----------------|---------|---------|---------|---------|---------|---------|
|                | High    | Low     | High    | Low     | High    | Low     |
| First Quarter  | \$63.55 | \$32.23 | \$57.95 | \$45.44 | \$53.05 | \$48.10 |
| Second Quarter | 46.35   | 32.62   | 60.92   | 52.24   | 60.20   | 48.60   |
| Third Quarter  | 41.42   | 34.32   | 60.94   | 54.33   | 61.65   | 54.50   |
| Fourth Quarter | 50.72   | 35.79   | 64.48   | 54.87   | 58.49   | 43.30   |

### Regular Dividend Declarations

|                | 2020  | 2019  | 2018  |
|----------------|-------|-------|-------|
| First Quarter  | \$.34 | \$.32 | \$.28 |
| Second Quarter | .34   | .32   | .28   |
| Third Quarter  | .34   | .34   | .32   |
| Fourth Quarter | .34   | .34   | .32   |

### Special Dividend Declarations

|               | 2020   | 2019  | 2018 |
|---------------|--------|-------|------|
| First Quarter | \$1.00 | \$.75 | ---- |



William V. Turner  
Chairman of the Board

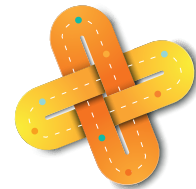
Joseph W. Turner  
President and  
Chief Executive Officer

## TO OUR STOCKHOLDERS:

We will never forget the year 2020. The COVID-19 pandemic, as well as social and political unrest, created unprecedented challenges, uncertainty and pain for all of us, in one degree or another. It was a very difficult period in our country's history and our hearts go out to those directly affected.

While 2020 did pose unique and daunting challenges, we're extremely proud of how our Company and our team of associates responded to the health crisis in our communities. As has always been the case during our nearly 100 years in business, our Company was a source of strength for our associates, customers, stockholders and communities during the last year.

During difficult times, we rely heavily on our Company's many strengths - our dedicated and talented team of associates, our strong financial foundation, our corporate culture centered on integrity and service excellence, our risk mitigation strategies, and our "make it happen" attitude. We continually work on building and nurturing these strengths as a foundation for our long-term success. It is gratifying to see that our hard work and preparedness pays dividends, especially during the most difficult times.



## "We're here for you and ready to help." COVID-19 Response

As the pandemic began to unfold in early 2020, we quickly saw the need to connect with our associates, customers and communities on an even deeper level. "We're here for you" was a resounding message that we sent to offer assurance and support throughout the year. We made it widely known that our top priorities were (and still are) to ensure the health and well-being of our associates, provide safe and uninterrupted service for our customers, and support the communities in which we live and serve. Below is just a brief summary of our COVID-19 response; we invite you to read the following pages of this Annual Report to learn more.

**OUR ASSOCIATES:** We are continually amazed by the loyalty and capability of our associates – our most valuable asset. Their resilience, flexibility and compassion are appreciated and so evident each and every day. Understanding that this was an uncertain and difficult time for our associates and



their families, we offered support in several ways, including increased benefits and sick time, special bonuses, and mental health support. We also took great care in making the work environment as safe as possible by strict adherence to dynamic CDC guidelines and governmental directives.

**OUR CUSTOMERS:** Throughout 2020, we remained steadfast in following health guidelines, while providing our customers ready access to our products and services. Like most banks across the country, adoption of our self-service access channels accelerated greatly during the pandemic. Many of our customers found themselves staying home and looking for ways to manage their finances online and as contact free as possible. For our customers who had already discovered digital banking, it reinforced just how convenient these channels can be. For the many customers that tried it for the first time out of necessity, they quickly experienced the ease and simplicity of these access channels, available for them 24 hours a day.

Some of our customers, unfortunately, faced financial hardships. We actively worked with them by offering temporary loan payment relief options and depository fee waivers. The federal government’s CARES Act stimulus package brought relief for our retail customers and many of our small business customers. Millions of dollars in stimulus checks were deposited into customer accounts and we made certain that these deposits were accessible right away. Our associates took great pride in assisting our small business customers gain access to the Small

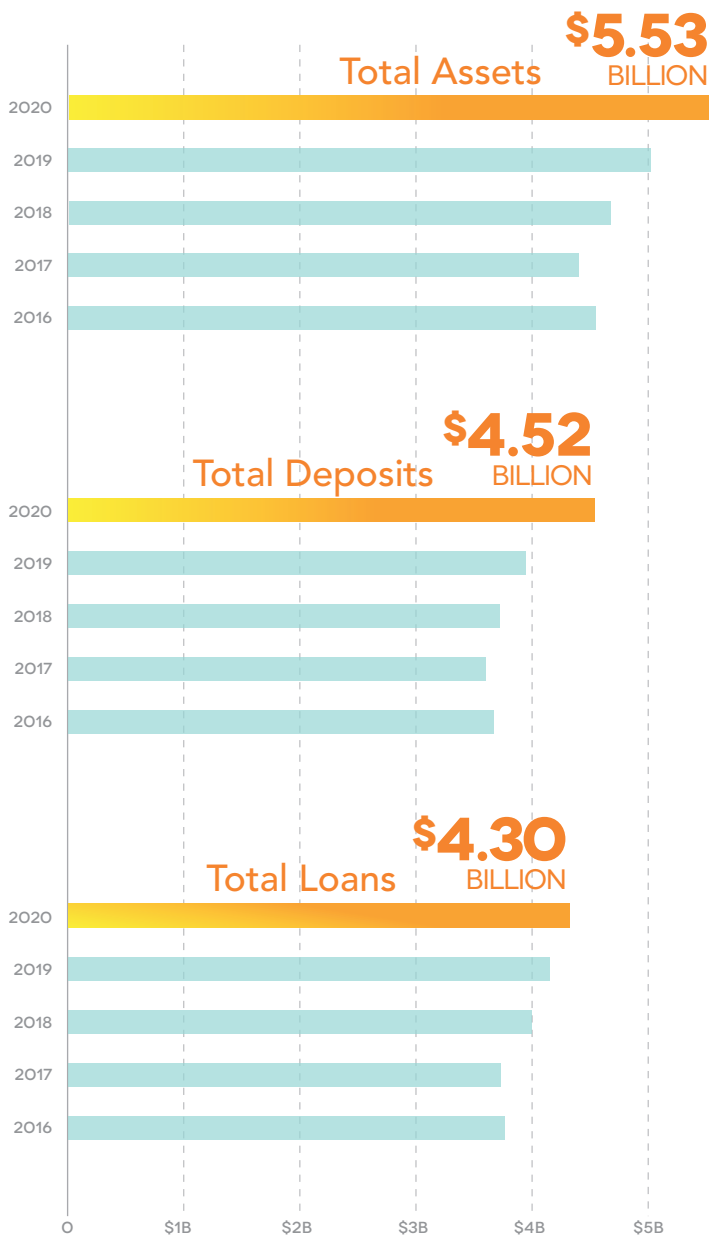
Business Administration’s Paycheck Protection Program (PPP), providing emergency financial support using federally-guaranteed loans, up to 100% of which may be forgiven by the federal government.

**OUR COMMUNITIES:** Every year, we are committed to give back to our local communities to help make them better places to live, work and do business. With the unprecedented events in 2020, we significantly increased our community support to address the critical needs caused by the pandemic. Early on, we committed \$300,000 to address food insecurity and other critical health and human service needs in all of our markets across the 11-state franchise. These funds were distributed to Feeding America Food Banks and local United Way organizations, which have been tireless in mobilizing resources to meet the basic needs of community members throughout the pandemic. Our support didn’t stop there; all year long we continued to monitor and respond in the best way we could to the growing local community needs.

## Diversity, Equity and Inclusion

In the midst of the pandemic, our country experienced great social and civil unrest. We watched the scenes of protest, high emotion, and chaos play out in cities across our country as a result of racial injustice and systemic inequities.



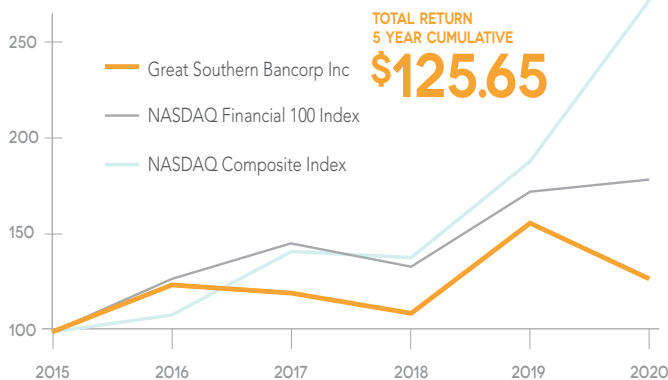


We add our voice to the chorus of many who are saying that things must change, and that it is everyone’s responsibility to play a part.

We recognize in the scope of things we’re a small company with a small voice, but we firmly believe that we can be a part of the solution. We commit that we will do all we can to support diverse communities and foster a company culture that deeply values and respects diversity, equity and inclusion. Our commitment was underscored by our donations totaling \$150,000 to support diversity causes that promote equality and inclusion and to support rebuilding efforts in our communities impacted by riots and violence. We stand united with our associates, customers and communities for a better and more just tomorrow.

### 2020 Financial Results

Our hard work and discipline in dealing with the pandemic, while also conducting normal banking activities, ultimately resulted in a strong financial performance in 2020. In summary, earnings for the year ended December 31, 2020, were \$59.3 million, or \$4.21 per diluted common share. Return on average common equity was 9.53%,



The graph at left 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, 2015, through December 31, 2020. The graph assumes that \$100 was invested in GSBC Stock on December 31, 2015 and that all dividends were reinvested.

return on average assets was 1.11%, and net interest margin was 3.49%.

You can find details of our financial results in the following pages of this Annual Report. Of note, when comparing 2020 results to 2019, it is helpful to recall that in 2019 we achieved the highest net income and earnings per share in the history of our Company.

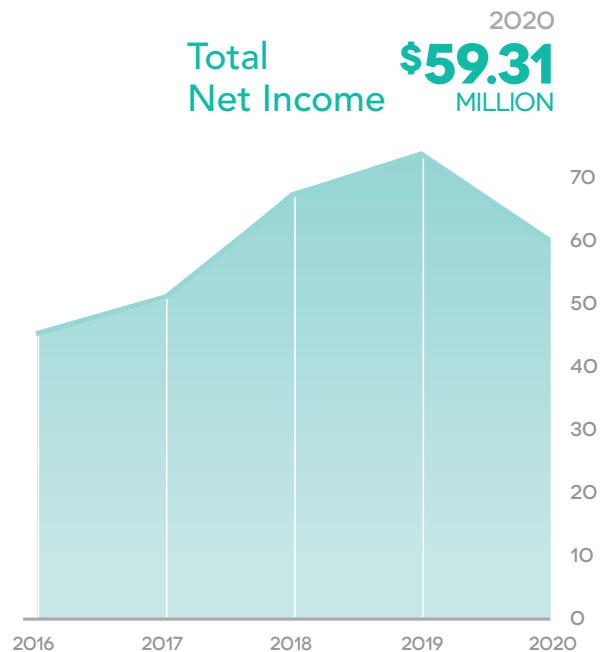
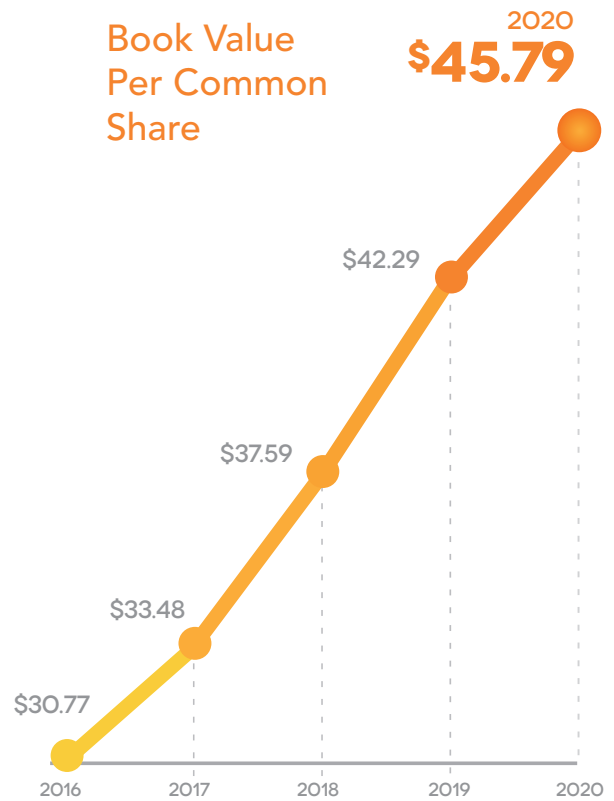
### Net Interest Income/Margin

As the COVID virus was spreading in the winter of 2020, the Federal Reserve dramatically cut its benchmark interest rate, totaling 150 basis points. Since the Federal Reserve’s rate cuts, the Company’s yield on loans and other earning assets has declined more rapidly than its rate paid on deposits. As a result, we experienced a small decrease in net interest income in 2020. Net interest income, our primary source of income, decreased \$3.3 million to \$177.1 million compared to 2019.

### Lending Activity

Overall loan growth was relatively strong in 2020, amidst the pandemic, competition, intermittent slower deal flow and loan pay-offs, 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 \$202.0 million, or 4.1%, from the end of 2019. Decreases, which were anticipated, in the consumer auto loan portfolio (down about \$66 million), in construction loans (down about \$73 million) and the FDIC-acquired loan portfolios (down about \$29 million) acted as headwinds to our overall loan growth. Outstanding net loan receivable balances increased \$142.8 million, from over \$4.2 billion at December 31, 2019, to \$4.3 billion at December 31, 2020. We ended 2020 with a strong loan pipeline across the franchise.

Total loan production occurred across several loan types, primarily in multi-family loans, commercial business loans (primarily PPP loans),



one- to four-family residential loans and commercial real estate loans, and came from most of Great Southern's primary lending locations. For the fifth year in a row, our commercial lenders originated more than \$1 billion in new loans, with 36% 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 2020, driven by historically low interest rates. Some of these residential loans were retained in the Company's loan portfolio and some were sold in the secondary market.

## Asset and Credit Quality

Through the end of 2020, our credit quality metrics strengthened. At December 31, 2020, non-performing assets were \$3.8 million, a decrease of \$4.4 million from the end of 2019. Total net charge-offs were \$422,000, (0.01%), for the full year of 2020. Pandemic-related loan modifications totaled \$251 million at the end of the year, down from over \$1 billion at the end of June 2020. We are mindful of the uncertain economic conditions as we move forward, and we continue to monitor our allowance for loan losses, which increased by more than \$15 million in 2020. Our underwriting criteria remains conservative and we strive to grow the loan portfolio one quality relationship at a time.

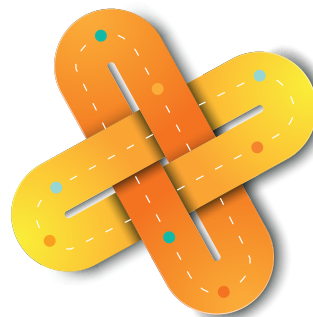
## Capital

The capital position of the Company remains strong, significantly exceeding the thresholds established by regulators to be considered "well-capitalized." Total stockholders' equity grew from \$603 million at the end of 2019 to \$630 million at the end of 2020. Book value per share increased by 8.3%, from \$42.29 to \$45.79 during the same time period.

In the banking business, a strong capital base is vital. 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, both through dividends and opportunistic share repurchases. Great Southern has declared consecutive quarterly cash dividends since going public in 1989. The Company declared four quarterly regular cash dividends totaling \$1.36 per common share in 2020, and declared a special cash dividend of \$1.00 per common share in January 2020.

In October 2020, the Board of Directors authorized the repurchase of up to one million additional shares of the Company's common stock and took effect after the Company completed the repurchase of the shares remaining under the 2018 stock repurchase program. During the year ended December 31, 2020, the Company repurchased 529,883 shares of its common stock at an average price of \$41.71.



## 2021 Strength that Connects

As we look to 2021 and beyond, we will capitalize on our strengths and be ready for the challenges and opportunities that will likely come our way. With the promise of widespread distribution of the COVID-19 vaccine and expected continued economic recovery, we look to 2021 with guarded optimism. The impact of the pandemic and its aftermath will be present for the foreseeable future. We anticipate that this will be a rebuilding year for many of our customers and communities, and we will be there to help them get back on course in whatever way we can.

Our priorities for 2021 are straightforward and familiar. 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. We also



recognize that banking is evolving rapidly, especially with technological advances. Our focus must stay on being responsive to the ever-changing demands and expectations of our customers. In addition, we are also dedicated to inspire and develop our talent pool to ensure that we have our next generation of bankers ready to lead the Company in years to come.

In 2021, we will have two key executive management team members entering retirement. Both announced their retirements at least a year in advance to promote an orderly leadership transition. Successors were identified internally for both of these management positions.

Doug Marrs, Chief Operations Officer and Board Secretary, intends to retire in July 2021. Lin Thomason, Chief Information Officer, plans to retire at the end of 2021. Doug and Lin, who both have banking careers spanning more than 40 years, have been integral in Great Southern's growth and success for the last 25 years. During that time period, the Company has grown from \$700 million in assets with operations primarily in the southwest Missouri region, to \$5.5 billion in assets and offices in 11 states at the end of 2020.

Sadly, in April 2020, we lost a past long-time Great Southern Board member, William "Bill" Barclay. Bill was first elected a Director of Great Southern in 1975 and of the Holding Company in 1989, when the Company went public. He retired from the Holding Company Board in 2017. Bill was a successful owner and operator of multiple businesses until his retirement in 2004. His long history of entrepreneurship and managerial knowledge were particularly valuable to the Board. He is greatly missed and will always be remembered for his delightful personality, humor and devotion to his family.

In closing, we believe that we are well positioned for a successful 2021 and beyond. We will continue to build on our strengths that enable us to meaningfully connect with all of our constituencies. 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, thank you to our Board of Directors for their guidance and support during 2020 and as we move ahead. We value the diversity of talent, knowledge and experience that each Board member brings to our Company.

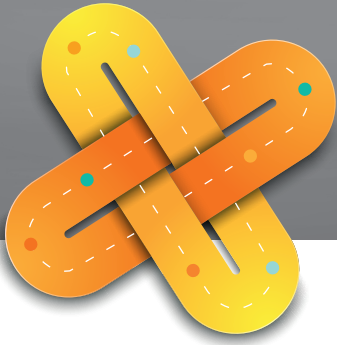
Thank you for your support of Great Southern. We invite your feedback at any time.

Sincerely yours,



William V. Turner

  
Joseph W. Turner



# THE POWER OF CONNECTION

## A COMPREHENSIVE COVID-19 RESPONSE

The year 2020 underscored the importance of connection – connection with family, friends, coworkers, and even strangers. We adapted how we lived and worked, and we relied on technology more than ever before to remain connected with one another. At Great Southern, the strong connections we’ve established with our customers, associates, and communities helped us understand the unique needs facing these groups – and through our ongoing commitment to a longer-view strategy, our Company’s strength enabled us to provide needed support in an unprecedented time.

At the onset of the pandemic, the well-being of our customers, associates, and communities was our top priority. As an essential industry, it was critical that we proactively communicated information with our customers. Through emails, advertisements, and social media posts, we reaffirmed our commitment that customers would have uninterrupted access to their banking services, be it through our convenient digital

banking services or in person at our banking centers, and notified them about new scams and fraud related to the pandemic.

## Our Customers

Our banking centers were outfitted with protective barriers at the teller line and masks were available at the entrance for our customers to wear. When the decision was made that our banking center lobbies would be temporarily available by appointment only to follow social distancing protocols, we expanded the banking services offered in our drive-thrus and promoted our Online and Mobile Banking channels. As the economic impact became clear, customers who were financially challenged because of the pandemic were eligible for loan payment relief options, temporary monthly fee waivers, and fee refunds. The dedication of our banking center associates offered reassurance that Great Southern Bank was open for business and ready to assist our customers.





## Our Associates

To promote social distancing throughout our offices, associates who could complete their duties from home were provided the necessary equipment to do so, and we divided our on-site teams between multiple offices to mitigate potential spread of the virus. While work-from-home options aren't the norm at our Company, we continue to see great success. The dedication of our associates, those in the office and working from home, has ensured it is business as usual at Great Southern. To maintain a connection with our associates working off-site, we launched a new internally-developed



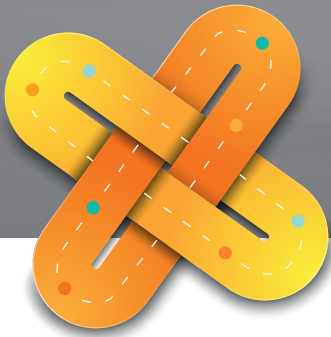
Intranet with enhanced features, including the ability to host a new video communication channel where we can share Company updates and other engaging content in video format. Associates were encouraged to stay home when feeling ill, and we ensured each of them had access to paid sick leave and would receive full pay while they recovered should they contract the virus. With uncertainty and concern surrounding the pandemic, we enhanced mental health benefits for our associates and their dependent family members at no cost. As a token of our appreciation and to help with the financial hardships created by the pandemic, we awarded two special bonuses to all full- and part-time associates. To date, no Great Southern associate has lost employment as a result of the impact of the pandemic.

## Supporting our communities



## Our Communities

When the pandemic's toll on local economies was quickly realized, we committed a \$300,000 donation to address food insecurity and health and human services needs across our footprint; \$200,000 went to regional organizations that touch all of our markets, such as Feeding America and the United Way, and \$100,000 was distributed locally to grassroots organizations based on recommendations from our regional Community Matters Teams. Each holiday season, we donate funds in honor of our customers to reduce food insecurity, and this year was no exception. As the need for food banks was greater than in years past, we increased our annual food bank donation and dispersed these funds throughout our footprint. As our associates were unable to volunteer with organizations as they traditionally would, many sewed masks to donate throughout their community, purchased lunches for local hospital staff, assembled back-to-school packs for elementary students, provided food and hygiene kits to neighbors in need, and so much more. Our Community Matters initiative is stronger today because our associates were dedicated to seeking out new ways to continue making an impact!



# IMPROVING WHERE WE CONNECT

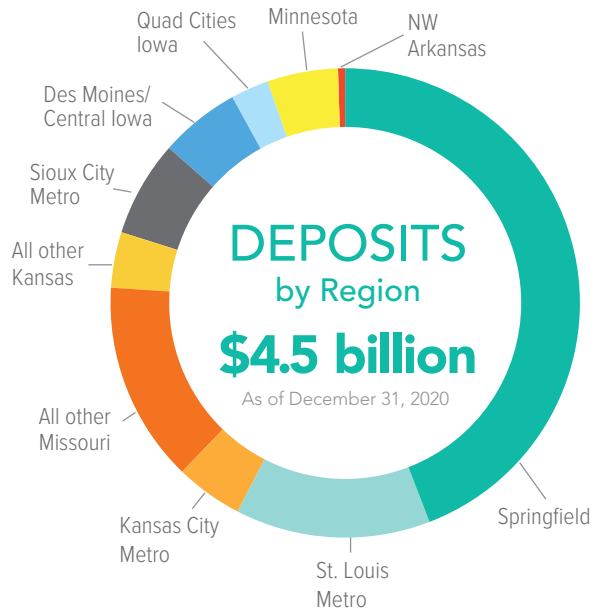
## NEW GROUND FOR OUR BANKING CENTERS

The strong bonds our banking center associates have established with our customers help us understand their financial needs and goals. The decision to limit our banking center lobbies by appointment was a first in our history, but the well-being of our customers and associates was, and remains, our first priority. We recognized that these necessary limitations would come with the risk of temporarily limiting our face-to-face interactions with some customers. With the additional services we offered in our drive-thrus and by phone, we maintained close relationships and continued to meet the needs of our customers. Many of our banking center associates proactively reached out to our customers to offer assistance, ensuring they knew we were here to help.

Overall, the year was a success operationally. Total customer deposits grew by more than 23% and transaction volume remained steady throughout the year.

In April, we were notified by Hy-Vee that the space two of our Iowa banking centers occupied inside their grocery stores was needed for upcoming remodels, and our leases for these locations would end. We provided notice to all customers and formally consolidated these locations in July. All associates from these locations were transferred to positions at one of our three other area banking centers.

Upon the completion of the remodel at our downtown Parsons, Kansas, banking center, which included the construction of a new drive-thru, we consolidated our separate drive-thru location and now operate one full-service banking center.



## Designs for the Future

As part of the ongoing evaluation of our Banking Center Network, we formed a partnership with a strategic consultant focused on optimizing financial institutions and their physical locations for the future. The Branch Refresh Program is a multi-phase approach that includes an in-depth market analysis of demographics, trends, competitors, an audit and grading of our existing locations, and more.

We are currently constructing our first updated banking center in Joplin, Missouri. In addition to the Joplin office, we have tentatively selected other offices in our metropolitan markets for future enhancements, which will be completed in a phased approach. We're anxious to introduce this new in-person banking experience to our customers later in 2021.

## DIGITAL BANKING GROWTH

While the personal connections forged in our banking centers are immutable, the valuable role of digital banking in such a digital age is clear. Adoption of our digital banking services increased throughout the year. Many customers enrolled in Online Banking for the first time, downloaded and began using our Mobile Banking app, enrolled in Mobile Check Deposit, Bill Pay, Text Banking, and Send Money. For our customers, especially those most vulnerable to the coronavirus, digital options allowed them to remain connected to their bank and conduct their business safely from home.

## ASKING WHAT OUR CUSTOMERS THINK

Our customer experience initiative educates us on how we can best serve our customers. Through short surveys following various interactions with our bank, customers can share candid feedback that helps us identify inefficiencies and opportunities to make changes that will enhance their banking experience.



As confirmation that the service we provide in person, online, and by phone is meeting customer expectations, we were notified that Great Southern Bank was ranked by our customers and recognized as the sixth best bank in the U.S. on Forbes' annual list of World's Best Banks. This prestigious award is presented by Forbes and Statista Inc., the world-leading statistics portal and industry ranking provider, and was very meaningful as it was a result of our customers' feedback. More than 450 banks around the world are featured on the list, and the study involved 40,000 bank customers from 23 countries.

## Digital Banking: Jan-Dec 2020

Active Users  
Growth up nearly  
**58%**  
from 2019



Mobile Check  
Deposit  
Active Users  
**UP  
24%**

Text Banking  
Active Users  
**UP  
17%**

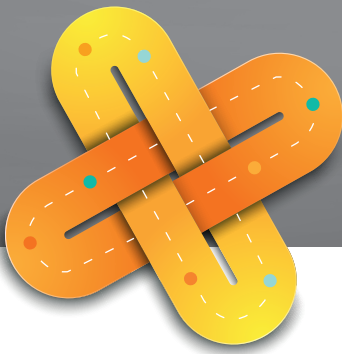


\*\*\*\*

Monthly Online  
& Mobile  
Banking Log-ins  
**2+ million**

New Online  
Banking Users  
**4,600+**



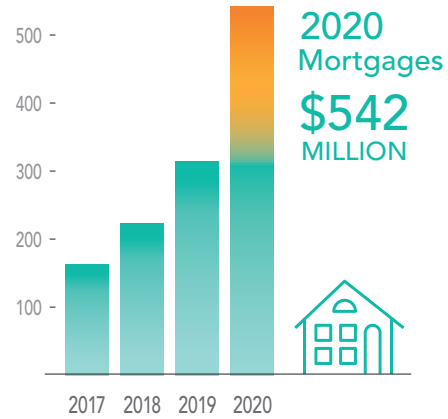


# LENDING STRENGTH & SUPPORT

## CONTINUING OUR SOLID COMMERCIAL SUCCESS

Our commercial lending team had a successful year despite the challenges the pandemic presented, a testament to their expertise and dedication. They produced more than \$1.2 billion in new loans – the fifth year in a row exceeding \$1 billion in production. Our loan portfolio is diversified by type and region, and 2020 production was strongest in the commercial real estate, single-family, and multi-family real estate areas.

The long-standing commitment of the Bank's Loan Committee to preserve a strong credit discipline was a source of strength this past year; our classified problem assets are at their lowest levels in our history, and credit quality metrics of our loan portfolio remain strong.



## A RECORD FOR RESIDENTIAL LENDING

We all spent a great deal of time at home in 2020. For many, home became their workplace, their spouse's workplace, and their children's school. The need for home office space was more important than ever before, and those living in multi-family dwellings sought out the additional space and comfort a single-family home could offer. Throughout our 98-year history, we have taken great pride in helping families purchase homes and establish roots in our communities, and 2020 was our most successful year to date. Driven by historically low mortgage interest rates, our residential lending team achieved a record year of production, originating approximately 2,200 home purchase and refinance loans totaling more than \$542 million. Production in 2020 grew by 72% compared to the previous year.



Financing  
Affordable  
Independence  
Legends of Blaine

One of the many projects we financed was Legends of Blaine, an independent living apartment complex for seniors in Blaine, Minnesota. Legends of Blaine features 192 units and is a low-to-moderate-income housing tax credit development that participates in an affordable housing program, ensuring households meeting certain requirements can afford beautiful and safe housing.

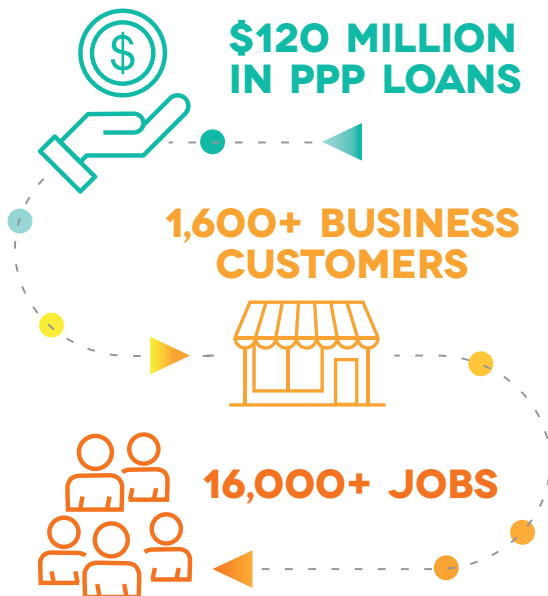
Opening to residents in spring 2020, the demand for affordable housing was so great that nearly all 192 units were rented within the first five months.



## STEPPING UP FOR SMALL BUSINESSES

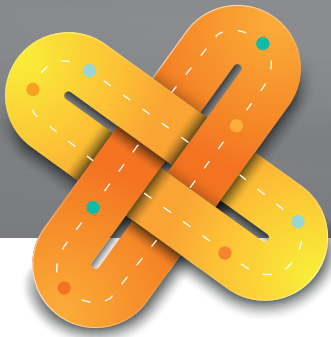
### Helping to Protect Jobs

Following the passage of the CARES Act stimulus bill in March, which established the Paycheck Protection Program (PPP), we assisted Great Southern small business customers obtain these lifeline loans. The severity of the economic impact precipitated overwhelming interest and demand for the loan program. Various departments around the Company worked together to assist with entering data and submitting PPP applications, and together we helped more than 1,600 Great Southern small business customers secure loans totaling approximately \$120 million. These loans provided the financial resources these businesses needed to maintain employment for more than 16,000 employees. In December, more than \$284 billion in additional funding was appropriated to the PPP. We began accepting applications in January 2021 and are working diligently to again assist qualified business customers obtain these necessary funds.



### Reliable Guidance and Long-term Support

Michelle Billionis is one of the many business customers we were proud to help secure a PPP loan. Michelle is the owner of The Coffee Ethic, the first specialty coffee shop in Springfield, Missouri, and a long-time Great Southern customer – Michelle and her co-founders partnered with Great Southern for the initial financing of their business in 2007. To limit the financial impact as pandemic-related restrictions caused indoor seating to temporarily disappear, Michelle pivoted her operations. She launched a mobile app that offered customers to-go and delivery orders for their coffee and reached out to her Great Southern banker for guidance and information on how to secure a PPP loan. This loan was instrumental in helping The Coffee Ethic retain key employees and provided additional financial support to ensure Springfield's first specialty coffee shop will continue serving the highest quality coffee for many years ahead.



# CONNECTING IN WAYS THAT MATTER

## EXPANDING OUR EFFORTS

Supporting the communities we serve is at the heart of who we are. We've long understood that our Company can only be as strong as the communities we serve, and we established our Community Matters initiative in 2014 to address the needs of our communities and do our part to make them better, more prosperous places to live, work, and do business.

Our regional Community Matters Teams are instrumental in targeting support to meet the unique needs of their area and fulfilling our Community Matters program on a local level. These teams are comprised of leaders with diverse perspectives and experience who are experts in building strong community partnerships and encouraging their employees to be active in civic and local nonprofit activities.



**Community  
Matters**

## Diversity, Equity, and Inclusion

Great Southern has a history of supporting diverse communities, organizations, and events in our markets. In response to the tragic events that occurred last summer, we saw an opportunity to strengthen our existing efforts in combating racial injustice and systemic inequities. Over the summer, we committed an additional \$150,000 to support nonprofit organizations that promote equality and inclusion in our communities and to support rebuilding efforts in our communities impacted by riots and violence. We again empowered our regional Community Matters Teams to recommend local, nonprofit organizations that would have the biggest impact.

As part of our ongoing commitment, updated diversity training was added as an annual requirement for all associates, and additional training for those in management positions covered unconscious bias when interviewing and hiring applicants.

## Banking Career Scholarship

In our commitment to improving diversity, we identified an opportunity to enhance the mix of individuals in the workforce. Matt Snyder, Great Southern's Chief Human Resources Officer, worked with the associate dean of Missouri State University's College of Business to better understand representation within the finance and accounting programs.



We learned of an opportunity to develop a scholarship through Missouri State University that would encourage individuals in marginalized groups, such as minorities, females, veterans, and individuals with disabilities, to enroll in degree programs that would prepare them for careers and enhance representation in banking and commercial lending. Beginning in fall 2021, students can apply for the scholarship. The first recipient will be selected in spring 2022, and one student will receive at least \$1,000 per year. As applicants from Great Southern markets will be given preferential consideration for the scholarship, we hope this effort is just the beginning to increase diversity in this field of study and, in turn, increase future candidates for career opportunities with our Company.





## Financial Education

A tenet of our Community Matters initiative is to teach. As understanding and managing money is the key to financial stability, we have a responsibility to educate our customers so they are best prepared to take charge of their finances. We regularly support organizations focused on providing financial education in our communities and participate in annual educational efforts like the American Bankers Association's Teach Children to Save and Get Smart About Credit at local schools.

Through our ongoing customer experience initiative, Experience Matters, we've learned that our customers, especially those in younger generations, look to their financial institution to provide them with a meaningful financial education. To meet this need, we have partnered with EVERFI, a leader in online consumer financial education, to develop the Great Southern Financial Education Center. Great Southern customers and associates now have access directly through our website to customized, interactive modules designed to connect them with personalized, digital financial education at no cost.



## Customizable Online Resource

## Passion to Serve Others

Each year, we honor and recognize an outstanding Great Southern associate who demonstrated excellence in volunteer service to their community. The Bill and Ann Turner Distinguished Community Service Award exemplifies the community leadership, civic engagement, and spirit of giving of our Chairman, Bill Turner, and his late wife, Ann.

Avi Suri, Banking Center Manager in Cottleville, Missouri, was awarded the 2021 Community Service Award. A volunteer for many causes, Avi's dedication comes from the heart. Those who know her are inspired by her desire to help and her ability to lead and motivate others to get involved.

The COVID-19 pandemic created a strain on many nonprofits; fundraising events were suddenly canceled while the demand for their much-needed services significantly increased. Avi quickly jumped in to help however she could. Through her involvement with Sikhs of St. Louis COVID-19 Emergency Relief Service Volunteer Group, Avi helped prepare meals at home, collect and package personal care items, and deliver items to families and first responders in need throughout the St. Louis region.

Avi's selfless actions in the community align with the spirit of our Community Matters program and the integrity of the Bill and Ann Turner Distinguished Community Service Award. Her passion for giving so much of her time and energy, especially during such a difficult year, is inspiring.

### Avi Suri 2021 Recipient

The Bill and Ann Turner Distinguished  
Community Service Award

## 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 – Springfield, 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** Chief Communications and Marketing Officer

**John Bugh** Chief Lending Officer

**Tammy Baurichter** Controller

**Debbie Flowers** Director of Credit Risk Administration

**Matt Snyder** Chief Human Resources Officer

**Bryan Tiede** Chief Risk Officer

Back row, left to right

**Kris Conley** Chief Retail Banking Officer

**Doug Marrs** Chief Operations Officer

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

**Rex Copeland** Chief Financial Officer

**Lin Thomason** Chief Information Officer

**Kevin Baker** Chief Credit Officer

# Selected Financial Data

The tables on pages 18, 19 and 20 set forth selected consolidated financial information and other financial data of the Company. The summary statement of financial condition information and statement of income information are derived from our consolidated financial statements, which have been audited by BKD, LLP. See Item 6. "Selected Financial Data," Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8. "Financial Statements and Supplementary Information" in the Company's Annual Report on Form 10-K. Results for past periods are not necessarily indicative of results that may be expected for any future period.

|   | DECEMBER 31,           |             |             |             |             |
|---|------------------------|-------------|-------------|-------------|-------------|
|   | 2020                   | 2019        | 2018        | 2017        | 2016        |
|   | (DOLLARS IN THOUSANDS) |             |             |             |             |
| <b>Summary Statement of Financial Condition Information:</b>      |                        |             |             |             |             |
| Assets  | \$5,526,420            | \$5,015,072 | \$4,676,200 | \$4,414,521 | \$4,550,663 |
| Loans receivable, net   | 4,314,584              | 4,163,224   | 3,990,651   | 3,734,505   | 3,776,411   |
| Allowance for loan losses   | 55,743                 | 40,294      | 38,409      | 36,492      | 37,400      |
| Available-for-sale securities                                     | 414,933                | 374,175     | 243,968     | 179,179     | 213,872     |
| Other real estate and repossessions, net                          | 1,877                  | 5,525       | 8,440       | 22,002      | 32,658      |
| Deposits  | 4,516,903              | 3,960,106   | 3,725,007   | 3,597,144   | 3,677,230   |
| Total borrowings and other interest-bearing liabilities           | 339,863                | 412,374     | 397,594     | 324,097     | 416,786     |
| Stockholders' equity (retained earnings substantially restricted) | 629,741                | 603,066     | 531,977     | 471,662     | 429,806     |
| Common stockholders' equity                                       | 629,741                | 603,066     | 531,977     | 471,662     | 429,806     |
| Average loans receivable  | 4,399,259              | 4,155,780   | 3,910,819   | 3,814,560   | 3,659,360   |
| Average total assets  | 5,323,426              | 4,855,007   | 4,503,326   | 4,460,196   | 4,370,793   |
| Average deposits  | 4,330,271              | 3,889,910   | 3,556,240   | 3,598,579   | 3,475,887   |
| Average stockholders' equity                                      | 622,437                | 571,637     | 498,508     | 455,704     | 414,799     |
| Number of deposit accounts  | 229,470                | 228,247     | 227,240     | 230,456     | 231,272     |
| Number of full-service offices                                    | 94                     | 97          | 99          | 104         | 104         |

**FOR THE YEAR ENDED DECEMBER 31,**

**Summary Statement of Income Information:**

|   | <u>2020</u>      | <u>2019</u>      | <u>2018</u>      | <u>2017</u>      | <u>2016</u>      |
|---|------------------|------------------|------------------|------------------|------------------|
|   | (IN THOUSANDS)   |                  |                  |                  |                  |
| Interest income:  |                  |                  |                  |                  |                  |
| Loans   | \$ 204,964       | \$ 223,047       | \$ 198,226       | \$ 176,654       | \$ 178,883       |
| Investment securities and other                                       | <u>12,739</u>    | <u>11,947</u>    | <u>7,723</u>     | <u>6,407</u>     | <u>6,292</u>     |
|   | <u>217,703</u>   | <u>234,994</u>   | <u>205,949</u>   | <u>183,061</u>   | <u>185,175</u>   |
| Interest expense:   |                  |                  |                  |                  |                  |
| Deposits  | 32,431           | 45,570           | 27,957           | 20,595           | 17,387           |
| Federal Home Loan Bank advances                                       | —                | —                | 3,985            | 1,516            | 1,214            |
| Short-term borrowings and repurchase agreements                       | 675              | 3,635            | 765              | 747              | 1,137            |
| Subordinated debentures issued to capital trust                       | 628              | 1,019            | 953              | 949              | 803              |
| Subordinated notes  | <u>6,831</u>     | <u>4,378</u>     | <u>4,097</u>     | <u>4,098</u>     | <u>1,578</u>     |
|   | <u>40,565</u>    | <u>54,602</u>    | <u>37,757</u>    | <u>27,905</u>    | <u>22,119</u>    |
| Net interest income   | 177,138          | 180,392          | 168,192          | 155,156          | 163,056          |
| Provision for loan losses   | <u>15,871</u>    | <u>6,150</u>     | <u>7,150</u>     | <u>9,100</u>     | <u>9,281</u>     |
| Net interest income after provision for loan losses                   | <u>161,267</u>   | <u>174,242</u>   | <u>161,042</u>   | <u>146,056</u>   | <u>153,775</u>   |
| Noninterest income:   |                  |                  |                  |                  |                  |
| Commissions   | 892              | 889              | 1,137            | 1,041            | 1,097            |
| Service charges, debit card and ATM fees                              | 18,684           | 20,898           | 21,695           | 21,628           | 21,666           |
| Net gains on loan sales   | 8,089            | 2,607            | 1,788            | 3,150            | 3,941            |
| Net realized gains (losses) on sales of available-for-sale securities | 78               | (62)             | 2                | —                | 2,873            |
| Late charges and fees on loans  | 1,419            | 1,432            | 1,622            | 2,231            | 1,747            |
| Gain (loss) on derivative interest rate products                      | (264)            | (104)            | 25               | 28               | 66               |
| Gain recognized on sale of business units                             | —                | —                | 7,414            | —                | —                |
| Gain on termination of loss sharing agreements                        | —                | —                | —                | 7,705            | (584)            |
| Amortization of income/expense related to business acquisition        | —                | —                | —                | (486)            | (6,351)          |
| Other income  | <u>6,152</u>     | <u>5,297</u>     | <u>2,535</u>     | <u>3,230</u>     | <u>4,055</u>     |
|   | <u>35,050</u>    | <u>30,957</u>    | <u>36,218</u>    | <u>38,527</u>    | <u>28,510</u>    |
| Noninterest expense:  |                  |                  |                  |                  |                  |
| Salaries and employee benefits  | 70,810           | 63,224           | 60,215           | 60,034           | 60,377           |
| Net occupancy and equipment expense                                   | 27,582           | 26,217           | 25,628           | 24,613           | 26,077           |
| Postage   | 3,069            | 3,198            | 3,348            | 3,461            | 3,791            |
| Insurance   | 2,405            | 2,015            | 2,674            | 2,959            | 3,482            |
| Advertising   | 2,631            | 2,808            | 2,460            | 2,311            | 2,228            |
| Office supplies and printing  | 1,016            | 1,077            | 1,047            | 1,446            | 1,708            |
| Telephone   | 3,794            | 3,580            | 3,272            | 3,188            | 3,483            |
| Legal, audit and other professional fees                              | 2,378            | 2,624            | 3,423            | 2,862            | 3,191            |
| Expense on other real estate and repossessions                        | 2,023            | 2,184            | 4,919            | 3,929            | 4,111            |
| Partnership tax credit investment amortization                        | 80               | 365              | 575              | 930              | 1,681            |
| Acquired deposit intangible asset amortization                        | 1,154            | 1,190            | 1,562            | 1,650            | 1,910            |
| Other operating expenses  | <u>6,283</u>     | <u>6,656</u>     | <u>6,187</u>     | <u>6,878</u>     | <u>8,388</u>     |
|   | <u>123,225</u>   | <u>115,138</u>   | <u>115,310</u>   | <u>114,261</u>   | <u>120,427</u>   |
| Income before income taxes  | 73,092           | 90,061           | 81,950           | 70,322           | 61,858           |
| Provision for income taxes  | <u>13,779</u>    | <u>16,449</u>    | <u>14,841</u>    | <u>18,758</u>    | <u>16,516</u>    |
| Net income and net income available to common shareholders            | <u>\$ 59,313</u> | <u>\$ 73,612</u> | <u>\$ 67,109</u> | <u>\$ 51,564</u> | <u>\$ 45,342</u> |

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

|  | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|------|------|------|------|------|
|--|------|------|------|------|------|

(NUMBER OF SHARES IN THOUSANDS)

**Per Common Share Data:**

|  |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|
| Basic earnings per common share          | \$ 4.22 | \$ 5.18 | \$ 4.75 | \$ 3.67 | \$ 3.26 |
| Diluted earnings per common share        | 4.21    | 5.14    | 4.71    | 3.64    | 3.21    |
| Cash dividends declared                  | 2.36    | 2.07    | 1.20    | 0.94    | 0.88    |
| Book value per common share              | 45.79   | 42.29   | 37.59   | 33.48   | 30.77   |
| <br>                                     |         |         |         |         |         |
| Average shares outstanding               | 14,043  | 14,201  | 14,132  | 14,032  | 13,912  |
| Year-end actual shares outstanding       | 13,753  | 14,261  | 14,151  | 14,088  | 13,968  |
| Average fully diluted shares outstanding | 14,104  | 14,330  | 14,260  | 14,180  | 14,141  |

**Earnings Performance Ratios:**

|  |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|
| Return on average assets (1)                 | 1.11% | 1.52% | 1.49% | 1.16% | 1.04% |
| Return on average stockholders' equity (2)   | 9.53  | 12.88 | 13.46 | 11.32 | 10.93 |
| Non-interest income to average total assets  | 0.66  | 0.64  | 0.80  | 0.86  | 0.65  |
| Non-interest expense to average total assets | 2.31  | 2.37  | 2.56  | 2.56  | 2.76  |
| Average interest rate spread (3)             | 3.23  | 3.62  | 3.75  | 3.59  | 3.93  |
| Year-end interest rate spread                | 3.08  | 3.28  | 3.60  | 3.67  | 3.60  |
| Net interest margin (4)                      | 3.49  | 3.95  | 3.99  | 3.74  | 4.05  |
| Efficiency ratio (5)                         | 58.07 | 54.48 | 56.41 | 58.99 | 62.86 |
| Net overhead ratio (6)                       | 1.66  | 1.73  | 1.76  | 1.70  | 2.10  |
| Common dividend pay-out ratio (7)            | 56.06 | 40.27 | 25.48 | 25.82 | 27.41 |

**Asset Quality Ratios (8)**

|  |          |        |        |        |        |
|--|----------|--------|--------|--------|--------|
| Allowance for loan losses/year-end loans                   | 1.32%    | 1.00%  | 0.98%  | 1.01%  | 1.04%  |
| Non-performing assets/year-end loans and foreclosed assets | 0.09     | 0.19   | 0.29   | 0.73   | 1.02   |
| Allowance for loan losses/non-performing loans             | 1,831.86 | 891.66 | 609.67 | 324.23 | 265.60 |
| Net charge-offs/average loans                              | 0.01     | 0.10   | 0.13   | 0.26   | 0.29   |
| Gross non-performing assets/year end assets                | 0.07     | 0.16   | 0.25   | 0.63   | 0.86   |
| Non-performing loans/year-end loans                        | 0.07     | 0.11   | 0.16   | 0.30   | 0.37   |

**Balance Sheet Ratios:**

|   |        |         |         |         |         |
|---|--------|---------|---------|---------|---------|
| Loans to deposits   | 95.52% | 105.13% | 107.13% | 103.82% | 102.70% |
| Average interest-earning assets as a percentage of average interest-bearing liabilities | 132.49 | 127.50  | 126.47  | 123.74  | 121.33  |

**Capital Ratios:**

|   |       |       |       |       |      |
|---|-------|-------|-------|-------|------|
| Average common stockholders' equity to average assets               | 11.7% | 11.8% | 11.1% | 10.2% | 9.5% |
| Year-end tangible common stockholders' equity to tangible assets(9) | 11.3  | 11.9  | 11.2  | 10.5  | 9.2  |
| Great Southern Bancorp, Inc.:                                       |       |       |       |       |      |
| Tier 1 capital ratio  | 12.7  | 12.5  | 11.9  | 11.4  | 10.8 |
| Total capital ratio   | 17.2  | 15.0  | 14.4  | 14.1  | 13.6 |
| Tier 1 leverage ratio   | 10.9  | 11.8  | 11.7  | 10.9  | 9.9  |
| Common equity Tier 1 ratio  | 12.2  | 12.0  | 11.4  | 10.9  | 10.2 |
| Great Southern Bank:  |       |       |       |       |      |
| Tier 1 capital ratio  | 13.7  | 13.1  | 12.4  | 12.3  | 11.8 |
| Total capital ratio   | 14.9  | 14.0  | 13.3  | 13.2  | 12.7 |
| Tier 1 leverage ratio   | 11.8  | 12.3  | 12.2  | 11.7  | 10.8 |
| Common equity Tier 1 ratio  | 13.7  | 13.1  | 12.4  | 12.3  | 11.8 |

(1) Net income divided by average total assets.

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

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

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

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

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

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

(8) Excludes FDIC-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.



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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 "may," "might," "could," "should," "will likely result," "are expected to," "will continue," "is anticipated," "believe," "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. Forward-looking statements also include, but are not limited to, statements regarding plans, objectives, expectations or consequences of announced transactions, known trends and statements about future performance, operations, products and services of the Company. The Company's ability to predict results or the actual effects of future plans or strategies is inherently uncertain, and the Company's actual results could differ materially from those contained in the forward-looking statements. The novel coronavirus disease, or COVID-19, pandemic is adversely affecting the Company, its customers, counterparties, employees, and third-party service providers, and the ultimate extent of the impacts on the Company's business, financial position, results of operations, liquidity, and prospects is uncertain. Continued deterioration in general business and economic conditions, including further increases in unemployment rates, or turbulence in domestic or global financial markets could adversely affect the Company's revenues and the values of its assets and liabilities, reduce the availability of funding, lead to a tightening of credit, and further increase stock price volatility. In addition, changes to statutes, regulations, or regulatory policies or practices as a result of, or in response to, COVID-19, could affect the Company in substantial and unpredictable ways.

Other factors that could cause or contribute to such differences include, but are not limited to: (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 other-than-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) the ability to adapt successfully to technological changes to meet customers' needs and developments in the marketplace; (ix) 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; (x) 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 Cut and Jobs Act; (xi) changes in accounting policies and practices or accounting standards, including Accounting Standards Update 2016-13, Credit Losses (Topic 326), "Measurement of Credit Losses on Financial Instruments," commonly referenced as the Current Expected Credit Loss model, which, upon adoption, resulted in an increase in the Company's allowance for credit losses; (xii) monetary and fiscal policies of the Federal Reserve Board and the U.S. Government and other governmental initiatives affecting the financial services industry; (xiii) 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, write-down assets or increase its capital levels, or affect its ability to borrow funds or maintain or increase deposits, which could adversely affect its liquidity and earnings; (xiv) costs and effects of litigation, including settlements and judgments; (xv) competition; (xvi) uncertainty regarding the future of LIBOR; and (xvii) natural disasters, war, terrorist activities or civil unrest and their effects on economic and business environments in which the Company operates. 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.

For additional discussion of the allowance for loan losses, see "Item 1. Business - Allowances for Losses on Loans and Foreclosed Assets" in the Company's 2020 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. 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.

On January 1, 2021, the Company adopted 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.

### 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, 2020, 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, 2020, 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, 2020, the amortizable intangible assets consisted of core deposit intangibles of \$1.5 million, including \$1.3 million related to the Fifth Third Bank transaction in January 2016, \$200,000 related to the Valley Bank transaction in June 2014 and \$31,000 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, 2020. While management believes no impairment existed at December 31, 2020, 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 credit 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 an economic downturn. Unemployment rose from 4.7% in November 2007 to peak at 10.0% in October 2009. Since that time, economic conditions improved considerably, as indicated by higher consumer confidence levels, increased economic activity and low unemployment levels. The economy continued to operate at historically strong levels until the impact of the COVID-19 pandemic began to take its toll in the first quarter of 2020. The economy plunged into a recession in the first quarter of 2020, as efforts to contain the spread of COVID-19 forced all but essential business activity, or any work that could not be done from home, to stop, closing factories, restaurants, entertainment and sports venues, retail shops, personal services locations, and more.

The CARES Act, enacted in March 2020, injected approximately \$3 trillion into the economy through direct payments to individuals and grants to small businesses designed to keep employees on their payrolls and fuel a bounce-back in economic activity. Also, as the crisis unfolded, the Federal Reserve acted decisively, employing a wide arsenal of tools including slashing its benchmark interest rate to zero and ensuring credit availability to businesses, households, and municipal governments.

To help our customers navigate through the pandemic, we offered Paycheck Protection Program (PPP) loans and short-term modifications to loan terms. PPP loans and modifications were made in accordance with guidance from banking regulatory authorities. These modifications did not result in the loans being classified as troubled debt restructurings. Severely impacted industries in our loan portfolio include retail, hotel and restaurants.

More than 22 million jobs were lost nationally in March and April 2020, as firms closed their doors or reduced their operations, sending employees home on furlough or layoffs. At home, with uncertain incomes and limited buying opportunities, consumer spending plummeted. As a result, gross domestic product (GDP), the broadest measure of the nation's economic output, plunged. Improvements in consumer spending, the GDP and employment have since occurred. Around 56% of those jobs lost in early 2020 have come back, with a return to full employment anticipated by the end of 2022.

While the U.S. economic recovery began with a robust rebound from the pandemic-induced recession, challenges remain with millions still out of work and many businesses still closed or operating under reduced hours or capacity. Social distancing measures continue to restrict economic activity, and intermittent closures and re-openings have dampened household and business sentiment.

The Federal Reserve continues to maintain a highly accommodative monetary policy by maintaining short-term rates firmly at the zero lower bound and purchasing Treasury and agency mortgage-backed securities to keep long-term interest rates low. With consumer interest rates at record lows and with 30-year fixed-rate mortgages below 3%, the housing market has boomed. Home sales have been above their pre-pandemic levels, and construction activity has picked up in response. The Federal Reserve's quantitative easing is expected to begin tapering in 2022, while the zero-interest-rate policy will likely remain in place until the economy is near full employment and inflation is firmly above the Federal Reserve's 2% inflation target, which is not expected until early 2023.

Under the Biden administration and new Congress, additional fiscal stimulus packages are expected for 2021. The "American Rescue Plan" is an economic relief measure in the \$1.9 trillion range with an emphasis on vaccination and individual and small business relief. Later in 2021, the "Build Back Better" recovery package, with an emphasis on infrastructure, research and development, education and green energy transition, is expected to be pursued. Increases in corporate and individual tax rates may be used to fund these initiatives.

In December 2020, employment declined by approximately 140,000 jobs from the previous month and the unemployment rate was unchanged from November 2020 at 6.7%, but down from 7.9% in September 2020. The decline in payroll employment reflects an increase in COVID cases and efforts to contain the pandemic. In December 2020, job losses in leisure and hospitality as well as private education were partially offset by gains in professional and business services, retail trade, and construction. Employment in leisure and hospitality declined by 498,000, with three-quarters of the decrease in food services and drinking establishments. Since February 2020, employment in leisure and hospitality is down by 3.9 million, or 23.2%. Retail trade added 121,000 jobs in December 2020 with nearly half of the growth occurring in general merchandise stores, while professional and business services added 161,000 jobs. In December 2020, both the national unemployment rate (6.7%) and the number of unemployed persons (10.7 million) were unchanged from November 2020. Although both measures are much lower than their April 2020 highs, they are nearly twice their pre-pandemic levels in February 2020 (3.5% and 5.7 million, respectively). Unemployment rates will likely continue to be volatile and dependent upon the containment of the COVID-19 pandemic.

In December 2020, the U.S. labor force participation rate (the share of working-age Americans employed or actively looking for a job) stood at 61.7%, a decrease from 63.1% at the end of 2019. The participation rate, along with full employment, is projected to return to pre-pandemic levels by the end of 2022.

The unemployment rate for the Midwest, where the Company conducts most of its business, decreased from 7.2% in September 2020 to 5.7% in December 2020. Unemployment rates for December 2020 were: Arkansas at 4.2%, Colorado at 8.4%, Georgia at 5.6%, Illinois at 7.6%, Iowa at 3.1%, Kansas at 3.8%, Minnesota at 4.4%, Missouri at 5.8%, Nebraska at 3.0%, Oklahoma at 5.3%, and Texas at 7.2%. Of the metropolitan areas in which the Company does business, the largest unemployment increases occurred in the Dallas and Chicago areas with an increase in the unemployment rate by 3.4% and 5.2% from December 2019, respectively, and ending with a rate in December 2020 of 6.3% and 8.1% respectively. While all but two of the Company's metropolitan areas had an increase in unemployment due to the ongoing pandemic, the remaining areas are below the national unemployment rate of 6.7%.

### Housing

Sales of newly built single-family homes for December 2020 were at a seasonally adjusted annual rate of 842,000 according to U.S. Census Bureau and the Department of Housing and Urban Development estimates. This is 1.6% below the revised November 2020 rate of 829,000 but is 15.2% above the December 2019 estimate of 731,000. The median sales price of new houses sold in December 2020 was \$355,900, up slightly from \$331,400 in December 2019. The December 2020 average sales price of \$394,900 was up slightly from \$384,500 a year earlier. The inventory of new homes for sale at the end of December 2020 would support 4.3 months' supply at the then-current sales rate, down from 5.7 months' supply in December 2019.

Existing-home sales rose in December 2020, with home sales reaching their highest level since 2006, according to the National Association of Realtors (NAR). Total existing-home sales completed transactions that include single-family homes, townhomes, condominiums and co-ops, increased 0.7% from November 2020 to a seasonally adjusted annual rate of 6.76 million units in December 2020. Sales in total rose 22.2% from a year ago (5.53 million units in December 2019). The median existing home price for all housing types in December 2020 was \$309,800, up 12.9% from December 2019 at \$274,500, as prices increased in every region. December's national price increase marked the 106th consecutive month of year-over-year gains. Median home prices increased at double-digit rates in each of the four major regions from one year ago. Existing home sales in the Midwest were unchanged compared to the previous month, recording an annual rate of 1.59 million units in December 2020, but up 26.2% from a year earlier. The median price in the Midwest was \$235,700, a 13.7% increase from a year ago. First-time buyers accounted for 31% of sales in December 2020, unchanged from December 2019, but down from 32% in November 2020.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage was 2.68% in December 2020, down from 2.77% in November 2020. The average commitment rate for all of 2020 was 3.11%, down from 3.94% for 2019.

The COVID-19 pandemic upended the U.S. apartment sector in 2020 with the pandemic resulting in changing attitudes regarding working from home and living in densely populated environments. Renters have sought more space and affordability; i.e. rents for two-bedroom units have held up better, while studios and downtown units have experienced the worst declines. An estimated 50,000 downtown units likely went unfilled in 2020, and vacancies for downtown product in some areas topped 10% by the end of 2020. Leasing of suburban product powered the demand with renters choosing to move to the suburbs, where they could find more space at lower rents. CoStar estimates 2020 demand in line with the past three years even with new deliveries setting a record at more than 420,000 units opened in 2020. Absorption surged in the third quarter of 2020, a sign that the weak second quarter absorption was the result of lockdown restrictions rather than a reduction in underlying demand for housing. Rents ended the year essentially flat year-over-year, but with important differences across markets and product types. Rents for downtown product ended the year down 7% from the pre-COVID peak while rents in the suburbs rose about 1% over the course of the year. Economic stimulus packages and eviction leniency periods continue to bolster the apartment industry, while unemployment levels will continue to determine the long-term outlook for apartment demand.

In December 2020, national apartment vacancy rates had increased slightly to 6.9% from 6.4% as of December 2019. Our market areas reflected the following vacancy levels in December 2020: Springfield at 4.1%, St. Louis at 8.6%, Kansas City at 8.5%, Minneapolis at 6.8%, Tulsa at 7.7%, Dallas-Fort Worth at 8.8%, Chicago at 8.3%, Atlanta at 8.4%, and Denver at 8.0%.

### Commercial Real Estate Other Than Housing

Even before the disruption caused by the COVID-19 pandemic, the trend of slowing growth in the office industry was expected to continue in 2020 and linger through 2021. The office demand declines that characterized much of 2020 have carried into 2021. Office-using employment remained nearly one million jobs lower than the peak level from the first quarter of 2020. While absorption decreases slowed a bit at year-end, the US office sector recorded about 75 million square feet of negative demand in 2020. As the pandemic continues to flare in areas, many companies have extended work-from-home protocols to the middle of 2021 or beyond, reversing much of the limited space utilization momentum. There will likely not be a significant increase in physical occupancy until vaccines become accessible to the general population on a large scale. Baseline forecasts call for office-using employment totals to return to pre-pandemic levels by the end of 2022, and continue to moderately accelerate from there. As of December 2020, national office vacancy rates had increased slightly to 11.5% while our market areas reflected the following vacancy levels: Springfield at 3.4%, St. Louis at 7.7%, Kansas City at 8.7%, Minneapolis at 8.9%, Tulsa at 11.2%, Dallas-Fort Worth at 17.4%, Chicago at 13.5%, Atlanta at 13.3% and Denver at 13.0%.

The gradual reopening of the economy and the relaxation of social distancing restrictions has modestly lifted consumer attitudes, and confidence and sentiment metrics showed hints of stabilization. However, infection rates remain high and vaccine distribution has been challenging, threatening the path to stability and recovery while adding uncertainty to retailers who were already experiencing reduced revenues and limited liquidity. As a result, tenant and landlord sentiment remains on fragile footing, and negative net absorption continues to increase as retailers and restaurants shutter their businesses under unprecedented financial stress. The wave of retail bankruptcies is expected to continue, with bankruptcies and store closures particularly concentrated throughout the apparel and department store subtypes. On the other hand, despite the tumultuous COVID-stricken backdrop and the many headwinds forcing the rapid evolution and adaptation of retailers across the country, the retail sector continues to exhibit areas of resilience and perseverant activity. Not all retailers are in distress, and aggregate leasing trends demonstrate plenty of pockets of strength. Discounters such as Dollar General, Dollar Tree, TJ Maxx, and Ross Dress for Less; general merchandisers such as Target and Walmart; pharmacies such as Walgreens; pet stores; grocery stores; and home improvement/tool retailers have been among the most active businesses since the pandemic hit. Though these essential-oriented tenant types remain a positive source of demand, their strength likely won't be enough to offset weakness in other segments. Vacancy has risen alongside swelling negative net absorption, and occupancy is poised to erode further. Even landlords with fully occupied buildings are struggling, as many tenants have found it difficult to make rent, seeking rent deferral, rent amendments, or rent modifications. The rise in vacancies has not been uniform across subtypes, and malls have been disproportionately impacted by space give-backs and retailer closures. The vacancy rate in malls rose most significantly throughout 2020, expanding by nearly 70 basis points. Overall, aggregate rent growth dipped into negative territory for the first time since 2012, registering at -0.7% year-over-year in the fourth quarter of 2020. With store closures mounting and negative net absorption expected to persist throughout at least the next year, rent growth is poised to deteriorate further across all forecast scenarios and subtypes. Single-tenant, essential-oriented properties occupied by banks, pharmacies, and grocery stores continue to trade even amidst a broader lull in investment activity, emphasizing the degree to which strip centers and grocery-anchored centers with more essential tenant-mix will likely capture investor attention leading out of the pandemic.

As of December 2020, national retail vacancy rates stayed the same as the previous month at 5.1% while our market areas reflected the following vacancy levels: Springfield at 3.8%, St. Louis at 4.9%, Kansas City at 5.9%, Minneapolis at 3.8%, Tulsa at 4.2%, Dallas-Fort Worth at 6.1%, Chicago at 6.3%, Atlanta at 5.4% and Denver at 5.3%.

The unprecedented rise in online shopping and quick delivery demands brought on by the pandemic have propelled industrial demand to all-time highs. Leasing activity improved throughout the 2020 fourth quarter, led primarily by commitments from Amazon, power-grocers Walmart and Target, but also smaller healthcare and medical-oriented supply.

Despite the improvement in leasing velocity, U.S. economic growth faces headwinds as a result of the COVID-19 pandemic, including dampened aggregate demand and reduced export growth. Both will adversely impact the warehouse sector. Disrupted and curtailed supply chains also are problematic for port markets and distribution players. Meanwhile, labor shortages arising from mandatory construction suspensions place further pressure on industrial operators, distributors, and manufacturers.

Net absorption accordingly cooled to its lowest level since 2012, which lifted vacancy to 5.5% and caused rent growth to dip below 4% for the first time since 2013. Persistent demand from e-commerce and third-party logistics companies continues to drive demand. Other retailers and manufacturers are expected to remain cautious amid heightened uncertainty brought on by the COVID-19 pandemic. As of the end of December 2020, national industrial vacancy rates decreased slightly to 5.6%, while our market areas reflected the following vacancy levels: Springfield at 2.7%, St. Louis at 5.3%, Kansas City at 4.6%, Minneapolis at 4.0%, Tulsa at 3.7%, Dallas-Fort Worth at 7.1%, Chicago at 6.2%, Atlanta at 5.7% and Denver at 6.2%.

Sales activity, occupancy, absorption and rental income levels of commercial real estate properties located throughout the Company's market areas will be impacted from the pandemic but to what degree the sector suffers is yet unknown. The extent of the impact will be highly dependent on containment of the virus. In the meantime, continued economic stimulus, relief and recovery, should do much to bring the economy back to pre-pandemic economic and employment levels.

While the severity and extent of the coronavirus on the global, national and regional economies is still uncertain, any long-term impact on the performance of the financial sector remains indeterminable. Our management will continue to monitor regional, national, and global economic indicators such as unemployment, GDP, housing starts and prices, commercial real estate occupancy, absorption and rental rates, as these could significantly affect customers in each of our market areas.

### **COVID-19 Impact to Our Business and Response**

Great Southern is actively monitoring and responding to the effects of the rapidly-changing COVID-19 pandemic. As always, the health, safety and well-being of our customers, associates and communities are the Company's top priorities. Centers for Disease Control and Prevention (CDC) guidelines, as well as directives from federal, state and local officials, are being closely followed to make informed operational decisions. A summary of the Company's major COVID-19 responses and actions are highlighted below.

**Great Southern Associates:** During this unprecedented time, the Company is working diligently with its nearly 1,200 associates to enforce CDC-advised health, hygiene and social distancing practices. A significant number of non-frontline associates continue to work from home. Teams in nearly every operational department have been split, with part of each team working at an off-site disaster recovery facility to promote social distancing and to avoid service disruptions. To date, there have been no service disruptions or reductions in staffing.

Paid time off and other benefits were enhanced and implemented to support Great Southern associates. Part-time associates were awarded paid sick benefits for the first time. Any full-time or part-time associate will receive full pay if placed under a restrictive quarantine due to COVID-19 infection or direct exposure to an infected individual. The Company's Employee Assistance Program (EAP) was enhanced at no cost to associates and family members seeking counseling services for mental health and emotional support needs.

As a token of appreciation for our employees' dedication and to help support some of the needs of our associates, in March 2020 and again in August 2020, the Company rewarded all full-time and part-time associates with special pre-tax bonuses of \$1,000 and \$600, respectively. These two bonus payments and related benefit expenses totaled \$2.2 million during 2020.

**Great Southern Communities:** Throughout 2020, we have continued to support local COVID-19 relief efforts through contributions to food banks, local United Way agencies and other nonprofit organizations to address food insecurity and support critical health and human services. Many of our employees also volunteer their time to serve various agencies and charitable organizations in their communities.

**Great Southern Customers:** Taking care of customers and providing uninterrupted access to services are essential. As always, customers can conduct their banking business using the banking center network, online and mobile banking services, ATMs, Telephone Banking, and online account opening services. As health conditions in local markets dictate, Great Southern banking center lobbies may be open following strict social distancing guidance from the CDC and local government officials. If our banking center lobbies are closed, drive-thru service and in-person service by appointment will be available.

As a resource to customers, a COVID-19 information center has been made available on the Company's website, [www.GreatSouthernBank.com](http://www.GreatSouthernBank.com). General information about the Company's pandemic response, how to receive assistance, and how to avoid COVID-19 scams and fraud are included.

**Impacts to Our Business Going Forward:** The magnitude of the impact on the Company of the COVID-19 pandemic is not yet fully known, and will depend on the length and severity of the economic downturn brought on by the pandemic. The Company expects that the COVID-19 pandemic will continue to impact our business in one or more of the following ways, among others. Each of these factors could, individually or collectively, result in reduced net income in future periods.

- Consistently low market interest rates for a significant period of time may have a negative impact on our variable rate loans
- Certain fees for deposit and loan products may be waived or reduced
- Point-of-sale fee income may decline due to a decrease in spending by our debit card customers as they deal with state and local government requirements and other restrictions and may be adversely affected by reductions in their personal income and job losses

- Non-interest expenses may increase as we continue to deal with the effects of the COVID-19 pandemic, including cleaning costs, supplies, equipment and other items
- Banking center lobbies have been closed at various times, and may close for extended periods until the pandemic situation improves
- Additional loan modifications may occur and borrowers may default on their loans, which may necessitate further increases to the allowance for credit losses
- The contraction in economic activity may reduce demand for our loans and for our other products and services

### **Paycheck Protection Program Loans**

Great Southern is actively participating in the PPP through the Small Business Administration (SBA). The PPP has been met with very high demand throughout the country, resulting in a second round of funding through an amendment to the CARES Act. The first round of the PPP ran from March to August 2020, with Great Southern originating approximately 1,600 PPP loans totaling approximately \$121 million. Great Southern has received \$4.7 million in fees from the SBA for originating these loans based on the amount of each loan. The fees, net of origination costs, have been deferred in accordance with standard accounting practices and will be accreted to interest income on loans over the contractual life of each loan. These loans generally have a contractual maturity of two years from origination date, but may be repaid or forgiven (by the SBA) sooner. During the fourth quarter of 2020, the Company began assisting first-round PPP borrowers with the SBA loan forgiveness process, contingent on each borrower's eligibility. If these loans are repaid or forgiven prior to their contractual maturity date, the remaining deferred fee for such loan will be accreted to interest income on loans immediately. We expect a high percentage of these remaining net deferred fees will accrete to interest income in the first half of 2021.

On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act authorized the reopening of the PPP for eligible first-draw and second-draw borrowers through March 31, 2021. The window opened on January 19, 2021, to begin taking PPP applications. First draw PPP loans are for those borrowers who did not receive a PPP loan before August 8, 2020. Second draw PPP loans are for eligible small businesses, with 300 employees or less, that previously received a first draw PPP loan and will use or have used the full amount only for authorized uses, and that can demonstrate at least a 25% reduction in gross receipts between comparable quarters in 2019 and 2020. The maximum amount of a second draw PPP loan is \$2 million. The Company has originated approximately \$45 million of additional PPP loans during this reopening period.

## Loan Modifications

At December 31, 2020, we had remaining 65 modified commercial loans with an aggregate principal balance outstanding of \$233 million and 581 modified consumer and mortgage loans with an aggregate principal balance outstanding of \$18 million. The loan modifications are within the guidance provided by the CARES Act and subsequent legislation, the federal banking regulatory agencies, the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB); therefore, they are not considered troubled debt restructurings. A portion of the loans modified at December 31, 2020 may be further modified, and new loans may be modified, within the guidance provided by the CARES Act (and subsequent legislation), the federal banking regulatory agencies, the SEC and the FASB if a more severe or lengthier deterioration in economic conditions occurs in future periods. At December 31, 2020, the modified loans were in the following categories (dollars in millions):

| Collateral Type  | # of Loans Modified | \$ of Loans Modified | Interest Only 3 Months | Interest Only 4-6 Months | Interest Only 7-12 Months | Full Payment Deferral | Combined Interest Only and Payment Deferral | Weighted Average Loan to Value |
|------------------|---------------------|----------------------|------------------------|--------------------------|---------------------------|-----------------------|---|--------------------------------|
| Hotel/Motel      | 10                  | \$ 93.5              | \$ —                   | \$ 8.4                   | \$ 24.1                   | \$ —                  | \$ 61.0                                     | 61%                            |
| Retail           | 10                  | 40.1                 | 3.0                    | 1.1                      | 29.3                      | —                     | 6.7   | 60%                            |
| Multifamily      | 4                   | 24.1                 | 7.6                    | 10.8                     | 5.7                       | —                     | —   | 69%                            |
| Healthcare       | 2                   | 21.6                 | —                      | —                        | —                         | —                     | 21.6  | 61%                            |
| Land             | 4                   | 12.3                 | 11.3                   | —                        | 1.0                       | —                     | —   | 57%                            |
| Restaurants      | 7                   | 11.1                 | —                      | —                        | 0.2                       | —                     | 10.9  | 63%                            |
| Commercial       |                     |                      |                        |                          |                           |                       |   |                                |
| Business         | 14                  | 10.2                 | 0.7                    | 3.3                      | 5.6                       | 0.1                   | 0.5   |                                |
| Office           | 6                   | 10.0                 | 0.4                    | 0.2                      | 3.2                       | —                     | 6.2   | 49%                            |
| Warehouse/Other  | 8                   | 9.7                  | —                      | —                        | 3.3                       | 1.1                   | 5.3   | 72%                            |
| Total Commercial | <u>65</u>           | <u>232.6</u>         | <u>23.0</u>            | <u>23.8</u>              | <u>72.4</u>               | <u>1.2</u>            | <u>112.2</u>                                |                                |
| Residential      |                     |                      |                        |                          |                           |                       |   |                                |
| Mortgage         | 59                  | 11.5                 | 0.2                    | 0.2                      | —                         | 10.8                  | 0.3   | 70%                            |
| Consumer         | <u>522</u>          | <u>6.7</u>           | <u>—</u>               | <u>—</u>                 | <u>—</u>                  | <u>6.7</u>            | <u>—</u>                                    |                                |
| Total Consumer   | <u>581</u>          | <u>18.2</u>          | <u>0.2</u>             | <u>0.2</u>               | <u>—</u>                  | <u>17.5</u>           | <u>0.3</u>                                  |                                |
| Total            | <u>646</u>          | <u>\$ 250.8</u>      | <u>\$ 23.2</u>         | <u>\$ 24.0</u>           | <u>\$ 72.4</u>            | <u>\$ 18.7</u>        | <u>\$ 112.5</u>                             |                                |

At June 30, 2020, we had modified 431 commercial loans with an aggregate principal balance outstanding of \$931 million and 1,702 consumer and mortgage loans with an aggregate principal balance outstanding of \$80 million. This represented the largest number and amount of modified loans at any quarter end during 2020. During the remainder of 2020, the majority of these modified loans completed the modification period and returned to their normal payment schedule. In addition, there were principal payments and loan payoffs which reduced the outstanding balance of these loans.

The Company has escalated monitoring activities related to the modified loans and has also increased review and monitoring activities for certain sectors of the loan portfolio which may be currently most impacted by the COVID-19 pandemic. The retail portfolio had an outstanding balance of \$355 million at December 31, 2020, which was 10% of the total loan portfolio. It is a very granular portfolio, with an average loan size of \$1.7 million. Most loans are under \$5 million, with 26% of the outstanding balance of the retail portfolio represented by loans in excess of \$10 million. At December 31, 2020, the weighted average loan-to-value ratio of this portfolio was 62%.

The hotel/motel portfolio had an outstanding balance of \$242 million at December 31, 2020, which was 7% of the total loan portfolio. The average loan size is \$4.9 million, with the 20 largest loans comprising approximately 91% of the portfolio. These properties are well-diversified geographically, mainly throughout the Midwest, with most being limited-service properties. Approximately 86% of the portfolio operates under the flag of major hotel chains. At December 31, 2020, the weighted average loan-to-value ratio of this portfolio was 59%.

The restaurant portfolio had an outstanding balance of \$72 million at December 31, 2020, which was 2% of the total loan portfolio. It is a very granular portfolio, with the majority of the restaurants operating in Missouri, Illinois, Iowa and Minnesota. The majority of these loans are to franchisees of top-tier quick service brands with national scale that have had the ability to stay open with delivery and drive-through service throughout the course of the pandemic. At December 31, 2020, the weighted average loan-to-value ratio of this portfolio was 58%.

Total loans outstanding (excluding FDIC-assisted acquired loans, net of discount) in the following categories at December 31, 2020, were as follows (dollars in millions):

| Collateral Type                    | Outstanding Balance of Loans of This Collateral Type | Percentage of Loans Modified To Total Loans of This Collateral Type | Percentage of Loans Modified To Total Loans | Percentage of Loans of This Collateral Type to Total Loans | Weighted Average Loan to Value of Loans in This Collateral Type |
|------------------------------------|--|---|---|--|---|
| Hotel/Motel                        | \$ 241.5   | 39%   | 3%  | 7%   | 59%   |
| Retail                             | 355.1  | 11%   | 1%  | 10%  | 62%   |
| Multifamily                        | 999.4  | 2%  | 1%  | 27%  | 61%   |
| Healthcare                         | 281.5  | 8%  | 1%  | 8%   | 58%   |
| Land                               | 58.9   | 21%   | <1%   | 1%   | 65%   |
| Restaurants                        | 72.0   | 15%   | <1%   | 2%   | 58%   |
| Commercial Business <sup>(1)</sup> | 258.5  | 4%  | <1%   | 7%   |   |
| Office                             | 270.3  | 4%  | <1%   | 7%   | 52%   |
| Warehouse/Other                    | 299.1  | 3%  | <1%   | 8%   | 59%   |
| Total Commercial                   | <u>2,836.3</u>                                       | <u>8%</u>   | <u>6%</u>                                   | <u>77%</u>   |   |
| Residential Mortgage               | 602.6  | 2%  | <1%   | 16%  | 72%   |
| Consumer                           | 241.1  | 3%  | <1%   | 7%   |   |
| Total Consumer                     | <u>843.7</u>   | <u>2%</u>   | <u>&lt;1%</u>                               | <u>23%</u>   |   |
| Total                              | <u>\$ 3,680.0</u>                                    | <u>7%</u>   | <u>7%</u>                                   | <u>100%</u>  |   |

(1) The Commercial Business outstanding loan balance excludes PPP loans of \$95.3 million.

## 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, 2020, Great Southern's total assets increased \$511.3 million, or 10.2%, from \$5.02 billion at December 31, 2019, to \$5.53 billion at December 31, 2020. Full details of the current year changes in total assets are provided below, under "Comparison of Financial Condition at December 31, 2020 and December 31, 2019."

**Loans.** In the year ended December 31, 2020, Great Southern's net loans increased \$142.8 million, or 3.4%, from \$4.15 billion at December 31, 2019, to \$4.30 billion at December 31, 2020. Excluding FDIC-assisted acquired loans and mortgage loans held for sale, total gross loans increased \$202.0 million, or 4.1%, from December 31, 2019 to December 31, 2020. This increase was primarily in commercial real estate loans, owner occupied one- to four-family residential loans, commercial business 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 \$28.6 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 2020 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 other residential (multi-family) real estate loans, one- to four-family residential 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 locations where it has loan production offices, including 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 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 reduce 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, 2020 and 2019, 88.2% and 87.2%, respectively, was secured by real estate, as this is the Bank's primary focus in its lending efforts. At December 31, 2020 and 2019, commercial real estate and commercial construction loans were 47.8% and 47.6% 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, 2020 and 2019, loans made in the Springfield, Mo. metropolitan statistical area (Springfield MSA) were 8% 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. At December 31, 2020 and 2019, loans made in the St. Louis, Mo. metropolitan statistical area (St. Louis MSA) were 19% and 17% 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 2020 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 49% as of December 31, 2020. 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, 2020, approximately 83% mature within the next 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, 2020, our interest rate risk models indicated a one-year interest rate earnings sensitivity position that is moderately positive in an increasing rate environment. For further discussion of our interest rate sensitivity gap and the processes used to manage our exposure to interest rate risk, see "Quantitative and Qualitative Disclosures About Market Risk – How We Measure the Risks to Us Associated with Interest Rate Changes." For discussion of the risk factors associated with interest rate changes, see "Item 1A. Risk Factors – Risks Relating to the Company and the Bank – Risks Relating to Market Interest Rates – We may be adversely affected by interest rate changes" in the Company's 2020 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, 2020 and 2019, none of our owner occupied one- to four-family residential loans had loan-to-value ratios above 100% at origination. At both December 31, 2020 and 2019, an estimated 0.6% of total non-owner occupied one- to four-family residential loans had loan-to-value ratios above 100% at origination.

At December 31, 2020, troubled debt restructurings totaled \$3.3 million, or 0.08% of total loans, up \$1.4 million from \$1.9 million, or 0.05% of total loans, at December 31, 2019. 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, 2020, five loans totaling \$107,000 were restructured into multiple new loans. For troubled debt restructurings occurring during the year ended December 31,

2019, five loans totaling \$34,000 were restructured into multiple new loans. For further information on troubled debt restructurings, see *Note 3* of the accompanying audited financial statements. In accordance with the CARES Act and guidance from the banking regulatory agencies, we made certain short-term modifications to loan terms to help our customers navigate through the current pandemic situation. Although loan modifications were made, they did not result in these loans being classified as troubled debt restructurings, potential problem loans or non-performing loans. As of December 31, 2020, \$232.6 million of commercial loans and \$18.2 million of residential and consumer loans were subject to such modifications. If more severe lengthier negative impacts of the COVID-19 pandemic occur or the effects of the SBA loan programs and other loan and stimulus programs do not enable companies and individuals to completely recover financially, this could result in longer-term modifications, which may be deemed to be troubled debt restructurings, additional potential problem loans and/or additional non-performing loans.

Loans that were acquired through FDIC-assisted transactions, which are accounted for in pools, were 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 decreased from previous estimates, then a determination was 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). 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, 2020, 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, 2020, available-for-sale securities increased \$40.7 million, or 10.9%, from \$374.2 million at December 31, 2019, to \$414.9 million at December 31, 2020. 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, 2020, total deposit balances increased \$556.8 million, or 14.1%. Transaction account balances increased \$887.1 million and retail certificates of deposit decreased \$117.4 million compared to December 31, 2019. The increase in transaction accounts were primarily a result of increased customers in the CDARS reciprocal program, money market deposit accounts, and certain NOW account types. Retail certificates of deposit decreased due to a decrease in retail certificates generated through the banking center network, partially offset by increases in time deposits generated through internet channels. Brokered deposits, including CDARS program purchased funds, were \$158.7 million at December 31, 2020, a decrease of \$213.0 million from \$371.7 million at December 31, 2019. The brokered deposits were allowed to mature without replacement as other deposit categories increased.

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 attract more deposits 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.

**Securities sold under reverse repurchase agreements with customers.** Securities sold under reverse repurchase agreements with customers increased \$80.0 million from \$84.2 million at December 31, 2019 to \$164.2 million at December 31, 2020. These balances fluctuate over time based on customer demand for this product. A large portion of this increase is related to two customers who placed additional funds in these account types.

**Federal Home Loan Bank Advances and Short Term Borrowings.** The Company's FHLBank term advances were \$0- at both December 31, 2020 and December 31, 2019. At December 31, 2020, there were no borrowings from the FHLBank. At December 31, 2019, 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 decreased \$226.7 million from \$228.2 million at December 31, 2019 to \$1.5 million at December 31, 2020. The short term borrowings included no overnight FHLBank borrowings at December 31, 2020 and \$196.0 million at December 31, 2019. The Company utilizes both overnight borrowings and short-term FHLBank advances depending on relative interest rates.

**Subordinated notes.** Subordinated notes increased \$74.1 million from \$74.3 million at December 31, 2019 to \$148.4 million at December 31, 2020. The Company issued \$75.0 million of subordinated notes in June 2020, receiving net proceeds of \$73.5 million.

**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%. In response to the COVID-19 pandemic, the FRB decreased interest rates on two occasions in March 2020, a 0.50% decrease on March 3 and a 1.00% decrease on March 16. At December 31, 2020, the Federal Funds rate stood at 0.25%. A substantial portion of Great Southern's loan portfolio (\$2.00 billion at December 31, 2020) 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, 2020. Of these loans, \$1.99 billion had interest rate floors. Great Southern also has a portfolio of loans (\$261 million at December 31, 2020) 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 again very low, there may also be a negative impact on the Company's net interest income due to the Company's inability to significantly lower its funding costs in the current competitive rate environment, although interest rates on assets may decline further. Conversely, interest rate increases would normally result in increased interest rates on our LIBOR-based and prime-based loans. As of December 31, 2020, 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. In a situation where market interest rates decrease significantly in a short period of time, as they did in March 2020, our net interest margin decrease may be more pronounced in the very near term (first one to three months), due to fairly rapid decreases in LIBOR interest rates. In the subsequent months we expect that the net interest margin would stabilize and begin to improve, as renewal interest rates on maturing time deposits are expected to decrease compared to the current rates paid on those products. During 2020, we did experience some compression of our net interest margin percentage due to 2.25% of Federal Fund rate cuts during the nine month period of July 2019 through March 2020. Margin compression primarily resulted from changes in the asset mix, mainly the addition of lower-yielding asset and the issuance of subordinated notes during 2020. 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 "Quantitative and Qualitative Disclosures About Market Risk – How We Measure the Risks to Us Associated with Interest Rate Changes."

**Non-Interest Income and Operating Expenses.** The Company's profitability is also affected by the level of its non-interest income and operating expenses. Non-interest income consists primarily of service charges and ATM fees, late charges and prepayment fees on loans, gains on sales of loans and available-for-sale investments and other general operating income. 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, 2020 and 2019."

## **Business Initiatives**

The Company implemented several business and operational initiatives in 2020.

For most of 2020 and continuing in 2021, Great Southern has actively monitored and responded to the effects of the evolving COVID-19 pandemic. As always, the health, safety and well-being of our customers, associates and communities while maintaining uninterrupted service are the Company's top priorities. Please see the "COVID-19 Impact to Our Business and Response" section of this report for further information, including the Company's participation in the SBA's PPP.

The Company's 94 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, in 2020, the Company engaged a third-party vendor to analyze 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 2020:

- In July 2020, the Great Southern banking centers located inside the Hy-Vee stores at 2900 Devils Glen Rd in Bettendorf, Iowa, and 2351 W. Locust St. in Davenport, Iowa, were closed due to store infrastructure changes by the landlord. The Company currently operates three banking centers in the Quad Cities market area – two in Davenport and one in Bettendorf.
- In August 2020, remodeling of the downtown office at 1900 Main in Parsons, Kansas, was completed, which included the addition of drive-thru banking lanes. With this completion, the nearby drive-thru facility was consolidated into the downtown office, leaving one location serving the Parsons market.
- In the Joplin, Missouri, market, the Company purchased a banking facility in the fourth quarter of 2019 vacated by another financial institution, which included a contractual black-out period ending in April 2021. A third party vendor has been engaged by the Company to redesign this facility as a "bank of the future" prototype to incorporate evolving customer preferences. Variations of this prototype design may be utilized in other select banking centers in the Company's footprint in the future. The Company expects the new office in Joplin to be completed in the third quarter of 2021, whereupon the nearby leased banking center at 1710 E. 32nd Street will be consolidated into this new office. There are two banking centers currently serving the Joplin market.

Other corporate initiatives occurred in 2020:

- In June 2020, the Company further enhanced its regulatory capital position with the issuance of \$75.0 million of 5.50% fixed-to-floating rate subordinated notes due June 15, 2030, which count as Tier 2 Capital in the calculation of the Total Capital Ratio. The Notes were sold at par, resulting in net proceeds, after underwriting discounts, commissions and related expenses, of approximately \$73.5 million. The Company intends to use the net proceeds of the offering for general corporate purposes, which may include repayment or redemption of outstanding indebtedness, the payment of dividends, providing capital to support its organic growth or growth through strategic acquisitions, capital expenditures, financing investments, repurchasing shares of its common stock and for investments in the Bank as regulatory capital.
- On October 21, 2020, the Company's Board of Directors authorized management to repurchase up to one million additional shares of the Company's common stock under a program of open market purchases or privately negotiated transactions. The program does not have an expiration date, and took effect after the Company completed the repurchase of the shares remaining under the 2018 stock repurchase program. During the year ended December 31, 2020, the Company repurchased 529,883 shares of its common stock at an average price of \$41.71.
- The Company announced the retirement intentions of two executive management team members. Both announced their retirements at least a year in advance to ensure an orderly leadership transition. Successors have been identified for both of these management positions.

Douglas Marrs, Vice President and Chief Operations Officer of the Bank and Assistant Secretary of the Company, intends to retire in June 2021. He is primarily responsible for general bank operations and facilities management. With a career spanning more than 40 years in the banking industry, Mr. Marrs joined Great Southern in 1996.

Linton J. Thomason, Vice President and Chief Information Officer, intends to retire at the end of 2021. He is responsible for information services and technology. With more than 40 years in the banking industry, Mr. Thomason joined Great Southern in 1997.

Messrs. Marrs and Thomason have been integral in the Bank's growth and success for the last two decades. During that time period, the Bank has grown from approximately \$700 million in assets with operations primarily in the southwest Missouri region, to approximately \$5.5 billion in assets and offices in 11 states, as of December 31, 2020.

- Great Southern Bank was recognized as part of Forbes' annual list of the World's Best Banks 2020. Great Southern was ranked as the sixth best bank in the United States. The World's Best Banks list is comprised of the financial institutions that differentiate their services and build trustworthy relationships with their customers. 450 banks around the world are featured on the list, which was announced online on May 14, 2020, and can currently be viewed on the Forbes website. The study involved 40,000 bank customers from 23 countries to rate banks they are involved with on general satisfaction and key attributes like trust, fees, digital services and financial advice.

### **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 more recently enacted 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 was 9.0%. In April 2020, pursuant to the CARES Act, the federal bank regulatory agencies announced the issuance of two interim final rules, effective immediately, to provide temporary relief to community banking organizations. Under the interim final rules, the Community Bank Leverage Ratio requirement is a minimum of 8% for the remainder of calendar year 2020, 8.5% for calendar year 2021, and 9% thereafter. The Company and the Bank have chosen to not utilize the new Community Bank Leverage Ratio due to the Company’s size and complexity, including its commercial real estate and construction lending concentrations and significant off-balance sheet funding commitments.

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.

### **Recent Accounting Pronouncements**

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

### **Comparison of Financial Condition at December 31, 2020 and December 31, 2019**

During the year ended December 31, 2020, total assets increased by \$511.3 million to \$5.53 billion. The increase was primarily attributable to increases in loans receivable and cash and cash equivalents.

Cash and cash equivalents were \$563.7 million at December 31, 2020, an increase of \$343.5 million, or 156.1%, from \$220.2 million at December 31, 2019. During 2020, the increase was primarily related to excess funds held at the Federal Reserve Bank after repayment of FHLBank overnight borrowings. The additional funds were primarily the result of increases in deposits.

The Company’s available for sale securities increased \$40.7 million, or 10.9%, compared to December 31, 2019. 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% of total assets at both December 31, 2020 and 2019, respectively.

Net loans increased \$142.8 million from December 31, 2019, to \$4.30 billion at December 31, 2020. Excluding FDIC-assisted acquired loans and mortgage loans held for sale, total gross loans (including the undisbursed portion of loans) increased \$202.0 million, or 4.1%, from December 31, 2019 to December 31, 2020. Increases primarily occurred in commercial real estate loans, other residential (multi-family) loans, one- to four-family residential mortgage loans and commercial business loans. Outstanding and undisbursed balances of commercial real estate loans increased \$59.5 million, or 4.0%, one- to four-family residential loans increased \$77.6 million, or 15.3%, and other residential (multi-family) loans increased \$155.1 million, or 17.9%. Partially offsetting the increases in these loans were a reduction of \$72.8 million, or 5.2%, in construction loans, a decrease of \$65.7 million, or 43.3%, in consumer auto loans and a decrease of \$28.6 million, or 22.5%, in the FDIC-assisted acquired loan portfolios.

Other real estate owned and repossessions were \$1.9 million at December 31, 2020, a decrease of \$3.6 million, or 66.0%, from \$5.5 million at December 31, 2019. 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 \$484.7 million from \$4.41 billion at December 31, 2019 to \$4.90 billion at December 31, 2020. The increase was primarily attributable to an increase in deposits, subordinated notes and securities sold under reverse repurchase agreements, partially offset by decreases in short-term borrowings.

Total deposits increased \$556.8 million, or 14.1%, from \$3.96 billion at December 31, 2019 to \$4.52 billion at December 31, 2020. Transaction account balances increased \$887.1 million compared to December 31, 2019. Non-interest-bearing checking account balances increased \$297.7 million and interest-bearing transaction accounts increased \$589.4 million. The increase in transaction accounts were primarily a result of increased customers in the CDARS reciprocal program, money market deposit accounts, and certain NOW account types. Customer retail certificates initiated through our banking center network decreased by \$186.1 million during the year ended December 31, 2020. Brokered deposits, including CDARS program purchased funds, were

\$158.7 million at December 31, 2020, a decrease of \$213.0 million from \$371.7 million at December 31, 2019. In 2020, the brokered deposits were allowed to mature without replacement as other deposit categories increased.

The Company's Federal Home Loan Bank advances were \$-0- at both December 31, 2020 and 2019. At December 31, 2020, there were no borrowings from the FHLBank. At December 31, 2019, 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 decreased \$226.7 million from \$228.2 million at December 31, 2019 to \$1.5 million at December 31, 2020. The short term borrowings included no overnight FHLBank borrowings at December 31, 2020 and \$196.0 million at December 31, 2019.

Securities sold under reverse repurchase agreements with customers increased \$80.0 million, or 95.1%, from \$84.2 million at December 31, 2019 to \$164.2 million at December 31, 2020. These balances fluctuate over time based on customer demand for this product.

Total stockholders' equity increased \$26.6 million, from \$603.1 million at December 31, 2019 to \$629.7 million at December 31, 2020. The Company recorded net income of \$59.3 million for the year ended December 31, 2020. Accumulated other comprehensive income increased \$20.9 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 \$1.8 million due to stock option exercises. Dividends declared on common stock, which decreased total stockholders' equity, were \$33.3 million. Total stockholders' equity also decreased \$22.1 million due to repurchases of the Company's common stock.

## **Results of Operations and Comparison for the Years Ended December 31, 2020 and 2019**

### **General**

Net income decreased \$14.3 million, or 19.4%, during the year ended December 31, 2020, compared to the year ended December 31, 2019. Net income was \$59.3 million for the year ended December 31, 2020 compared to \$73.6 million for the year ended December 31, 2019. This decrease was due to an increase in provision for loan losses of \$9.7 million, or 158.1%, an increase in non-interest expenses of \$8.1 million, or 7.0%, and a decrease in net interest income of \$3.3 million, or 1.8%, partially offset by an increase in non-interest income of \$4.1 million, or 13.2%, and a decrease in provision for income taxes of \$2.7 million, or 16.2%. Net income available to common shareholders was \$59.3 million for the year ended December 31, 2020 compared to \$73.6 million for the year ended December 31, 2019.

### **Total Interest Income**

Total interest income decreased \$17.3 million, or 7.4%, during the year ended December 31, 2020 compared to the year ended December 31, 2019. The decrease was due to an \$18.1 million, or 8.1%, decrease in interest income on loans, offset by a \$792,000, or 6.6%, increase in interest income on investment securities and other interest-earning assets. Interest income on loans decreased in 2020 compared to 2019 due to lower average rates of interest, partially offset by higher average balances of loans. Interest income from investment securities and other interest-earning assets increased during 2020 compared to 2019 due to higher average balances of investments and other interest-earning assets, partially offset by lower average rates of interest.

### **Interest Income – Loans**

During the year ended December 31, 2020 compared to the year ended December 31, 2019, interest income on loans decreased due to lower average interest rates, partially offset by higher average balances. Interest income decreased \$30.6 million as the result of lower average interest rates on loans. The average yield on loans decreased from 5.37% during the year ended December 31, 2019 to 4.66% during the year ended December 31, 2020. Offsetting this decrease was an increase of \$12.5 million in interest income as a result of higher average loan balances, which increased from \$4.16 billion during the year ended December 31, 2019, to \$4.40 billion during the year ended December 31, 2020. The decreased yields in most loan categories was primarily a result of decreased LIBOR and Federal Funds interest rates. In 2020, the Company also originated \$121 million of PPP loans, which have a much lower yield compared to the overall loan portfolio.

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, 2020 and 2019, the adjustments increased interest income and pre-tax income by \$5.6 million and \$7.4 million, respectively.

As of December 31, 2020, the remaining accretable yield adjustment that will affect interest income was \$2.0 million. Of the remaining adjustments affecting interest income, we expect to recognize \$1.5 million of interest income during 2021. We adopted the new accounting standard related to accounting for credit losses as of January 1, 2021. With the adoption of this standard, there is no reclassification of discounts from non-accretable to accretable subsequent to December 31, 2020. All adjustments made prior to December 31, 2020 will continue to be accreted to interest income. Apart from the yield accretion, the average yield on loans was 4.53% during the year ended December 31, 2020, compared to 5.19% during the year ended December 31, 2019, as a result of lower 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 was \$400 million with a termination date of October 6, 2025. Under the terms of the swap, the Company received a fixed rate of interest of 3.018% and paid a floating rate of interest equal to one-month USD-LIBOR. The floating rate reset monthly and net settlements of interest due to/from the counterparty also occurred monthly. To the extent that the fixed rate of interest exceeded one-month USD-LIBOR, the Company received net interest settlements which were recorded as loan interest income. If USD-LIBOR exceeded the fixed rate of interest in future periods, the Company was required to pay net settlements to the counterparty and recorded those net payments as a reduction of interest income on loans.

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. This \$45.9 million, less the accrued interest portion and net of deferred income taxes, is reflected in the Company's stockholders' equity as Accumulated Other Comprehensive Income and a portion of it will be accreted to interest income on loans 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. The Company recorded loan interest income of \$7.7 million and \$3.1 million during the years ending December 31, 2020 and 2019, respectively, related to this interest rate swap.

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

Interest income on investments increased \$2.2 million in the year ended December 31, 2020 compared to the year ended December 31, 2019. Interest income increased \$2.9 million as a result of an increase in average balances from \$326.5 million during the year ended December 31, 2019, to \$426.4 million during the year ended December 31, 2020. Interest income decreased \$715,000 due to a decrease in average interest rates from 3.08% during the year ended December 31, 2019 to 2.88% during the year ended December 31, 2020, due to lower market rates of interest on investment securities purchased during 2020 compared to securities already in the portfolio. In addition, some securities with higher yields matured or were called prior to their maturity dates.

Interest income on other interest-earning assets decreased \$1.4 million in the year ended December 31, 2020 compared to the year ended December 31, 2019. Interest income decreased \$2.7 million due to a decrease in average interest rates from 2.14% during the year ended December 31, 2019, to 0.19% during the year ended December 31, 2020. Market interest rates earned on balances held at the Federal Reserve Bank were significantly lower in 2020 due to significant reductions in the federal funds rate of interest. Interest income increased \$1.3 million as a result of an increase in average balances from \$87.8 million during the year ended December 31, 2019, to \$246.1 million during the year ended December 31, 2020. Average balances increased due to higher balances held at the Federal Reserve Bank due to increases in customer deposit balances.

#### **Total Interest Expense**

Total interest expense decreased \$14.0 million, or 25.7%, during the year ended December 31, 2020, when compared with the year ended December 31, 2019, due to a decrease in interest expense on deposits of \$13.1 million, or 28.8%, a decrease in interest expense on short-term borrowings and repurchase agreements of \$3.0 million, or 81.4%, and a decrease in interest expense on subordinated debentures issued to capital trust of \$391,000, or 38.4%. Partially offsetting these decreases, interest expense on subordinated notes increased \$2.5 million, or 56.0%, due to additional subordinated notes issued in 2020.

#### **Interest Expense - Deposits**

Interest on demand deposits decreased \$2.5 million due to a decrease in average rates from 0.53% during the year ended December 31, 2019, to 0.38% during the year ended December 31, 2020. Partially offsetting that decrease, interest on demand deposits increased \$1.7 million due to an increase in average balances from \$1.51 billion in the year ended December 31, 2019, to \$1.87 billion in the year ended December 31, 2020. The decrease in average interest rates of interest-bearing demand deposits was primarily a result of decreased market interest rates on these types of accounts. Demand deposit balances increased substantially during the COVID-19 pandemic in 2020. Both business and personal deposit balances increased during the year.



Interest expense on time deposits decreased \$10.6 million as a result of a decrease in average rates of interest from 2.19% during the year ended December 31, 2019, to 1.55% during the year ended December 31, 2020. In addition, interest expense on time deposits decreased \$1.7 million due to a decrease in average balances of time deposits from \$1.72 billion during the year ended December 31, 2019, to \$1.64 billion during the year ended December 31, 2020. 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 lower rate of interest due to market interest rate decreases during 2020. Time deposit balances decreased due to maturity of retail and brokered time deposits during 2020. Due to the significant increases in non-time deposits, it was not necessary to replace the brokered deposits.

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

FHLBank term advances were not utilized during the years ended December 31, 2020 and 2019. The Company had a higher amount of overnight borrowings from the FHLBank in 2020, as discussed below.

Interest expense on short-term borrowings and repurchase agreements decreased \$2.1 million due to average rates that decreased from 1.40% in the year ended December 31, 2019, to 0.37% in the year ended December 31, 2020. The decrease was due to decreases in market interest rates and a change in the mix of funding during the period, with more overnight borrowings from the FHLBank in 2019 than 2020. In addition to this decrease, interest expense on short-term borrowings and repurchase agreements decreased \$845,000 due to a decrease in average balances from \$260.0 million during the year ended December 31, 2019, to \$183.5 million during the year ended December 31, 2020. The decrease in average balances was due to fewer overnight borrowings from the FHLBank in 2020.

During the year ended December 31, 2020, compared to the year ended December 31, 2019, interest expense on subordinated debentures issued to capital trusts decreased \$391,000 due to lower average interest rates. The average interest rate was 3.95% in 2019, compared to 2.44% in 2020. The interest rate on subordinated debentures is a floating rate indexed to the three-month LIBOR interest rate. There was no change in the average balance of the subordinated debentures between 2020 and 2019.

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. In June 2020, the Company issued \$75.0 million of 5.50% fixed-to-floating rate subordinated notes due June 15, 2030. The notes were sold at par, resulting in net proceeds, after underwriting discounts and commissions and other issuance costs, of approximately \$73.5 million. In both cases, the 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 subordinated notes increased \$2.4 million due to an increase in average balances from \$74.1 million during the year ended December 31, 2019 to \$115.3 million during the year ended December 31, 2020. Interest expense on the subordinated notes increased \$9,000 due to average rates that increased from 5.91% in the year ended December 31, 2019, to 5.92% in the year ended December 31, 2020.

#### **Net Interest Income**

Net interest income for the year ended December 31, 2020 decreased \$3.3 million, or 1.8%, to \$177.1 million, compared to \$180.4 million for the year ended December 31, 2019. Net interest margin was 3.49% for the year ended December 31, 2020, compared to 3.95% for the year ended December 31, 2019, a decrease of 46 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 3* of the accompanying audited financial statements. The positive impact of these changes on the years ended December 31, 2020 and 2019 were increases in interest income of \$5.6 million and \$7.4 million, respectively, and increases in net interest margin of 11 basis points and 16 basis points, respectively. Excluding the positive impact of the additional yield accretion, net interest margin decreased 41 basis points during the year ended December 31, 2020. The decrease in net interest margin was due to significantly declining market interest rates, a change in asset mix with increases in lower-yielding investments and cash equivalents and the issuance of additional subordinated notes in 2020.

The Company's overall interest rate spread decreased 39 basis points, or 10.7%, from 3.62% during the year ended December 31, 2019, to 3.23% during the year ended December 31, 2020. The decrease was due to an 85 basis point decrease in the weighted average yield on interest-earning assets, partially offset by a 46 basis point decrease in the weighted average rate paid on interest-bearing liabilities. In comparing the two years, the yield on loans decreased 71 basis points, the yield on investment securities decreased 20 basis points and the yield on other interest-earning assets decreased 195 basis points. The rate paid on deposits decreased 48 basis points, the rate paid on subordinated debentures issued to capital trust decreased 151 basis points, the rate paid on short-term borrowings decreased 103 basis points, and the rate paid on subordinated notes increased one basis point.

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**

In the first quarter of 2020, pursuant to the CARES Act and guidance from the SEC and FASB, we elected to delay adoption of the new accounting standard (CECL) related to accounting for credit losses. Our financial statements for the year ended December 31, 2020, are prepared under the existing incurred loss methodology standard for accounting for loan losses.

Management records a provision for loan losses in an amount it believes is 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.

Worsening economic conditions from the COVID-19 pandemic, 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, 2020 increased \$9.7 million, to \$15.9 million, compared with \$6.2 million for the year ended December 31, 2019. At December 31, 2020 and December 31, 2019, the allowance for loan losses was \$55.7 million and \$40.3 million, respectively. Total net charge-offs were \$422,000 and \$4.3 million for the years ended December 31, 2020 and 2019, respectively. During the year ended December 31, 2020, a substantial portion of net charge-offs were in the consumer category. The Company experienced net recoveries in some of the other loan categories. 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 \$66 million in the year ended December 31, 2020. At December 31, 2020, indirect automobile loans totaled approximately \$48 million. We expect this total balance will be largely paid off in the next year. General market conditions and unique circumstances related to individual borrowers and projects contributed to the level of provisions and charge-offs. In 2020, due to the COVID-19 pandemic and its effects on the overall economy and unemployment, the Company increased its provisions for loan losses and increased its allowance for loan losses, even though actual realized net charge-offs were very low. 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 FDIC-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 have been systematically reviewed by the Company to determine the risk of losses that may exceed those identified at the time of the acquisition. Techniques used in determining risk of loss are similar to those used to determine the risk of loss for the legacy Great Southern Bank portfolio, with most focus being placed on those loan pools which include larger loan relationships and those loan pools which exhibit higher risk characteristics. Review of the acquired loan portfolio also includes a review of financial information, collateral valuations and customer interaction to determine if additional reserves are warranted.

The Bank's allowance for loan losses as a percentage of total loans, excluding FDIC-assisted acquired loans, was 1.32% and 1.00% at December 31, 2020 and 2019, respectively. Management considers the allowance for loan losses adequate to cover losses inherent in the Bank's loan portfolio at December 31, 2020, based on recent reviews of the Bank's loan portfolio and current economic conditions. If current economic conditions were to last longer than anticipated or deteriorate further or management's assessment of the loan portfolio were to change, additional loan loss provisions could be required, thereby adversely affecting the Company's future results of operations and financial condition.

Effective January 1, 2021, we adopted the CECL accounting standard. 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 were 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, 2020, were \$3.8 million, a decrease of \$4.4 million from \$8.2 million at December 31, 2019. Non-performing assets, excluding all FDIC-assisted acquired assets, as a percentage of total assets were 0.07% at December 31, 2020, compared to 0.16% at December 31, 2019.

Compared to December 31, 2019, non-performing loans decreased \$1.5 million to \$3.0 million at December 31, 2020, and foreclosed assets decreased \$2.9 million to \$777,000 at December 31, 2020. Non-performing one-to four-family residential loans comprised \$1.6 million, or 51.6%, of the total non-performing loans at December 31, 2020. Non-performing consumer loans comprised \$771,000, or 25.3%, of the total non-performing loans at December 31, 2020. Non-performing commercial real estate loans comprised \$587,000, or 19.3%, of total non-performing loans at December 31, 2020. Non-performing commercial business loans comprised \$114,000, or 3.8%, of total non-performing loans at December 31, 2020.

*Non-performing Loans.* Activity in the non-performing loans category during the year ended December 31, 2020, was as follows:

|                                     | Beginning<br>Balance,<br>January 1 | Additions to<br>Non-<br>Performing | Removed<br>from Non-<br>Performing | Transfers to<br>Potential<br>Problem<br>Loans | Transfers to<br>Foreclosed<br>Assets and<br>Repossessions | Charge-<br>Offs | Payments          | Ending<br>Balance,<br>December 31 |
|-------------------------------------|------------------------------------|------------------------------------|------------------------------------|---|---|-----------------|-------------------|-----------------------------------|
|                                     | (In Thousands)                     |                                    |                                    |   |   |                 |                   |                                   |
| One- to four-family<br>construction | \$ —                               | \$ —                               | \$ —                               | \$ —  | \$ —  | \$ —            | \$ —              | \$ —                              |
| Subdivision construction            | —                                  | —                                  | —                                  | —   | —   | —               | —                 | —                                 |
| Land development                    | —                                  | —                                  | —                                  | —   | —   | —               | —                 | —                                 |
| Commercial construction             | —                                  | —                                  | —                                  | —   | —   | —               | —                 | —                                 |
| One- to four-family<br>residential  | 1,477                              | 1,366                              | (283)                              | (304)   | (134)   | (29)            | (522)             | 1,571                             |
| Other residential                   | —                                  | —                                  | —                                  | —   | —   | —               | —                 | —                                 |
| Commercial real estate              | 632                                | 107                                | (94)                               | —   | —   | —               | (58)              | 587                               |
| Other commercial                    | 1,235                              | —                                  | —                                  | —   | —   | —               | (1,121)           | 114                               |
| Consumer                            | 1,175                              | 496                                | (39)                               | (113)   | (96)  | (193)           | (459)             | 771                               |
| <b>Total</b>                        | <b>\$ 4,519</b>                    | <b>\$ 1,969</b>                    | <b>\$ (416)</b>                    | <b>\$ (417)</b>                               | <b>\$ (230)</b>   | <b>\$ (222)</b> | <b>\$ (2,160)</b> | <b>\$ 3,043</b>                   |

At December 31, 2020, the non-performing one- to four-family residential category included 23 loans, nine of which were added during 2020. The largest relationship in this category was added in 2020 totaling \$274,000, or 17.5% of the total category, which is collateralized by a residential home in the Kansas City, Mo. area. Subsequent to December 31, 2020 this loan was paid off. The non-performing consumer category included 65 loans, 24 of which were added during 2020, and the majority of which are indirect and used automobile loans. The non-performing commercial real estate category included two loans. One loan was added and then removed from non-performing during 2020 after completing six consecutive months of timely payments. The largest relationship in this category was added in 2019 totaling \$495,000, or 84.4% of the total category, and was collateralized by a multi-tenant building in Arkansas. The non-performing commercial business category included two loans, neither of which was added during 2020. The largest relationship in this category was added in 2018, and totaled \$75,000, or 65.6% of the total category. The previous largest relationship in this category of \$1.1 million paid off during 2020.

In the table above, loans that were modified under the guidance provided by the CARES Act are not non-performing loans as they are current under their modified terms. For additional information about these loan modifications, see the "Loan Modifications" section of this report.

*Other Real Estate Owned and Repossessions.* Of the total \$1.9 million of other real estate owned and repossessions at December 31, 2020, \$446,000 represents the fair value of foreclosed and repossessed assets related to loans acquired in FDIC-assisted transactions and \$654,000 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, 2020, was as follows:

|                                  | <b>Beginning<br/>Balance,<br/>January 1</b> | <b>Additions</b> | <b>ORE and<br/>Repossession<br/>Sales</b> | <b>Capitalized<br/>Costs</b> | <b>ORE and<br/>Repossession<br/>Write-Downs</b> | <b>Ending<br/>Balance,<br/>December 31</b> |
|----------------------------------|---|------------------|---|------------------------------|---|--|
|                                  | (In Thousands)                              |                  |   |                              |   |  |
| One- to four-family construction | \$ —  | \$ —             | \$ —                                      | \$ —                         | \$ —  | \$ —                                       |
| Subdivision construction         | 689   | —                | (464)                                     | 126                          | (88)  | 263  |
| Land development                 | 1,816                                       | —                | (715)                                     | —                            | (851)   | 250  |
| Commercial construction          | —   | —                | —   | —                            | —   | —  |
| One- to four-family residential  | 601   | 134              | (624)                                     | —                            | —   | 111  |
| Other residential                | —   | —                | —   | —                            | —   | —  |
| Commercial real estate           | —   | —                | —   | —                            | —   | —  |
| Commercial business              | —   | —                | —   | —                            | —   | —  |
| Consumer                         | 545   | 1,144            | (1,536)                                   | —                            | —   | 153  |
| <b>Total</b>                     | <b>\$ 3,651</b>                             | <b>\$ 1,278</b>  | <b>\$ (3,339)</b>                         | <b>\$ 126</b>                | <b>\$ (939)</b>                                 | <b>\$ 777</b>                              |

At December 31, 2020, the land development category of foreclosed assets consisted of one property in the Camdenton, Mo. area and had a balance of \$250,000 after a valuation write-down and price reduction. During 2020, two of the three properties in the land development category were sold. The subdivision construction category of foreclosed assets consisted of one property in the Branson, Mo. area that had a balance of \$263,000 after a valuation write-down. The one- to four-family category of foreclosed assets consisted of one property in western Missouri, which was added during 2020 with a balance of \$111,000. 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 Company experienced increased levels of delinquencies and repossessions in indirect and used automobile loans throughout 2016 and 2017. The level of delinquencies and repossessions in indirect and used automobile loans decreased in 2018 through 2020.

*Potential Problem Loans.* Potential problem loans decreased \$58,000 during the year ended December 31, 2020, from \$4.4 million at December 31, 2019 to \$4.3 million at December 31, 2020. This decrease was primarily due to \$1.7 million in payments on potential problem loans, \$124,000 in loan charge offs, and \$123,000 in loans removed from potential problems and transferred to the non-performing category. Partially offsetting this decrease was the addition of \$2.0 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, 2020, was as follows:

|                                  | <b>Beginning<br/>Balance,<br/>January 1</b> | <b>Additions to<br/>Potential<br/>Problem</b> | <b>Removed<br/>from Potential<br/>Problem</b> | <b>Transfers to<br/>Non-<br/>Performing</b> | <b>Transfers to<br/>Foreclosed<br/>Assets and<br/>Repossessions</b> | <b>Charge-<br/>Offs</b> | <b>Payments</b>   | <b>Ending<br/>Balance,<br/>December 31</b> |
|----------------------------------|---|---|---|---|---|-------------------------|-------------------|--|
|                                  | (In Thousands)                              |   |   |   |   |                         |                   |  |
| One- to four-family construction | \$ —  | \$ —  | \$ —  | \$ —  | \$ —  | \$ —                    | \$ —              | \$ —                                       |
| Subdivision construction         | —   | 24  | —   | —   | —   | —                       | (3)               | 21   |
| Land development                 | —   | —   | —   | —   | —   | —                       | —                 | —  |
| Commercial construction          | —   | —   | —   | —   | —   | —                       | —                 | —  |
| One- to four-family residential  | 791   | 304   | —   | (83)  | —   | —                       | (149)             | 863  |
| Other residential                | —   | —   | —   | —   | —   | —                       | —                 | —  |
| Commercial real estate           | 3,078                                       | 1,081   | —   | —   | —   | —                       | (1,308)           | 2,851                                      |
| Other commercial                 | —   | —   | —   | —   | —   | —                       | —                 | —  |
| Consumer                         | 512   | 572   | (34)  | (40)  | (70)  | (124)                   | (228)             | 588  |
| <b>Total</b>                     | <b>\$ 4,381</b>                             | <b>\$ 1,981</b>                               | <b>\$ (34)</b>                                | <b>\$ (123)</b>                             | <b>\$ (70)</b>  | <b>\$ (124)</b>         | <b>\$ (1,688)</b> | <b>\$ 4,323</b>                            |

At December 31, 2020, the commercial real estate category of potential problem loans included three loans, two of which were added during 2020. The largest relationship in this category (added during 2018), totaling \$1.8 million, or 62.3% of the total category, is collateralized by a mixed use commercial retail building. Payments were current on this relationship at December 31, 2020. One relationship, which totaled \$1.2 million and was outstanding at December 31, 2019, paid off in 2020. The one- to four-family residential category of potential problem loans included 18 loans, five of which were added during 2020. The consumer category of potential problem loans included 52 loans, 38 of which were added during 2020, and the majority of which were indirect and used automobile loans.

### **Loans Classified “Watch”**

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. During 2020, loans classified as “Watch” increased \$27.4 million, from \$37.4 million at December 31, 2019 to \$64.8 million at December 31, 2020. This increase was primarily due to the addition of two unrelated loan relationships involving eight total loans. One relationship totaled \$14.3 million and was collateralized by a shopping center project. The other relationship totaled \$11.9 million and was collateralized by multiple indoor recreational facilities. See *Note 3* of the accompanying audited financial statements for further discussion of the Company’s loan grading system.

### **Non-Interest Income**

Non-interest income for the year ended December 31, 2020 was \$35.1 million compared with \$31.0 million for the year ended December 31, 2019. The increase of \$4.1 million, or 13.2%, was primarily as a result of the following items:

Net gains on loan sales: Net gains on loan sales increased \$5.5 million compared to the prior year. The increase was due to an increase in originations of fixed-rate loans during 2020 compared to 2019. Fixed rate single-family mortgage loans originated are generally subsequently sold in the secondary market.

Other income: Other income increased \$855,000 compared to the prior year. In 2020, the Company recognized approximately \$734,000 of additional fee income related to newly-originated interest rate swaps in the Company’s back-to-back swap program with loan customers and swap counterparties when compared to 2019. The Company also recognized approximately \$784,000 in income related to scheduled payments and exit fees of certain tax credit partnerships during 2020, compared to \$525,000 during 2019. In 2019, the Company recognized gains totaling \$677,000 from the sale of, or recovery of, receivables and assets that were acquired several years prior in FDIC-assisted transactions, with no similar sales or recoveries in the current year.

Service charges, debit card and ATM fees: Service charges, debit card and ATM fees decreased \$2.2 million compared to the prior year. This decrease was primarily due to a decrease in overdraft and insufficient funds fees on customer accounts. This was due to both a reduction in usage by customers and a decision near the end of the first quarter of 2020 to waive (through August 31, 2020) certain fees for customers in response to the COVID-19 pandemic. The effects of that decision were felt during the second and third quarters of 2020. In addition, the Company recorded less in debit card and ATM fees due to a reduction in debit card and ATM usage. Also during 2020, \$200,000 in additional expenses were netted against ATM fee income due to the conversion to a new debit card processing system.

### **Non-Interest Expense**

Total non-interest expense increased \$8.1 million, or 7.0%, from \$115.1 million in the year ended December 31, 2019, to \$123.2 million in the year ended December 31, 2020. The Company’s efficiency ratio for the year ended December 31, 2020 was 58.07%, an increase from 54.48% for 2019. The higher efficiency ratio in 2020 was primarily due to an increase in non-interest expense, partially offset by an increase in total revenue. In the year ended December 31, 2020, the Company’s efficiency ratio was negatively impacted by an increase in salaries and employee benefits expense and positively impacted by an increase in income related to loan sales. 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. The Company’s ratio of non-interest expense to average assets was 2.31% for the year ended December 31, 2020 compared to 2.37% for the year ended December 31, 2019. This decrease was primarily due to an increase in average assets. Average assets for the year ended December 31, 2020, increased \$468.4 million, or 9.6%, from the year ended December 31, 2019, primarily due to increases in loans receivable and cash and cash equivalents.

The following were key items related to the increase in non-interest expense for the year ended December 31, 2020 as compared to the year ended December 31, 2019:

**Salaries and employee benefits:** Salaries and employee benefits increased \$7.6 million in the year ended December 31, 2020 compared to the prior year. The increase was primarily due to annual employee compensation merit increases and increased incentives in lending, including mortgage lending activities as noted above, and operations areas. Total salaries and benefits expense in the mortgage lending area increased \$2.4 million compared to the previous year. Additionally, in March 2020, the Company approved a special cash bonus to all employees totaling \$1.1 million in response to the COVID-19 pandemic. In August 2020, the Company paid a second special cash bonus to all employees totaling \$1.1 million in response to the pandemic.

**Net occupancy expense:** Net occupancy expense increased \$1.4 million in the year ended December 31, 2020 compared to the year ended December 31, 2019. This was primarily related to increased depreciation on new ATM/ITMs and ATM operating software upgrades implemented during the fourth quarter of 2019. Also included in net occupancy expense for 2020 were COVID-19-related expenses for various items such as cleaning services, equipment, costs to set up remote work sites and other items.

**Insurance:** Insurance expense increased \$390,000 in 2020 compared to the prior year. This increase was primarily due to an increase in FDIC deposit insurance premiums. In 2019, the Bank had 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 cause no premium to be due for the last six months of 2019.

**Partnership tax credit:** Partnership tax credit expense decreased \$285,000 in the year ended December 31, 2020 compared to 2019. 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 2020 and so the final amortization of the investment in those credits also ended in 2020.

### **Provision for Income Taxes**

For the years ended December 31, 2020 and 2019, the Company's effective tax rate was 18.9% and 18.3%, 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's effective income tax rate is currently generally expected to remain below the statutory rate due primarily the factors noted above. The Company currently expects its effective tax rate (combined federal and state) will be approximately 18.5% to 19.5% in future periods.

### **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 \$6.6 million, \$4.0 million and \$3.5 million for 2020, 2019 and 2018, respectively. Tax-exempt income was not calculated on a tax equivalent basis. The table does not reflect any effect of income taxes.

|  | Dec. 31,<br>2020 <sup>(2)</sup> | Year Ended<br>December 31, 2020 |            |                | Year Ended<br>December 31, 2019 |            |                | Year Ended<br>December 31, 2018 |            |                |
|--|---------------------------------|---------------------------------|------------|----------------|---------------------------------|------------|----------------|---------------------------------|------------|----------------|
|  | Yield/<br>Rate                  | Average<br>Balance              | Interest   | Yield/<br>Rate | Average<br>Balance              | Interest   | Yield/<br>Rate | Average<br>Balance              | Interest   | Yield/<br>Rate |
| (Dollars In Thousands)   |                                 |                                 |            |                |                                 |            |                |                                 |            |                |
| Interest-earning assets:   |                                 |                                 |            |                |                                 |            |                |                                 |            |                |
| Loans receivable:  |                                 |                                 |            |                |                                 |            |                |                                 |            |                |
| One- to four-family residential  | 3.62 %                          | \$ 652,096                      | \$ 29,099  | 4.46 %         | \$ 532,051                      | \$ 27,450  | 5.16 %         | \$ 449,917                      | \$ 22,924  | 5.10 %         |
| Other residential  | 4.18                            | 930,529                         | 43,902     | 4.72           | 812,412                         | 43,931     | 5.41           | 761,115                         | 38,863     | 5.11           |
| Commercial real estate   | 4.14                            | 1,526,618                       | 69,437     | 4.55           | 1,443,435                       | 74,256     | 5.14           | 1,325,398                       | 64,605     | 4.87           |
| Construction   | 4.34                            | 665,546                         | 32,443     | 4.87           | 706,581                         | 41,767     | 5.91           | 569,570                         | 31,198     | 5.48           |
| Commercial business  | 3.89                            | 325,397                         | 14,070     | 4.32           | 258,606                         | 13,234     | 5.12           | 285,125                         | 14,104     | 4.95           |
| Other loans  | 5.14                            | 283,678                         | 15,184     | 5.35           | 387,854                         | 21,511     | 5.55           | 499,131                         | 25,250     | 5.06           |
| Industrial revenue bonds (1)   | 4.43                            | 15,395                          | 829        | 5.38           | 14,841                          | 898        | 6.05           | 20,563                          | 1,282      | 6.23           |
| Total loans receivable   | 4.29                            | 4,399,259                       | 204,964    | 4.66           | 4,155,780                       | 223,047    | 5.37           | 3,910,819                       | 198,226    | 5.07           |
| Investment securities (1)  | 2.98                            | 426,383                         | 12,262     | 2.88           | 326,450                         | 10,066     | 3.08           | 201,330                         | 5,835      | 2.90           |
| Other interest-earning assets  | 0.25                            | 246,110                         | 477        | 0.19           | 87,767                          | 1,881      | 2.14           | 104,220                         | 1,888      | 1.81           |
| Total interest-earning assets  | 3.80                            | 5,071,752                       | 217,703    | 4.29           | 4,569,997                       | 234,994    | 5.14           | 4,216,369                       | 205,949    | 4.88           |
| Non-interest-earning assets:   |                                 |                                 |            |                |                                 |            |                |                                 |            |                |
| Cash and cash equivalents  |                                 | 93,832                          |            |                | 92,315                          |            |                | 97,796                          |            |                |
| Other non-earning assets   |                                 | 157,842                         |            |                | 192,695                         |            |                | 189,161                         |            |                |
| Total assets   |                                 | \$ 5,323,426                    |            |                | \$ 4,855,007                    |            |                | \$ 4,503,326                    |            |                |
| Interest-bearing liabilities:  |                                 |                                 |            |                |                                 |            |                |                                 |            |                |
| Interest-bearing   |                                 |                                 |            |                |                                 |            |                |                                 |            |                |
| demand and savings   | 0.22                            | \$ 1,867,166                    | 7,096      | 0.38           | \$ 1,507,518                    | 7,971      | 0.53           | \$ 1,531,375                    | 5,982      | 0.39           |
| Time deposits  | 1.00                            | 1,636,205                       | 25,335     | 1.55           | 1,716,786                       | 37,599     | 2.19           | 1,375,508                       | 21,975     | 1.60           |
| Total deposits   | 0.53                            | 3,503,371                       | 32,431     | 0.93           | 3,224,304                       | 45,570     | 1.41           | 2,906,883                       | 27,957     | 0.96           |
| Short-term borrowings,<br>repurchase agreements<br>and other interest-bearing<br>liabilities | 0.02                            | 183,498                         | 675        | 0.37           | 260,024                         | 3,635      | 1.40           | 137,257                         | 765        | 0.56           |
| Subordinated debentures<br>issued to capital trust   | 1.81                            | 25,774                          | 628        | 2.44           | 25,774                          | 1,019      | 3.95           | 25,774                          | 953        | 3.70           |
| Subordinated notes   | 5.84                            | 115,335                         | 6,831      | 5.92           | 74,070                          | 4,378      | 5.91           | 73,772                          | 4,097      | 5.55           |
| FHLB advances  | —                               | —                               | —          | —              | —                               | —          | —              | 190,245                         | 3,985      | 2.09           |
| Total interest-bearing<br>liabilities  | 0.72                            | 3,827,978                       | 40,565     | 1.06           | 3,584,172                       | 54,602     | 1.52           | 3,333,931                       | 37,757     | 1.13           |
| Non-interest-bearing liabilities:  |                                 |                                 |            |                |                                 |            |                |                                 |            |                |
| Demand deposits  |                                 | 826,900                         |            |                | 665,606                         |            |                | 649,357                         |            |                |
| Other liabilities  |                                 | 46,111                          |            |                | 33,592                          |            |                | 21,530                          |            |                |
| Total liabilities  |                                 | 4,700,989                       |            |                | 4,283,370                       |            |                | 4,004,818                       |            |                |
| Stockholders' equity   |                                 | 622,437                         |            |                | 571,637                         |            |                | 498,508                         |            |                |
| Total liabilities and<br>stockholders' equity  |                                 | \$ 5,323,426                    |            |                | \$ 4,855,007                    |            |                | \$ 4,503,326                    |            |                |
| Net interest income:   |                                 |                                 |            |                |                                 |            |                |                                 |            |                |
| Interest rate spread   | 3.08 %                          |                                 | \$ 177,138 | 3.23 %         |                                 | \$ 180,392 | 3.62 %         |                                 | \$ 168,192 | 3.75 %         |
| Net interest margin*   |                                 |                                 |            | 3.49 %         |                                 |            | 3.95 %         |                                 |            | 3.99 %         |
| Average interest-earning<br>assets to average interest-<br>bearing liabilities               |                                 | 132.5 %                         |            |                | 127.5 %                         |            |                | 126.5 %                         |            |                |

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

- (1) Of the total average balance of investment securities, average tax-exempt investment securities were \$55.9 million, \$41.7 million and \$53.6 million for 2020, 2019 and 2018, respectively. In addition, average tax-exempt industrial revenue bonds were \$20.0 million, \$20.8 million and \$24.8 million in 2020, 2019 and 2018, respectively. Interest income on tax-exempt assets included in this table was \$2.2 million, \$2.4 million and \$3.1 million for 2020, 2019 and 2018, respectively. Interest income net of disallowed interest expense related to tax-exempt assets was \$2.0 million, \$2.2 million and \$2.9 million for 2020, 2019 and 2018, respectively.
- (2) The yield/rate on loans at December 31, 2020 does not include the impact of the accretible yield (income) on loans acquired in the FDIC-assisted transactions. See "Net Interest Income" for a discussion of the effect on 2020 results of operations.

## Rate/Volume Analysis

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

|   | Year Ended<br>December 31, 2020 vs.<br>December 31, 2019 |                  |                                 | Year Ended<br>December 31, 2019 vs.<br>December 31, 2018 |                  |                                 |
|---|--|------------------|---------------------------------|--|------------------|---------------------------------|
|   | Increase (Decrease)<br>Due to                            |                  | Total<br>Increase<br>(Decrease) | Increase (Decrease)<br>Due to                            |                  | Total<br>Increase<br>(Decrease) |
|   | Rate   | Volume           |                                 | Rate   | Volume           |                                 |
|   | (In Thousands)   |                  |                                 |  |                  |                                 |
| Interest-earning assets:  |  |                  |                                 |  |                  |                                 |
| Loans receivable  | \$ (30,621)  | \$ 12,538        | \$ (18,083)                     | \$ 12,028  | \$ 12,793        | \$ 24,821                       |
| Investment securities   | (715)  | 2,911            | 2,196                           | 395  | 3,836            | 4,231                           |
| Other interest-earning assets   | (2,745)  | 1,341            | (1,404)                         | 51   | (58)             | (7)                             |
| Total interest-earning assets   | <u>(34,081)</u>  | <u>16,790</u>    | <u>(17,291)</u>                 | <u>12,474</u>  | <u>16,571</u>    | <u>29,045</u>                   |
| Interest-bearing liabilities:   |  |                  |                                 |  |                  |                                 |
| Demand deposits   | (2,531)  | 1,656            | (875)                           | 2,081  | (92)             | 1,989                           |
| Time deposits   | (10,571)   | (1,693)          | (12,264)                        | 9,362  | 6,262            | 15,624                          |
| Total deposits  | <u>(13,102)</u>  | <u>(37)</u>      | <u>(13,139)</u>                 | <u>11,443</u>  | <u>6,170</u>     | <u>17,613</u>                   |
| Short-term borrowings, repurchase<br>agreements and other interest-bearing<br>liabilities | (2,115)  | (845)            | (2,960)                         | 1,802  | 1,068            | 2,870                           |
| Subordinated debentures issued<br>to capital trust  | (391)  | —                | (391)                           | 66   | —                | 66                              |
| Subordinated notes  | 9  | 2,444            | 2,453                           | 276  | 5                | 281                             |
| FHLBank advances  | —  | —                | —                               | —  | (3,985)          | (3,985)                         |
| Total interest-bearing liabilities  | <u>(15,599)</u>  | <u>1,562</u>     | <u>(14,037)</u>                 | <u>13,587</u>  | <u>3,258</u>     | <u>16,845</u>                   |
| Net interest income   | \$ <u>(18,482)</u>                                       | \$ <u>15,228</u> | \$ <u>(3,254)</u>               | \$ <u>(1,113)</u>  | \$ <u>13,313</u> | \$ <u>12,200</u>                |

## 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. 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.

As noted previously, 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 received a fixed rate of interest of 3.018% and paid a floating rate of interest equal to one-month USD-LIBOR. The floating rate reset monthly and net settlements of interest due to/from the counterparty also occurred monthly. The floating rate of interest was 1.710% at December 31, 2019. Therefore, at that time, the Company received net interest settlements which were recorded as loan interest income, to the extent that the fixed rate of interest exceeded one-month USD-LIBOR. If USD-LIBOR had exceeded the fixed rate of interest, the Company was required to pay net settlements to the counterparty and 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.

#### **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, 2018, to \$87.8 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 Structured 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 year, 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 accretible yield, which was discussed previously in "Interest Income – Loans" and is discussed in *Note 4* of the accompanying audited financial statements. The positive impact of these changes on the years ended December 31, 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

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 \$109 million. We expect this total balance will be largely paid off in the next year. 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.

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.

## 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<br>Balance,<br>January 1 | Additions to<br>Non-<br>Performing | Removed<br>from Non-<br>Performing | Transfers to<br>Potential<br>Problem Loans | Transfers to<br>Foreclosed<br>Assets and<br>Repossessions | Charge-Offs       | Payments          | Ending<br>Balance,<br>December 31 |
|----------------------------------|------------------------------------|------------------------------------|------------------------------------|--|---|-------------------|-------------------|-----------------------------------|
| (In Thousands)                   |                                    |                                    |                                    |  |   |                   |                   |                                   |
| One- to four-family construction | \$ —                               | \$ —                               | \$ —                               | \$ —                                       | \$ —  | \$ —              | \$ —              | \$ —                              |
| 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                             |
| <b>Total</b>                     | <b>\$ 6,300</b>                    | <b>\$ 11,489</b>                   | <b>\$ (118)</b>                    | <b>\$ (253)</b>                            | <b>\$ (8,516)</b>   | <b>\$ (1,979)</b> | <b>\$ (2,404)</b> | <b>\$ 4,519</b>                   |

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:

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

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<br>Balance,<br>January 1 | Additions | Removed<br>from<br>Potential<br>Problem | Transfers<br>to Non-<br>Performing | Transfers to<br>Foreclosed<br>Assets | Charge-<br>Offs | Payments   | Ending<br>Balance,<br>December 31 |
|----------------------------------|------------------------------------|-----------|---|------------------------------------|--------------------------------------|-----------------|------------|-----------------------------------|
|                                  | (In Thousands)                     |           |   |                                    |                                      |                 |            |                                   |
| One- to four-family construction | \$ —                               | \$ —      | \$ —                                    | \$ —                               | \$ —                                 | \$ —            | \$ —       | \$ —                              |
| Subdivision construction         | —                                  | —         | —                                       | —                                  | —                                    | —               | —          | —                                 |
| Land development                 | —                                  | —         | —                                       | —                                  | —                                    | —               | —          | —                                 |
| Commercial construction          | —                                  | —         | —                                       | —                                  | —                                    | —               | —          | —                                 |
| One- to four-family residential  | 1,044                              | 104       | (30)                                    | (151)                              | —                                    | —               | (176)      | 791                               |
| Other residential                | —                                  | —         | —                                       | —                                  | —                                    | —               | —          | —                                 |
| 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 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 than was recognized in the prior year as a result of the new debit card contracts. 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 are 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 per transaction.

## 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. The Company's efficiency ratio for 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.

Legal, 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.

Insurance: 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 had 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.

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.

Salaries and employee benefits: 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.

Net occupancy and equipment expense: 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

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.

## 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, 2020, the Company had commitments of approximately \$132.5 million to fund loan originations, \$1.18 billion of unused lines of credit and unadvanced loans, and \$16.1 million of outstanding letters of credit.

|  | December<br>2020    | December<br>2019    | December<br>2018    | December<br>2017    | December<br>2016  |
|--|---------------------|---------------------|---------------------|---------------------|-------------------|
| <b>Closed non-construction loans with unused available lines</b> |                     |                     |                     |                     |                   |
| Secured by real estate (one- to four-family)                     | \$ 164,480          | \$ 155,831          | \$ 150,948          | \$ 133,587          | \$ 123,433        |
| Secured by real estate (not one- to four-family)                 | 22,273              | 19,512              | 11,063              | 10,836              | 26,062            |
| Not secured by real estate - commercial business                 | 77,411              | 83,782              | 87,480              | 113,317             | 79,937            |
| <b>Closed construction loans with unused available lines</b>     |                     |                     |                     |                     |                   |
| Secured by real estate (one-to four-family)                      | 42,162              | 48,213              | 37,162              | 20,919              | 10,017            |
| Secured by real estate (not one-to four-family)                  | 823,106             | 798,810             | 906,006             | 718,277             | 542,326           |
| <b>Loan commitments not closed</b>                               |                     |                     |                     |                     |                   |
| Secured by real estate (one-to four-family)                      | 85,917              | 69,295              | 24,253              | 23,340              | 15,884            |
| Secured by real estate (not one-to four-family)                  | 45,860              | 92,434              | 104,871             | 156,658             | 119,126           |
| Not secured by real estate - commercial business                 | 699                 | —                   | 405                 | 4,870               | 7,022             |
|  | <u>\$ 1,261,908</u> | <u>\$ 1,267,877</u> | <u>\$ 1,322,188</u> | <u>\$ 1,181,804</u> | <u>\$ 923,807</u> |

The following table summarizes the Company's fixed and determinable contractual obligations by payment date as of December 31, 2020. 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.

|   | <b>Payments Due In:</b>     |                                       |                            |                     |
|---|-----------------------------|---------------------------------------|----------------------------|---------------------|
|   | <b>One Year or<br/>Less</b> | <b>Over One to<br/>Five<br/>Years</b> | <b>Over Five<br/>Years</b> | <b>Total</b>        |
|   | (In Thousands)              |                                       |                            |                     |
| Deposits without a stated maturity        | \$ 3,126,111                | \$ —                                  | \$ —                       | \$ 3,126,111        |
| Time and brokered certificates of deposit | 1,087,279                   | 302,600                               | 913                        | 1,390,792           |
| Short-term borrowings                     | 165,692                     | —                                     | —                          | 165,692             |
| Subordinated debentures                   | —                           | —                                     | 25,774                     | 25,774              |
| Subordinated notes                        | —                           | —                                     | 148,397                    | 148,397             |
| Operating leases                          | 1,119                       | 4,188                                 | 4,926                      | 10,233              |
| Dividends declared but not paid           | 4,676                       | —                                     | —                          | 4,676               |
|   | <u>\$ 4,384,877</u>         | <u>\$ 306,788</u>                     | <u>\$ 180,010</u>          | <u>\$ 4,871,675</u> |

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, 2020 and 2019, the Company had these available secured lines and on-balance sheet liquidity:

|  | <b>December 31, 2020</b> | <b>December 31, 2019</b> |
|--|--------------------------|--------------------------|
| Federal Home Loan Bank line                        | \$1,069.3 million        | \$867.1 million          |
| Federal Reserve Bank line                          | 436.4 million            | 367.8 million            |
| Interest-Bearing and Non-Interest-Bearing Deposits | 563.7 million            | 220.2 million            |
| Unpledged Securities                               | 195.1 million            | 228.5 million            |

**Statements of Cash Flows.** During the years ended December 31, 2020, 2019 and 2018, the Company had positive cash flows from operating activities. The Company experienced negative cash flows from investing activities during the years ended December 31,

2020, 2019 and 2018. The Company experienced positive cash flows from financing activities during the years ended December 31, 2020, 2019 and 2018.

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 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 \$46.0 million, \$86.4 million and \$94.2 million during the years ended December 31, 2020, 2019 and 2018, respectively.

During the years ended December 31, 2020, 2019 and 2018, investing activities used cash of \$131.3 million, \$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 cash received for the termination of interest rate derivatives (2020) and the sales of investment securities (2019).

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, proceeds from the issuance of subordinated notes, purchases of the Company's common stock and dividend payments to stockholders. Financing activities provided cash flows of \$428.9 million, \$226.1 million and \$247.6 million during the years ended December 31, 2020, 2019 and 2018, respectively, primarily due to increases in customer deposit balances, net increases or decreases in various borrowings and proceeds from the issuance of subordinated notes, partially offset by dividend payments to stockholders and purchases of the Company's common stock.

### **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, 2020, total stockholders' equity and common stockholders' equity were each \$629.7 million, or 11.4% of total assets, equivalent to a book value of \$45.79 per common share. 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. At December 31, 2020, the Company's tangible common equity to tangible assets ratio was 11.3%, compared to 11.9% at December 31, 2019. Included in stockholders' equity at December 31, 2020 and 2019, were unrealized gains (net of taxes) on the Company's available-for-sale investment securities totaling \$23.3 million and \$9.0 million, respectively. This increase in unrealized gains primarily resulted from lower market interest rates, which increased the fair value of the investment securities.

Also included in stockholders' equity at December 31, 2020, were realized gains (net of taxes) on the Company's cash flow hedge (interest rate swap), which was terminated in March 2020, totaling \$29.9 million. This amount, plus associated deferred taxes, is expected to be accreted to interest income over the remaining term of the original interest rate swap contract, which was to end in October 2025. At December 31, 2020, the remaining pre-tax amount to be recorded in interest income was \$38.7 million. The net effect on total stockholders' equity over time will be no impact as the reduction of this realized gain will be offset by an increase in retained earnings (as the interest income flows through pre-tax income).

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, 2020, the Bank's common equity Tier 1 capital ratio was 13.7%, its Tier 1 capital ratio was 13.7%, its total capital ratio was 14.9% and its Tier 1 leverage ratio was 11.8%. As a result, as of December 31, 2020, the Bank was well capitalized, with capital ratios in excess of those required to qualify as such. 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.

The FRB has established capital regulations for bank holding companies that generally parallel the capital regulations for banks. On December 31, 2020, the Company's common equity Tier 1 capital ratio was 12.2%, its Tier 1 capital ratio was 12.7%, its total capital ratio was 17.2% and its Tier 1 leverage ratio was 10.9%. To be considered well capitalized, a bank holding company must have a Tier 1 risk-based capital ratio of at least 6.00% and a total risk-based capital ratio of at least 10.00%. As of December 31, 2020, the



Company was considered well capitalized, with capital ratios in excess of those required to qualify as such. 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%. As of December 31, 2019, 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.

**Dividends.** During the year ended December 31, 2020, the Company declared common stock cash dividends of \$2.36 per share (56.1% of net income per common share) and paid common stock cash dividends of \$2.36 per share. This included a special cash dividend of \$1.00 per common share declared in January 2020. 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. This included a special cash dividend of \$0.75 per common share declared in January 2019. 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, 2020, was paid to stockholders in January 2021.

**Common Stock Repurchases and Issuances.** The Company has been in various buy-back programs since May 1990. During the years ended December 31, 2020 and 2019, the Company repurchased 529,883 shares of its common stock at an average price of \$41.71 per share and 16,040 shares of its common stock at an average price of \$52.93 per share, respectively. During the years ended December 31, 2020 and 2019, the Company issued 21,436 shares of stock at an average price of \$30.81 per share and 125,894 shares of stock at an average price of \$33.03 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 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

|   | <u>December 31,<br/>2020</u> | <u>December 31,<br/>2019</u> | <u>December 31,<br/>2018</u> | <u>December 31,<br/>2017</u> | <u>December 31,<br/>2016</u> |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|   | (Dollars in thousands)       |                              |                              |                              |                              |
| Common equity at period end                         | \$ 629,741                   | \$ 603,066                   | \$ 531,977                   | \$ 471,662                   | \$ 429,806                   |
| Less: Intangible assets at period end               | <u>6,944</u>                 | <u>8,098</u>                 | <u>9,288</u>                 | <u>10,850</u>                | <u>12,500</u>                |
| Tangible common equity at period end (a)            | <u>\$ 622,797</u>            | <u>\$ 594,968</u>            | <u>\$ 522,689</u>            | <u>\$ 460,812</u>            | <u>\$ 417,306</u>            |
| Total assets at period end                          | \$ 5,526,420                 | \$ 5,015,072                 | \$ 4,676,200                 | \$ 4,414,521                 | \$ 4,550,663                 |
| Less: Intangible assets at period end               | <u>6,944</u>                 | <u>8,098</u>                 | <u>9,288</u>                 | <u>10,850</u>                | <u>12,500</u>                |
| Tangible assets at period end (b)                   | <u>\$ 5,519,476</u>          | <u>\$ 5,006,974</u>          | <u>\$ 4,666,912</u>          | <u>\$ 4,403,671</u>          | <u>\$ 4,538,163</u>          |
| Tangible common equity to tangible assets (a) / (b) | <u>11.28 %</u>               | <u>11.88 %</u>               | <u>11.20 %</u>               | <u>10.46 %</u>               | <u>9.20 %</u>                |

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Asset and Liability Management and Market Risk

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

### Our Risk When Interest Rates Change

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

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

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

The ability to maximize net interest income is largely dependent upon the achievement of a positive interest rate spread that can be sustained despite fluctuations in prevailing interest rates. Interest rate sensitivity is a measure of the difference between amounts of interest-earning assets and interest-bearing liabilities which either reprice or mature within a given period of time. The difference, or the interest rate repricing "gap," provides an indication of the extent to which an institution's interest rate spread will be affected by changes in interest rates. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities repricing during the same period, and is considered negative when the amount of interest-rate sensitive liabilities exceeds the amount of interest-rate sensitive assets during the same period. Generally, during a period of rising interest rates, a negative gap within shorter repricing periods would adversely affect net interest income, while a positive gap within shorter repricing periods would result in an increase in net interest income. During a period of falling interest rates, the opposite would be true. As of December 31, 2020, 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. In a situation where market interest rates decrease significantly in a short period of time, as they did in March 2020, our net interest margin decrease may be more pronounced in the very near term (first one to three months), due to fairly rapid decreases in LIBOR interest rates. In the subsequent months we expect that the net interest margin would stabilize and begin to improve, as renewal interest rates on maturing time deposits are expected to decrease compared to the current rates paid on those products. Subsequent to December 31, 2020, cumulative time deposit maturities are as follows: within three months – \$357 million; within six months – \$638 million; and within twelve months – \$1.1 billion. At December 31, 2020, the weighted average interest rates on these various cumulative maturities were 1.16%, 1.05% and 0.96%, respectively.

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 decreases of 0.25% on each of those occasions. At December 31, 2019, the Federal Funds rate stood at 1.75%. In response to the COVID-19 pandemic, the FRB decreased interest rates on two occasions in March 2020, a 0.50% decrease on March 3rd and a 1.00% decrease on March 16th. At December 31, 2020, the Federal Funds rate stood at 0.25%. A substantial portion of Great Southern's loan portfolio (\$2.00 billion at December 31, 2020) 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, 2020. Of these loans, \$1.99 billion had interest rate floors. Great Southern also has a portfolio of loans (\$261 million at December 31, 2020) tied to a "prime rate" of interest and will adjust immediately with changes to the "prime rate" of interest. During 2020, we experienced some compression of our net interest margin due to 2.25% of Federal Fund rate cuts over that time period. Margin compression primarily resulted from generally slower changing average interest rates on deposits and borrowings and lower yields on loans and other interest-earning assets. LIBOR interest rates decreased further in April and May of 2020, putting pressure on loan yields during most of 2020, and strong pricing competition for loans and deposits remains in most of our markets.

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 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 was \$400 million with a contractual termination date of October 6, 2025. Under the terms of the swap, the Company received a fixed rate of interest of 3.018% and paid a floating rate of interest equal to one-month USD-LIBOR. The floating rate reset monthly and net settlements of interest due to/from the counterparty also occurred monthly. Due to lower market interest rates, the Company received net interest settlements which were recorded as loan interest income. If USD-LIBOR exceeded the fixed rate of interest, the Company was 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 was 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 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, 2020. 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

|  | December 31,           |                   |                   |                   |                   |                     | Total               | December 31,<br>2020<br>Fair Value |
|--|------------------------|-------------------|-------------------|-------------------|-------------------|---------------------|---------------------|------------------------------------|
|  | 2021                   | 2022              | 2023              | 2024              | 2025              | Thereafter          |                     |                                    |
|  | (Dollars In Thousands) |                   |                   |                   |                   |                     |                     |                                    |
| <b>Financial Assets:</b>                                       |                        |                   |                   |                   |                   |                     |                     |                                    |
| Interest bearing deposits                                      | \$ 471,326             | —                 | —                 | —                 | —                 | —                   | \$ 471,326          | \$ 471,326                         |
| Weighted average rate  | 0.25 %                 | —                 | —                 | —                 | —                 | —                   | 0.25 %              |                                    |
| Available-for-sale debt securities(1)                          | \$ 7,617               | \$ 776            | \$ 13,303         | \$ 4,331          | \$ 7,530          | \$ 381,376          | \$ 414,933          | \$ 414,933                         |
| Weighted average rate  | 5.14 %                 | 5.38 %            | 3.16 %            | 2.24 %            | 2.74 %            | 2.92 %              | 2.98 %              |                                    |
| Adjustable rate loans  | \$ 740,267             | \$ 578,284        | \$ 380,420        | \$ 169,349        | \$ 142,650        | \$ 677,774          | \$ 2,688,744        | \$ 2,683,999                       |
| Weighted average rate  | 3.64 %                 | 3.52 %            | 3.73 %            | 3.83 %            | 3.32 %            | 3.26 %              | 3.53 %              |                                    |
| Fixed rate loans   | \$ 421,704             | \$ 314,222        | \$ 250,818        | \$ 150,372        | \$ 295,582        | \$ 262,074          | \$ 1,694,772        | \$ 1,706,622                       |
| Weighted average rate  | 4.38 %                 | 3.90 %            | 4.89 %            | 5.09 %            | 4.57 %            | 4.90 %              | 4.54 %              |                                    |
| Federal Home Loan Bank stock and other interest earning assets | —                      | —                 | —                 | —                 | —                 | \$ 9,806            | \$ 9,806            | \$ 9,806                           |
| Weighted average rate  | —                      | —                 | —                 | —                 | —                 | 1.88 %              | 1.88 %              |                                    |
| <b>Total financial assets</b>                                  | <b>\$ 1,640,914</b>    | <b>\$ 893,282</b> | <b>\$ 644,541</b> | <b>\$ 324,052</b> | <b>\$ 445,762</b> | <b>\$ 1,331,030</b> | <b>\$ 5,279,581</b> |                                    |
| <b>Financial Liabilities:</b>                                  |                        |                   |                   |                   |                   |                     |                     |                                    |
| Time deposits  | \$ 1,087,279           | \$ 189,664        | \$ 73,346         | \$ 25,847         | \$ 13,743         | \$ 913              | \$ 1,390,792        | \$ 1,397,475                       |
| Weighted average rate  | 0.96 %                 | 1.15 %            | 1.03 %            | 1.36 %            | 0.98 %            | 1.83 %              | 1.00 %              |                                    |
| Interest-bearing demand  | \$ 2,141,313           | —                 | —                 | —                 | —                 | —                   | \$ 2,141,313        | \$ 2,141,313                       |
| Weighted average rate  | 0.22 %                 | —                 | —                 | —                 | —                 | —                   | 0.22 %              |                                    |
| Non-interest-bearing demand                                    | \$ 984,798             | —                 | —                 | —                 | —                 | —                   | \$ 984,798          | \$ 984,798                         |
| Weighted average rate  | —                      | —                 | —                 | —                 | —                 | —                   | —                   |                                    |
| Short-term borrowings  | \$ 165,692             | —                 | —                 | —                 | —                 | —                   | \$ 165,692          | \$ 165,692                         |
| Weighted average rate  | 0.02 %                 | —                 | —                 | —                 | —                 | —                   | 0.02 %              |                                    |
| Subordinated notes   | —                      | —                 | —                 | —                 | —                 | \$ 150,000          | \$ 150,000          | \$ 157,032                         |
| Weighted average rate  | —                      | —                 | —                 | —                 | —                 | 5.84 %              | 5.84 %              |                                    |
| Subordinated debentures  | —                      | —                 | —                 | —                 | —                 | \$ 25,774           | \$ 25,774           | \$ 25,774                          |
| Weighted average rate  | —                      | —                 | —                 | —                 | —                 | 1.81 %              | 1.81 %              |                                    |
| <b>Total financial liabilities</b>                             | <b>\$ 4,379,082</b>    | <b>\$ 189,664</b> | <b>\$ 73,346</b>  | <b>\$ 25,847</b>  | <b>\$ 13,743</b>  | <b>\$ 176,687</b>   | <b>\$ 4,858,369</b> |                                    |

(1) Available-for-sale debt securities include approximately \$346.6 million of mortgage-backed securities and collateralized mortgage obligations which pay interest and principal monthly to the Company. Of this total, \$19.9 million represents securities that have variable rates of interest after a fixed interest period. These securities will experience rate changes at varying times over the next ten years. This table does not show the effect of these monthly repayments of principal or rate changes.

## Repricing

|  | December 31,           |                   |                   |                   |                   |                     | December 31,        |                    |
|--|------------------------|-------------------|-------------------|-------------------|-------------------|---------------------|---------------------|--------------------|
|  | 2021                   | 2022              | 2023              | 2024              | 2025              | Thereafter          | Total               | 2020<br>Fair Value |
|  | (Dollars In Thousands) |                   |                   |                   |                   |                     |                     |                    |
| Financial Assets:  |                        |                   |                   |                   |                   |                     |                     |                    |
| Interest bearing deposits                                      | \$ 471,326             | —                 | —                 | —                 | —                 | —                   | \$ 471,326          | \$ 471,326         |
| Weighted average rate  | 0.25%                  | —                 | —                 | —                 | —                 | —                   | 0.25%               | —                  |
| Available-for-sale debt securities(1)                          | \$ 7,617               | \$ 776            | \$ 13,303         | \$ 4,331          | \$ 7,530          | \$ 381,376          | \$ 414,933          | \$ 414,933         |
| Weighted average rate  | 5.14%                  | 5.38%             | 3.16%             | 2.24%             | 2.74%             | 2.92%               | 2.98%               | —                  |
| Adjustable rate loans  | \$ 2,287,220           | \$ 22,245         | \$ 18,577         | \$ 22,684         | \$ 50,747         | \$ 287,271          | \$ 2,688,744        | \$ 2,683,999       |
| Weighted average rate  | 3.51%                  | 3.98%             | 4.26%             | 4.41%             | 3.53%             | 3.47%               | 3.53%               | —                  |
| Fixed rate loans   | \$ 421,704             | \$ 314,222        | \$ 250,818        | \$ 150,372        | \$ 295,582        | \$ 262,074          | \$ 1,694,772        | \$ 1,706,622       |
| Weighted average rate  | 4.38%                  | 3.90%             | 4.89%             | 5.09%             | 4.57%             | 4.90%               | 4.54%               | —                  |
| Federal Home Loan Bank stock and other interest earning assets | \$ 9,806               | —                 | —                 | —                 | —                 | —                   | \$ 9,806            | \$ 9,806           |
| Weighted average rate  | 1.88%                  | —                 | —                 | —                 | —                 | —                   | 1.88%               | —                  |
| <b>Total financial assets</b>                                  | <b>\$ 3,197,673</b>    | <b>\$ 337,243</b> | <b>\$ 282,698</b> | <b>\$ 177,387</b> | <b>\$ 353,859</b> | <b>\$ 930,721</b>   | <b>\$ 5,279,581</b> |                    |
| Financial Liabilities:   |                        |                   |                   |                   |                   |                     |                     |                    |
| Time deposits  | \$ 1,154,678           | \$ 175,913        | \$ 30,898         | \$ 14,647         | \$ 13,743         | \$ 913              | \$ 1,390,792        | \$ 1,397,475       |
| Weighted average rate  | 0.94%                  | 1.16%             | 1.70%             | 2.14%             | 0.98%             | 1.83%               | 1.00%               | —                  |
| Interest-bearing demand  | \$ 2,141,313           | —                 | —                 | —                 | —                 | —                   | \$ 2,141,313        | \$ 2,141,313       |
| Weighted average rate  | 0.22%                  | —                 | —                 | —                 | —                 | —                   | 0.22%               | —                  |
| Non-interest-bearing demand(2)                                 | —                      | —                 | —                 | —                 | —                 | \$ 984,798          | \$ 984,798          | \$ 984,798         |
| Weighted average rate  | —                      | —                 | —                 | —                 | —                 | —                   | —                   | —                  |
| Short-term borrowings  | \$ 165,692             | —                 | —                 | —                 | —                 | —                   | \$ 165,692          | \$ 165,692         |
| Weighted average rate  | 0.02%                  | —                 | —                 | —                 | —                 | —                   | 0.02%               | —                  |
| Subordinated notes   | —                      | —                 | —                 | —                 | —                 | \$ 150,000          | \$ 150,000          | \$ 157,032         |
| Weighted average rate  | —                      | —                 | —                 | —                 | —                 | 5.84%               | 5.84%               | —                  |
| Subordinated debentures  | \$ 25,774              | —                 | —                 | —                 | —                 | —                   | \$ 25,774           | \$ 25,774          |
| Weighted average rate  | 1.81%                  | —                 | —                 | —                 | —                 | —                   | 1.81%               | —                  |
| <b>Total financial liabilities</b>                             | <b>\$ 3,487,457</b>    | <b>\$ 175,913</b> | <b>\$ 30,898</b>  | <b>\$ 14,647</b>  | <b>\$ 13,743</b>  | <b>\$ 1,135,711</b> | <b>\$ 4,858,369</b> |                    |
| Periodic repricing GAP   | \$ (272,833)           | \$ 161,330        | \$ 234,849        | \$ 162,740        | \$ 340,116        | \$ (204,990)        | \$ 421,212          |                    |
| Cumulative repricing GAP                                       | \$ (272,833)           | \$ (111,503)      | \$ 123,346        | \$ 286,086        | \$ 626,202        | \$ 421,212          |                     |                    |

(1) Available-for-sale debt securities include approximately \$346.6 million of mortgage-backed securities which pay interest and principal monthly to the Company. Of this total, \$19.9 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.

# **Great Southern Bancorp, Inc.**

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

**December 31, 2020 and 2019**

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## Report of Independent Registered Public Accounting Firm

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

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

We have audited the accompanying consolidated statements of financial condition of Great Southern Bancorp, Inc. (the “Company”) as of December 31, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, 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, 2020, based on *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 5, 2021, 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.



### **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

As more fully described in *Note 1* and *Note 3* to the Company's consolidated financial statements, the allowance for loan losses represents estimated incurred losses on loans. The allowance for loan losses is based on three primary components: (1) estimates of incurred losses that may exist in various segments of performing loans based upon historical net loss experience; (2) specifically identified losses in individually analyzed credits; and (3) qualitative factors that address estimates of incurred losses not fully identified by historical net loss experience. Estimates of incurred losses are influenced by historical net losses experienced by the Company for loans of comparable creditworthiness and structure. Qualitative factors such as changes in economic conditions, concentrations of risk, and changes in portfolio risk resulting from regulatory changes are considered in the determining the adequacy of the level of the allowance for loan losses. The Company discloses that this determination involves a high degree of judgement and complexity and is inherently subjective.

We identified the valuation of the allowance for loan losses as a critical audit matter. Auditing the allowance for loan losses involves a high degree of subjectivity in evaluating management's estimates, such as evaluating management's assessment of economic conditions and other qualitative or environmental factors, evaluating the adequacy of specifically identified losses on impaired loans, and assessing the appropriateness of loan credit ratings.

The primary procedures we performed to address this critical audit matter included:

- Testing the design and operating effectiveness of controls, including those related to technology, over the allowance for loan losses including data completeness and accuracy, classifications of loans by loan segment, verification of historical net loss data, and calculated net loss rates, the establishment of qualitative adjustments, credit ratings, and risk classification of loans and establishment of specific reserves on impaired loans and management's review and disclosure controls over the allowance for credit losses;
- Testing of completeness and accuracy of the information utilized in the allowance for loan losses;
- Testing the mathematical accuracy of the calculation of the allowance for loan losses;
- Evaluating the qualitative adjustments, including assessing the basis for the adjustments and the reasonableness of the significant assumptions;

- Testing the loan review function and evaluating the accuracy of loan credit ratings;
- Evaluating the reasonableness of specific allowances on impaired loans;
- Evaluating the overall reasonableness of assumptions used by management considering the past performance of the Company and evaluating trends identified within peer groups;
- Evaluating the disclosures in the consolidated financial statements.

**BKD, LLP**

*BKD, LLP*

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

Springfield, Missouri  
March 5, 2021

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Financial Condition**  
**December 31, 2020 and 2019**  
**(In Thousands, Except Per Share Data)**

**Assets**

|   | <u>2020</u>         | <u>2019</u>         |
|---|---------------------|---------------------|
| Cash  | \$ 92,403           | \$ 99,299           |
| Interest-bearing deposits in other financial institutions   | <u>471,326</u>      | <u>120,856</u>      |
| Cash and cash equivalents   | 563,729             | 220,155             |
| Available-for-sale securities   | 414,933             | 374,175             |
| Mortgage loans held for sale  | 17,780              | 9,242               |
| Loans receivable, net of allowance for loan losses of \$55,743 and \$40,294 at December 31, 2020 and 2019, respectively | 4,296,804           | 4,153,982           |
| Interest receivable   | 12,793              | 13,530              |
| Prepaid expenses and other assets   | 58,889              | 74,984              |
| Other real estate owned and repossessions, net  | 1,877               | 5,525               |
| Premises and equipment, net   | 139,170             | 141,908             |
| Goodwill and other intangible assets  | 6,944               | 8,098               |
| Federal Home Loan Bank stock and other interest earning assets  | 9,806               | 13,473              |
| Current and deferred income taxes   | <u>3,695</u>        | <u>—</u>            |
| Total assets  | <u>\$ 5,526,420</u> | <u>\$ 5,015,072</u> |

See Notes to Consolidated Financial Statements

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Financial Condition**  
**December 31, 2020 and 2019**  
**(In Thousands, Except Per Share Data)**

**Liabilities and Stockholders' Equity**

|  | <b>2020</b>         | <b>2019</b>         |
|--|---------------------|---------------------|
| <b>Liabilities</b>   |                     |                     |
| Deposits   | \$ 4,516,903        | \$ 3,960,106        |
| Securities sold under reverse repurchase agreements with customers   | 164,174             | 84,167              |
| Short-term borrowings and other interest-bearing liabilities   | 1,518               | 228,157             |
| Subordinated debentures issued to capital trust  | 25,774              | 25,774              |
| Subordinated notes   | 148,397             | 74,276              |
| Accrued interest payable   | 2,594               | 4,250               |
| Advances from borrowers for taxes and insurance  | 7,536               | 7,484               |
| Accrued expenses and other liabilities   | 29,783              | 24,904              |
| Current and deferred income taxes  | <u>—</u>            | <u>2,888</u>        |
| Total liabilities  | <u>4,896,679</u>    | <u>4,412,006</u>    |
| <b>Commitments and Contingencies</b>   | <u>—</u>            | <u>—</u>            |
| <b>Stockholders' Equity</b>  |                     |                     |
| Capital stock  |                     |                     |
| Serial preferred stock, \$.01 par value; authorized 1,000,000 shares;<br>issued and outstanding 2020 and 2019 – -0- shares                   | —                   | —                   |
| Common stock, \$.01 par value; authorized 20,000,000 shares;<br>issued and outstanding 2020 – 13,752,605 shares,<br>2019 – 14,261,052 shares | 138                 | 143                 |
| Additional paid-in capital   | 35,004              | 33,510              |
| Retained earnings  | 541,448             | 537,167             |
| Accumulated other comprehensive income, net of income taxes<br>of \$15,699 and \$9,525 at December 31, 2020 and 2019, respectively           | <u>53,151</u>       | <u>32,246</u>       |
| Total stockholders' equity   | <u>629,741</u>      | <u>603,066</u>      |
| Total liabilities and stockholders' equity   | <u>\$ 5,526,420</u> | <u>\$ 5,015,072</u> |

See Notes to Consolidated Financial Statements

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2020, 2019 and 2018**  
**(In Thousands, Except Per Share Data)**

|   | <u>2020</u>    | <u>2019</u>    | <u>2018</u>    |
|---|----------------|----------------|----------------|
| <b>Interest Income</b>  |                |                |                |
| Loans   | \$ 204,964     | \$ 223,047     | \$ 198,226     |
| Investment securities and other                                       | <u>12,739</u>  | <u>11,947</u>  | <u>7,723</u>   |
|   | <u>217,703</u> | <u>234,994</u> | <u>205,949</u> |
| <b>Interest Expense</b>   |                |                |                |
| Deposits  | 32,431         | 45,570         | 27,957         |
| Federal Home Loan Bank advances                                       | —              | —              | 3,985          |
| Short-term borrowings and repurchase agreements                       | 675            | 3,635          | 765            |
| Subordinated debentures issued to capital trust                       | 628            | 1,019          | 953            |
| Subordinated notes  | <u>6,831</u>   | <u>4,378</u>   | <u>4,097</u>   |
|   | <u>40,565</u>  | <u>54,602</u>  | <u>37,757</u>  |
| <b>Net Interest Income</b>  | 177,138        | 180,392        | 168,192        |
| <b>Provision for Loan Losses</b>                                      | <u>15,871</u>  | <u>6,150</u>   | <u>7,150</u>   |
| <b>Net Interest Income After Provision for Loan Losses</b>            | <u>161,267</u> | <u>174,242</u> | <u>161,042</u> |
| <b>Noninterest Income</b>   |                |                |                |
| Commissions   | 892            | 889            | 1,137          |
| Service charges, debit card and ATM fees                              | 18,684         | 20,898         | 21,695         |
| Net gains on loan sales   | 8,089          | 2,607          | 1,788          |
| Net realized gains (losses) on sales of available-for-sale securities | 78             | (62)           | 2              |
| Late charges and fees on loans  | 1,419          | 1,432          | 1,622          |
| Gain (loss) on derivative interest rate products                      | (264)          | (104)          | 25             |
| Gain on sale of business units  | —              | —              | 7,414          |
| Other income  | <u>6,152</u>   | <u>5,297</u>   | <u>2,535</u>   |
|   | <u>35,050</u>  | <u>30,957</u>  | <u>36,218</u>  |
| <b>Noninterest Expense</b>  |                |                |                |
| Salaries and employee benefits  | 70,810         | 63,224         | 60,215         |
| Net occupancy and equipment expense                                   | 27,582         | 26,217         | 25,628         |
| Postage   | 3,069          | 3,198          | 3,348          |
| Insurance   | 2,405          | 2,015          | 2,674          |
| Advertising   | 2,631          | 2,808          | 2,460          |
| Office supplies and printing  | 1,016          | 1,077          | 1,047          |
| Telephone   | 3,794          | 3,580          | 3,272          |
| Legal, audit and other professional fees                              | 2,378          | 2,624          | 3,423          |
| Expense on other real estate and repossessions                        | 2,023          | 2,184          | 4,919          |
| Partnership tax credit investment amortization                        | 80             | 365            | 575            |
| Acquired deposit intangible asset amortization                        | 1,154          | 1,190          | 1,562          |
| Other operating expenses  | <u>6,283</u>   | <u>6,656</u>   | <u>6,187</u>   |
|   | <u>123,225</u> | <u>115,138</u> | <u>115,310</u> |

See Notes to Consolidated Financial Statements

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2020, 2019 and 2018**  
**(In Thousands, Except Per Share Data)**

|   | <u>2020</u>      | <u>2019</u>      | <u>2018</u>      |
|---|------------------|------------------|------------------|
| <b>Income Before Income Taxes</b>                                     | \$ 73,092        | \$ 90,061        | \$ 81,950        |
| <b>Provision for Income Taxes</b>                                     | <u>13,779</u>    | <u>16,449</u>    | <u>14,841</u>    |
| <b>Net Income and Net Income Available to<br/>Common Shareholders</b> | <u>\$ 59,313</u> | <u>\$ 73,612</u> | <u>\$ 67,109</u> |
| <b>Earnings Per Common Share</b>                                      |                  |                  |                  |
| Basic   | <u>\$ 4.22</u>   | <u>\$ 5.18</u>   | <u>\$ 4.75</u>   |
| Diluted   | <u>\$ 4.21</u>   | <u>\$ 5.14</u>   | <u>\$ 4.71</u>   |

See Notes to Consolidated Financial Statements

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2020, 2019 and 2018**  
**(In Thousands)**

|  | <u>2020</u>             | <u>2019</u>             | <u>2018</u>             |
|--|-------------------------|-------------------------|-------------------------|
| <b>Net Income</b>  | \$ <u>59,313</u>        | \$ <u>73,612</u>        | \$ <u>67,109</u>        |
| Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes (credit) of \$4,215, \$2,574 and \$(353) for 2020, 2019 and 2018, respectively | 14,274                  | 8,714                   | (1,229)                 |
| Less: reclassification adjustment for losses (gains) included in net income, net of taxes (credit) of \$18, \$(14) and \$0 for 2020, 2019 and 2018, respectively     | (60)                    | 48                      | (2)                     |
| Amortization of realized gain on termination of cash flow hedge, net of taxes (credit) of \$(1,541), \$0 and \$0, for 2020, 2019, and 2018, respectively             | (5,223)                 | —                       | —                       |
| Change in fair value of cash flow hedge, net of taxes of \$3,519, \$4,093 and \$2,761 for 2020, 2019 and 2018, respectively  | <u>11,914</u>           | <u>13,857</u>           | <u>9,345</u>            |
| Other comprehensive income   | <u>20,905</u>           | <u>22,619</u>           | <u>8,114</u>            |
| <b>Comprehensive Income</b>  | <u>\$ <u>80,218</u></u> | <u>\$ <u>96,231</u></u> | <u>\$ <u>75,223</u></u> |

See Notes to Consolidated Financial Statements

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
**Years Ended December 31, 2020, 2019 and 2018**  
**(In Thousands, Except Per Share Data)**

|  | <b>Common<br/>Stock</b> |
|--|-------------------------|
| <b>Balance, January 1, 2018</b>  | \$ 141                  |
| Net income   | —                       |
| Stock issued under Stock Option Plan   | —                       |
| Common dividends declared, \$1.20 per share  | —                       |
| Purchase of the Company's common stock   | —                       |
| Reclassification of stranded tax effects resulting from<br>change in Federal income tax rate | —                       |
| Other comprehensive gain   | —                       |
| Reclassification of treasury stock per Maryland law  | 1                       |
| <b>Balance, December 31, 2018</b>  | 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   | —                       |
| Reclassification of treasury stock per Maryland law  | 1                       |
| <b>Balance, December 31, 2019</b>  | 143                     |
| Net income   | —                       |
| Stock issued under Stock Option Plan   | —                       |
| Common dividends declared, \$2.36 per share  | —                       |
| Purchase of the Company's common stock   | —                       |
| Other comprehensive gain   | —                       |
| Reclassification of treasury stock per Maryland law  | (5)                     |
| <b>Balance, December 31, 2020</b>  | \$ 138                  |

See Notes to Consolidated Financial Statements



| <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</b> | <b>Treasury<br/>Stock</b> | <b>Total</b>      |
|---|------------------------------|--|---------------------------|-------------------|
| \$ 28,203                                 | \$ 442,077                   | \$ 1,241   | \$ —                      | \$ 471,662        |
| —   | 67,109                       | —  | —                         | 67,109            |
| 1,918                                     | —                            | —  | 1,043                     | 2,961             |
| —   | (16,966)                     | —  | —                         | (16,966)          |
| —   | —                            | —  | (903)                     | (903)             |
| —   | (272)                        | 272  | —                         | —                 |
| —   | —                            | 8,114  | —                         | 8,114             |
| —   | 139                          | —  | (140)                     | —                 |
| 30,121                                    | 492,087                      | 9,627  | —                         | 531,977           |
| —   | 73,612                       | —  | —                         | 73,612            |
| 3,389                                     | —                            | —  | 1,691                     | 5,080             |
| —   | (29,373)                     | —  | —                         | (29,373)          |
| —   | —                            | —  | (849)                     | (849)             |
| —   | —                            | 22,619   | —                         | 22,619            |
| —   | 841                          | —  | (842)                     | —                 |
| 33,510                                    | 537,167                      | 32,246   | —                         | 603,066           |
| —   | 59,313                       | —  | —                         | 59,313            |
| 1,494                                     | —                            | —  | 320                       | 1,814             |
| —   | (33,253)                     | —  | —                         | (33,253)          |
| —   | —                            | —  | (22,104)                  | (22,104)          |
| —   | —                            | 20,905   | —                         | 20,905            |
| —   | (21,779)                     | —  | 21,784                    | —                 |
| <u>\$ 35,004</u>                          | <u>\$ 541,448</u>            | <u>\$ 53,151</u>   | <u>\$ —</u>               | <u>\$ 629,741</u> |

See Notes to Consolidated Financial Statements

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2020, 2019 and 2018**  
**(In Thousands)**

|  | <u>2020</u>   | <u>2019</u>   | <u>2018</u>   |
|--|---------------|---------------|---------------|
| <b>Operating Activities</b>                                    |               |               |               |
| Net income   | \$ 59,313     | \$ 73,612     | \$ 67,109     |
| Proceeds from sales of loans held for sale                     | 317,173       | 131,014       | 92,422        |
| Originations of loans held for sale                            | (316,125)     | (135,937)     | (83,806)      |
| Items not requiring (providing) cash                           |               |               |               |
| Depreciation   | 10,007        | 9,557         | 9,118         |
| Amortization   | 2,075         | 2,068         | 2,291         |
| Compensation expense for stock option grants                   | 1,153         | 922           | 737           |
| Provision for loan losses                                      | 15,871        | 6,150         | 7,150         |
| Net gains on loan sales  | (8,089)       | (2,607)       | (1,788)       |
| Net realized (gains) losses on available-for-sale securities   | (78)          | 62            | (2)           |
| Loss (gain) on sale of premises and equipment                  | (37)          | 77            | 193           |
| Loss on sale/write-down of other real estate and repossessions | 840           | 316           | 1,886         |
| Gain on sale of business units                                 | —             | —             | (7,414)       |
| Accretion of deferred income, premiums, discounts and other    | (6,147)       | (3,899)       | (2,918)       |
| Loss (gain) on derivative interest rate products               | 264           | 104           | (25)          |
| Deferred income taxes  | (11,480)      | 1,074         | (4,450)       |
| Changes in   |               |               |               |
| Interest receivable  | 362           | (82)          | (1,110)       |
| Prepaid expenses and other assets                              | (17,163)      | (1,336)       | 3,002         |
| Accrued expenses and other liabilities                         | (612)         | 2,725         | 280           |
| Income taxes refundable/payable                                | (1,279)       | 2,599         | 11,520        |
|  | <u>46,048</u> | <u>86,419</u> | <u>94,195</u> |
| Net cash provided by operating activities                      | <u>46,048</u> | <u>86,419</u> | <u>94,195</u> |

See Notes to Consolidated Financial Statements

**Great Southern Bancorp, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2020, 2019 and 2018**  
**(In Thousands)**

|   | <b>2020</b>              | <b>2019</b>              | <b>2018</b>              |
|---|--------------------------|--------------------------|--------------------------|
| <b>Investing Activities</b>   |                          |                          |                          |
| Net change in loans   | \$ (62,493)              | \$ (81,320)              | \$ (147,945)             |
| Purchase of loans   | (92,099)                 | (97,162)                 | (128,038)                |
| Cash paid for sale of business units  | —                        | —                        | (50,356)                 |
| Cash received for termination of interest rate derivative                               | 45,864                   | —                        | —                        |
| Purchase of premises and equipment  | (8,224)                  | (11,789)                 | (9,317)                  |
| Proceeds from sale of premises and equipment  | 781                      | 204                      | 2,328                    |
| Proceeds from sale of other real estate and repossessions                               | 4,096                    | 15,244                   | 20,426                   |
| Capitalized costs on other real estate owned  | (126)                    | (121)                    | (153)                    |
| Proceeds from maturities, calls and repayments of held-to-maturity securities           | —                        | —                        | 130                      |
| Proceeds from sale of available-for-sale securities                                     | 19,236                   | 53,695                   | 502                      |
| Proceeds from maturities, calls and repayments of available-for-sale securities         | 76,248                   | 34,769                   | 25,734                   |
| Purchase of available-for-sale securities   | (118,296)                | (207,634)                | (93,378)                 |
| Redemption (purchase) of Federal Home Loan Bank stock                                   | <u>3,667</u>             | <u>(1,035)</u>           | <u>(1,256)</u>           |
| Net cash used in investing activities   | <u>(131,346)</u>         | <u>(295,149)</u>         | <u>(381,323)</u>         |
| <b>Financing Activities</b>   |                          |                          |                          |
| Net increase (decrease) in certificates of deposit                                      | (330,306)                | 129,748                  | 242,955                  |
| Net increase (decrease) in checking and savings accounts                                | 887,114                  | 105,400                  | (53,956)                 |
| Proceeds from Federal Home Loan Bank advances   | —                        | —                        | 2,621,500                |
| Repayments of Federal Home Loan Bank advances   | —                        | —                        | (2,749,000)              |
| Net increase (decrease) in short-term borrowings and other interest-bearing liabilities | (146,632)                | 14,346                   | 200,843                  |
| Advances from (to) borrowers for taxes and insurance                                    | 52                       | 2,392                    | (227)                    |
| Proceeds from issuance of subordinated notes  | 73,513                   | —                        | —                        |
| Purchase of the company's common stock  | (22,104)                 | (849)                    | (903)                    |
| Dividends paid  | (33,426)                 | (29,052)                 | (15,819)                 |
| Stock options exercised   | <u>661</u>               | <u>4,158</u>             | <u>2,224</u>             |
| Net cash provided by financing activities   | <u>428,872</u>           | <u>226,143</u>           | <u>247,617</u>           |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>                                 | <b>343,574</b>           | <b>17,413</b>            | <b>(39,511)</b>          |
| <b>Cash and Cash Equivalents, Beginning of Year</b>                                     | <b><u>220,155</u></b>    | <b><u>202,742</u></b>    | <b><u>242,253</u></b>    |
| <b>Cash and Cash Equivalents, End of Year</b>   | <b><u>\$ 563,729</u></b> | <b><u>\$ 220,155</u></b> | <b><u>\$ 202,742</u></b> |

See Notes to Consolidated Financial Statements

# Great Southern Bancorp, Inc.

## Notes to Consolidated Financial Statements

### December 31, 2020, 2019 and 2018

#### **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, Colo., 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.

##### ***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.

# Great Southern Bancorp, Inc.

## Notes to Consolidated Financial Statements

### December 31, 2020, 2019 and 2018

#### **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.

#### **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

# Great Southern Bancorp, Inc.

## Notes to Consolidated Financial Statements

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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. 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.

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## Notes to Consolidated Financial Statements

### December 31, 2020, 2019 and 2018

#### **Loans Acquired in Business Combinations**

Loans acquired in business combinations under ASC Topic 805, *Business Combinations*, require the use of the acquisition 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 impairments through the allowance for loan losses.

#### **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

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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, 2020, 2019 and 2018.

***Goodwill and Intangible Assets***

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount and an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value. The Company still may perform the qualitative assessment for a reporting unit to determine if the qualitative impairment test is necessary.

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

A summary of goodwill and intangible assets is as follows:

|                                | <b>December 31,</b>   |             |
|--------------------------------|-----------------------|-------------|
|                                | <b>2020</b>           | <b>2019</b> |
|                                | <b>(In Thousands)</b> |             |
| Goodwill – Branch acquisitions | \$ 5,396              | \$ 5,396    |
| Deposit intangibles            |                       |             |
| Boulevard Bank                 | 31                    | 153         |
| Valley Bank                    | 200                   | 600         |
| Fifth Third Bank               | 1,317                 | 1,949       |
|                                | 1,548                 | 2,702       |
|                                | \$ 6,944              | \$ 8,098    |

***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.



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**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.

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

|  | <b>2020</b>                                  | <b>2019</b>      | <b>2018</b>      |
|--|--|------------------|------------------|
|  | <b>(In Thousands, Except Per Share Data)</b> |                  |                  |
| Net income and net income available to common shareholders | \$ <u>59,313</u>                             | \$ <u>73,612</u> | \$ <u>67,109</u> |
| Average common shares outstanding                          | 14,043                                       | 14,201           | 14,132           |
| Average common share stock options outstanding             | <u>61</u>                                    | <u>129</u>       | <u>128</u>       |
| Average diluted common shares                              | <u>14,104</u>                                | <u>14,330</u>    | <u>14,260</u>    |
| Earnings per common share – basic                          | \$ <u>4.22</u>                               | \$ <u>5.18</u>   | \$ <u>4.75</u>   |
| Earnings per common share – diluted                        | \$ <u>4.21</u>                               | \$ <u>5.14</u>   | \$ <u>4.71</u>   |

Options outstanding at December 31, 2020, 2019 and 2018, to purchase 758,901, 201,400 and 424,833 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, 2020, 2019 and 2018, 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, 2020, 2019 and 2018, share-based compensation expense totaling \$1.2 million, \$922,000 and \$737,000, 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, 2020 and 2019, cash equivalents consisted of interest-bearing deposits in other financial institutions.

# Great Southern Bancorp, Inc.

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At December 31, 2020, 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.

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, 2020 and 2019, no valuation allowance was established.

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

The Company files consolidated income tax returns with its subsidiaries.

#### **Derivatives and Hedging Activities**

FASB ASC 815, *Derivatives and Hedging*, provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. Further, qualitative disclosures are required that explain the Company’s objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments. For detailed disclosures on derivatives and hedging activities, see *Note 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. During the COVID-19 pandemic, the Federal Reserve Bank has reduced all banks’ reserve requirements to \$-0- until further notice. There was no reserve required at December 31, 2020, compared to \$69.4 million at December 31, 2019.

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## Notes to Consolidated Financial Statements

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#### **Recent Accounting Pronouncements**

In June 2016, the FASB issued Accounting Standards Update (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 was set to be effective for the Company on January 1, 2020. During March 2020, pursuant to the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) and guidance from the Securities and Exchange Commission (the “SEC”) and the Financial Accounting Standards Board (the “FASB”), we elected to delay adoption of the new accounting standard related to accounting for credit losses (“CECL”). In December 2020, additional legislation was enacted that amended certain provisions of the CARES Act. One of the provisions that was affected by this new legislation allowed for the election to further delay the adoption of the CECL accounting standard to January 1, 2022. An adoption date of January 1, 2021, was also an acceptable option and we elected January 1, 2021 as our adoption date for the CECL standard. As a result, our 2020 financial statements are prepared under the existing incurred loss methodology standard for accounting for loan losses.

The adoption of the CECL model during the first quarter of 2021 requires 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 initial adoption, we increased the balance of our allowance for credit losses by approximately \$12 million and create a liability for potential losses related to the unfunded portion of our loans and commitments by approximately \$8 million. The after-tax effect of these adjustments is expected to result in a decrease in our retained earnings of approximately \$13 million. These estimates are subject to change as material assumptions are refined and model validations are completed as we finalize our first quarter 2021 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 are required for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The impact of adopting this new guidance during the quarter ended March 31, 2020 did not have a material impact on the Company’s consolidated financial statements. During 2020, the Company performed its annual review of goodwill and intangibles, including consideration of the circumstances brought about by the COVID-19 pandemic and its effect on the valuation of the Company and other bank holding companies. The Company concluded that no impairment of its goodwill and intangible assets had occurred in 2020.

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 during the quarter ended March 31, 2020 did not have a material impact on the Company’s consolidated financial statements.

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In March 2020, the FASB issued *ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2020-04 provides relief for companies preparing for discontinuation of interest rates such as the London Interbank Offered Rate (“LIBOR”). LIBOR is a benchmark interest rate referenced in a variety of agreements that are used by numerous entities. After 2021, certain LIBOR rates may no longer be published. As a result, LIBOR could be discontinued as a reference rate. Other interest rates used globally could also be discontinued for similar reasons. ASU 2020-04 provides optional expedients and exceptions to contracts, hedging relationships and other transactions affected by reference rate reform. The main provisions for contract modifications include optional relief by allowing the modification as a continuation of the existing contract without additional analysis and other optional expedients regarding embedded features. Optional expedients for hedge accounting permits changes to critical terms of hedging relationships and to the designated benchmark interest rate in a fair value hedge and also provides relief for assessing hedge effectiveness for cash flow hedges. Companies are able to apply ASU 2020-04 immediately; however, the guidance will only be available for a limited time (generally through December 31, 2022). The application of ASU 2020-04 has not had, and is not expected to have, a material impact on the Company’s consolidated financial statements.

In January 2021, the FASB issued *ASU 2021-01, Reference Rate Reform (Topic 848): Scope*. ASU 2021-01 clarifies that certain optional expedients and exceptions in ASC 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. ASU 2021-01 also amends the expedients and exceptions in ASC 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. ASU 2021-01 was effective upon issuance and generally can be applied through December 31, 2022. ASU 2021-01 has not had, and is not expected to have, a material impact on the Company’s consolidated financial statements.

**Note 2: Investments in Securities**

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

|  | <b>December 31, 2020</b>  |                                       |  |                       |
|--|---------------------------|---------------------------------------|--|-----------------------|
|  | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
| <b>(In Thousands)</b>                        |                           |                                       |  |                       |
| Agency mortgage-backed securities            | \$ 151,106                | \$ 19,665                             | \$ 831                                 | \$ 169,940            |
| Agency collateralized mortgage obligations   | 168,472                   | 8,524                                 | 375                                    | 176,621               |
| States and political subdivisions securities | 45,196                    | 2,135                                 | 6                                      | 47,325                |
| Small Business Administration securities     | <u>20,033</u>             | <u>1,014</u>                          | <u>—</u>                               | <u>21,047</u>         |
|  | <u>\$ 384,807</u>         | <u>\$ 31,338</u>                      | <u>\$ 1,212</u>                        | <u>\$ 414,933</u>     |
| <b>December 31, 2019</b>                     |                           |                                       |  |                       |
|  | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
| <b>(In Thousands)</b>                        |                           |                                       |  |                       |
| Agency mortgage-backed securities            | \$ 156,591                | \$ 8,716                              | \$ 265                                 | \$ 165,042            |
| Agency collateralized mortgage obligations   | 149,980                   | 2,891                                 | 921                                    | 151,950               |
| States and political subdivisions securities | 33,757                    | 1,368                                 | —                                      | 35,125                |
| Small Business Administration securities     | <u>22,132</u>             | <u>—</u>                              | <u>74</u>                              | <u>22,058</u>         |
|  | <u>\$ 362,460</u>         | <u>\$ 12,975</u>                      | <u>\$ 1,260</u>                        | <u>\$ 374,175</u>     |

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At December 31, 2020, the Company's agency mortgage-backed securities portfolio consisted of FNMA securities totaling \$156.6 million, FHLMC securities totaling \$10.3 million and GNMA securities totaling \$3.0 million. At December 31, 2020, agency collateralized mortgage obligations consisted of GNMA securities totaling \$105.8 million, FNMA securities totaling \$52.9 million, and FHLMC securities totaling \$17.9 million. At December 31, 2020, all of the Company's \$169.9 million agency mortgage-backed securities had fixed rates of interest. At December 31, 2020, \$156.8 million of the Company's agency collateralized mortgage obligations had fixed rates of interest and \$19.8 million had variable rates of interest.

The amortized cost and fair value of available-for-sale securities at December 31, 2020, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

|  | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> |
|--|---------------------------|-----------------------|
| <b>(In Thousands)</b>                        |                           |                       |
| After one through five years                 | \$ —                      | \$ —                  |
| After five through ten years                 | 8,672                     | 9,251                 |
| After ten years                              | 36,524                    | 38,074                |
| Securities not due on a single maturity date | 339,611                   | 367,608               |
|  | \$ 384,807                | \$ 414,933            |

There were no securities classified as held to maturity at December 31, 2020 or December 31, 2019.

The amortized cost and fair values of securities pledged as collateral was as follows at December 31, 2020 and 2019:

|                                   | <b>2020</b>               |                       | <b>2019</b>               |                       |
|-----------------------------------|---------------------------|-----------------------|---------------------------|-----------------------|
|                                   | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> |
| <b>(In Thousands)</b>             |                           |                       |                           |                       |
| Public deposits                   | \$ 5,674                  | \$ 5,962              | \$ 8,578                  | \$ 8,913              |
| Collateralized borrowing accounts | 188,309                   | 201,818               | 122,771                   | 129,643               |
| Other                             | 6,413                     | 6,819                 | 7,021                     | 7,107                 |
|                                   | \$ 200,396                | \$ 214,599            | \$ 138,370                | \$ 145,663            |

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, 2020 and 2019, was approximately \$24.2 million and \$116.2 million, respectively, which is approximately 5.8% and 31.1% of the Company's available-for-sale and held-to-maturity investment portfolio, respectively.

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

The following table shows the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019:

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| Description of Securities                    | 2020                |                   |                   |                   |                  |                   |
|--|---------------------|-------------------|-------------------|-------------------|------------------|-------------------|
|  | Less than 12 Months |                   | 12 Months or More |                   | Total            |                   |
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value       | Unrealized Losses |
|  | (In Thousands)      |                   |                   |                   |                  |                   |
| Agency mortgage-backed securities            | \$ 10,279           | \$ (831)          | \$ —              | \$ —              | \$ 10,279        | \$ (831)          |
| Agency collateralized mortgage obligations   | 12,727              | (375)             | —                 | —                 | 12,727           | (375)             |
| Small Business Administration securities     | —                   | —                 | —                 | —                 | —                | —                 |
| States and political subdivisions securities | <u>1,164</u>        | <u>(6)</u>        | <u>—</u>          | <u>—</u>          | <u>1,164</u>     | <u>(6)</u>        |
|  | <u>\$ 24,170</u>    | <u>\$ (1,212)</u> | <u>\$ —</u>       | <u>\$ —</u>       | <u>\$ 24,170</u> | <u>\$ (1,212)</u> |

| Description of Securities                    | 2019                |                   |                   |                   |                   |                   |
|--|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|  | Less than 12 Months |                   | 12 Months or More |                   | Total             |                   |
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value        | Unrealized Losses |
|  | (In Thousands)      |                   |                   |                   |                   |                   |
| Agency mortgage-backed securities            | \$ —                | \$ —              | \$ 24,762         | \$ (265)          | \$ 24,762         | \$ (265)          |
| Agency collateralized mortgage obligations   | 69,372              | (921)             | —                 | —                 | 69,372            | (921)             |
| Small Business Administration securities     | 22,058              | (74)              | —                 | —                 | 22,058            | (74)              |
| States and political subdivisions securities | <u>—</u>            | <u>—</u>          | <u>—</u>          | <u>—</u>          | <u>—</u>          | <u>—</u>          |
|  | <u>\$ 91,430</u>    | <u>\$ (995)</u>   | <u>\$ 24,762</u>  | <u>\$ (265)</u>   | <u>\$ 116,192</u> | <u>\$ (1,260)</u> |

**Other-than-Temporary Impairment**

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

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

The Company routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. The Company considers the length of time a security has been in an unrealized loss position, the relative amount of the unrealized loss compared to the carrying value of the security, the type of security and other factors. If certain criteria are met, the Company performs additional

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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 2020, 2019 and 2018, no securities were determined to have impairment that had become other-than-temporary.

***Credit Losses Recognized on Investments***

During 2020, 2019 and 2018, 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, 2020 and 2019, included:

|  | <u>2020</u>         | <u>2019</u>         |
|--|---------------------|---------------------|
|  | (In Thousands)      |                     |
| One- to four-family residential construction                           | \$ 42,793           | \$ 33,963           |
| Subdivision construction   | 30,894              | 16,088              |
| Land development   | 54,010              | 40,431              |
| Commercial construction  | 1,212,837           | 1,322,861           |
| Owner occupied one- to four-family residential                         | 470,436             | 387,016             |
| Non-owner occupied one- to four-family residential                     | 114,569             | 120,343             |
| Commercial real estate   | 1,553,677           | 1,494,172           |
| Other residential  | 1,021,145           | 866,006             |
| Commercial business  | 370,898             | 313,209             |
| Industrial revenue bonds   | 14,003              | 13,189              |
| Consumer auto  | 86,173              | 151,854             |
| Consumer other   | 40,762              | 46,720              |
| Home equity lines of credit  | 114,689             | 118,988             |
| Loans acquired and accounted for under ASC 310-30,<br>net of discounts | <u>98,643</u>       | <u>127,206</u>      |
|  | 5,225,529           | 5,052,046           |
| Undisbursed portion of loans in process                                | (863,722)           | (850,666)           |
| Allowance for loan losses  | (55,743)            | (40,294)            |
| Deferred loan fees and gains, net                                      | <u>(9,260)</u>      | <u>(7,104)</u>      |
|  | <u>\$ 4,296,804</u> | <u>\$ 4,153,982</u> |

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Classes of loans by aging were as follows:

|  | December 31, 2020      |                        |                             |                   |                     |                              |  |
|--|------------------------|------------------------|-----------------------------|-------------------|---------------------|------------------------------|--|
|  | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | Over 90<br>Days<br>Past Due | Total Past<br>Due | Current             | Total<br>Loans<br>Receivable | Total Loans<br>> 90 Days Past<br>Due and<br>Still Accruing |
|  | (In Thousands)         |                        |                             |                   |                     |                              |  |
| One- to four-family residential construction                             | \$ 1,365               | \$ —                   | \$ —                        | \$ 1,365          | \$ 41,428           | \$ 42,793                    | \$ —   |
| Subdivision construction   | —                      | —                      | —                           | —                 | 30,894              | 30,894                       | —  |
| Land development   | 20                     | —                      | —                           | 20                | 53,990              | 54,010                       | —  |
| Commercial construction  | —                      | —                      | —                           | —                 | 1,212,837           | 1,212,837                    | —  |
| Owner occupied one- to four-family residential                           | 1,379                  | 113                    | 1,502                       | 2,994             | 467,442             | 470,436                      | —  |
| Non-owner occupied one- to four-family residential                       | —                      | —                      | 69                          | 69                | 114,500             | 114,569                      | —  |
| Commercial real estate   | —                      | 79                     | 587                         | 666               | 1,553,011           | 1,553,677                    | —  |
| Other residential  | —                      | —                      | —                           | —                 | 1,021,145           | 1,021,145                    | —  |
| Commercial business  | —                      | —                      | 114                         | 114               | 370,784             | 370,898                      | —  |
| Industrial revenue bonds   | —                      | —                      | —                           | —                 | 14,003              | 14,003                       | —  |
| Consumer auto  | 364                    | 119                    | 169                         | 652               | 85,521              | 86,173                       | —  |
| Consumer other   | 443                    | 7                      | 94                          | 544               | 40,218              | 40,762                       | —  |
| Home equity lines of credit  | 153                    | 111                    | 508                         | 772               | 113,917             | 114,689                      | —  |
| Loans acquired and accounted for under ASC 310-30, net of discounts      | <u>1,662</u>           | <u>641</u>             | <u>3,843</u>                | <u>6,146</u>      | <u>92,497</u>       | <u>98,643</u>                | <u>—</u>   |
|  | 5,386                  | 1,070                  | 6,886                       | 13,342            | 5,212,187           | 5,225,529                    | —  |
| Less loans acquired and accounted for under ASC 310-30, net of discounts | <u>1,662</u>           | <u>641</u>             | <u>3,843</u>                | <u>6,146</u>      | <u>92,497</u>       | <u>98,643</u>                | <u>—</u>   |
| Total  | <u>\$ 3,724</u>        | <u>\$ 429</u>          | <u>\$ 3,043</u>             | <u>\$ 7,196</u>   | <u>\$ 5,119,690</u> | <u>\$ 5,126,886</u>          | <u>\$ —</u>  |



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**December 31, 2019**

|  | <b>30-59 Days<br/>Past Due</b> | <b>60-89 Days<br/>Past Due</b> | <b>Over 90<br/>Days<br/>Past Due</b> | <b>Total Past<br/>Due</b> | <b>Current</b>      | <b>Total<br/>Loans<br/>Receivable</b> | <b>Total Loans<br/>&gt; 90 Days<br/>Past Due and<br/>Still Accruing</b> |
|--|--------------------------------|--------------------------------|--------------------------------------|---------------------------|---------------------|---------------------------------------|---|
| (In Thousands)   |                                |                                |                                      |                           |                     |                                       |   |
| One- to four-family 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      | <u>2,177</u>                   | <u>709</u>                     | <u>6,191</u>                         | <u>9,077</u>              | <u>118,129</u>      | <u>127,206</u>                        | <u>—</u>  |
|  | 21,527                         | 2,978                          | 10,710                               | 35,215                    | 5,016,831           | 5,052,046                             | —   |
| Less loans acquired and accounted for under ASC 310-30, net of discounts | <u>2,177</u>                   | <u>709</u>                     | <u>6,191</u>                         | <u>9,077</u>              | <u>118,129</u>      | <u>127,206</u>                        | <u>—</u>  |
| <b>Total</b>   | <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>                   | <u>\$ —</u>   |

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Non-accruing loans are summarized as follows:

|  | <b>December 31,</b>   |             |
|--|-----------------------|-------------|
|  | <b>2020</b>           | <b>2019</b> |
|  | <b>(In Thousands)</b> |             |
| One- to four-family residential construction       | \$ —                  | \$ —        |
| Subdivision construction                           | —                     | —           |
| Land development                                   | —                     | —           |
| Commercial construction                            | —                     | —           |
| Owner occupied one- to four-family residential     | 1,502                 | 1,198       |
| Non-owner occupied one- to four-family residential | 69                    | 181         |
| Commercial real estate                             | 587                   | 632         |
| Other residential                                  | —                     | —           |
| Commercial business                                | 114                   | 1,235       |
| Industrial revenue bonds                           | —                     | —           |
| Consumer auto                                      | 169                   | 558         |
| Consumer other                                     | 94                    | 198         |
| Home equity lines of credit                        | 508                   | 517         |
| Total  | \$ 3,043              | \$ 4,519    |

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The following tables present the activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2020, 2019 and 2018, 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, 2020, 2019, and 2018, respectively:

|   | <b>December 31, 2020</b>   |                              |                                   |                                    |                                |                   |                     |
|---|--|------------------------------|-----------------------------------|------------------------------------|--------------------------------|-------------------|---------------------|
|   | <b>One- to Four-<br/>Family<br/>Residential<br/>and<br/>Construction</b> | <b>Other<br/>Residential</b> | <b>Commercial<br/>Real Estate</b> | <b>Commercial<br/>Construction</b> | <b>Commercial<br/>Business</b> | <b>Consumer</b>   | <b>Total</b>        |
|   | (In Thousands)   |                              |                                   |                                    |                                |                   |                     |
| <b>Allowance for Loan Losses</b>                        |  |                              |                                   |                                    |                                |                   |                     |
| Balance, January 1, 2020                                | \$ 4,339   | \$ 5,153                     | \$ 24,334                         | \$ 3,076                           | \$ 1,355                       | \$ 2,037          | \$ 40,294           |
| Provision (benefit)<br>charged to expense               | 84   | 4,042                        | 9,343                             | 242                                | 914                            | 1,246             | 15,871              |
| Losses charged off                                      | (70)   | —                            | (43)                              | (1)                                | (28)                           | (3,152)           | (3,294)             |
| Recoveries  | <u>183</u>   | <u>180</u>                   | <u>73</u>                         | <u>204</u>                         | <u>149</u>                     | <u>2,083</u>      | <u>2,872</u>        |
| Balance,<br>December 31, 2020                           | <u>\$ 4,536</u>  | <u>\$ 9,375</u>              | <u>\$ 33,707</u>                  | <u>\$ 3,521</u>                    | <u>\$ 2,390</u>                | <u>\$ 2,214</u>   | <u>\$ 55,743</u>    |
| Ending balance:   |  |                              |                                   |                                    |                                |                   |                     |
| Individually evaluated<br>for impairment                | <u>\$ 90</u>   | <u>\$ —</u>                  | <u>\$ 445</u>                     | <u>\$ —</u>                        | <u>\$ 14</u>                   | <u>\$ 164</u>     | <u>\$ 713</u>       |
| Collectively evaluated<br>for impairment                | <u>\$ 4,382</u>  | <u>\$ 9,282</u>              | <u>\$ 32,937</u>                  | <u>\$ 3,378</u>                    | <u>\$ 2,331</u>                | <u>\$ 2,040</u>   | <u>\$ 54,350</u>    |
| Loans acquired and<br>accounted for under<br>ASC 310-30 | <u>\$ 64</u>   | <u>\$ 93</u>                 | <u>\$ 325</u>                     | <u>\$ 143</u>                      | <u>\$ 45</u>                   | <u>\$ 10</u>      | <u>\$ 680</u>       |
| <b>Loans</b>  |  |                              |                                   |                                    |                                |                   |                     |
| Individually evaluated<br>for impairment                | <u>\$ 3,546</u>  | <u>\$ —</u>                  | <u>\$ 3,438</u>                   | <u>\$ —</u>                        | <u>\$ 167</u>                  | <u>\$ 1,897</u>   | <u>\$ 9,048</u>     |
| Collectively evaluated<br>for impairment                | <u>\$ 655,146</u>  | <u>\$ 1,021,145</u>          | <u>\$ 1,550,239</u>               | <u>\$ 1,266,847</u>                | <u>\$ 384,734</u>              | <u>\$ 239,727</u> | <u>\$ 5,117,838</u> |
| Loans acquired and<br>accounted for under<br>ASC 310-30 | <u>\$ 57,113</u>   | <u>\$ 6,150</u>              | <u>\$ 24,613</u>                  | <u>\$ 2,551</u>                    | <u>\$ 2,549</u>                | <u>\$ 5,667</u>   | <u>\$ 98,643</u>    |

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**December 31, 2019**

|   | <b>One- to Four-<br/>Family<br/>Residential<br/>and<br/>Construction</b> | <b>Other<br/>Residential</b> | <b>Commercial<br/>Real Estate</b> | <b>Commercial<br/>Construction</b> | <b>Commercial<br/>Business</b> | <b>Consumer</b>   | <b>Total</b>        |
|---|--|------------------------------|-----------------------------------|------------------------------------|--------------------------------|-------------------|---------------------|
|   | (In Thousands)   |                              |                                   |                                    |                                |                   |                     |
| <b>Allowance for Loan Losses</b>                        |  |                              |                                   |                                    |                                |                   |                     |
| Balance, January 1, 2019                                | \$ 3,122   | \$ 4,713                     | \$ 19,803                         | \$ 3,105                           | \$ 1,568                       | \$ 6,098          | \$ 38,409           |
| Provision (benefit)<br>charged to expense               | 1,625  | 603                          | 4,651                             | 22                                 | (309)                          | (442)             | 6,150               |
| Losses charged off                                      | (534)  | (189)                        | (144)                             | (101)                              | (371)                          | (6,723)           | (8,062)             |
| Recoveries  | <u>126</u>   | <u>26</u>                    | <u>24</u>                         | <u>50</u>                          | <u>467</u>                     | <u>3,104</u>      | <u>3,797</u>        |
| Balance,<br>December 31, 2019                           | <u>\$ 4,339</u>  | <u>\$ 5,153</u>              | <u>\$ 24,334</u>                  | <u>\$ 3,076</u>                    | <u>\$ 1,355</u>                | <u>\$ 2,037</u>   | <u>\$ 40,294</u>    |
| Ending balance:   |  |                              |                                   |                                    |                                |                   |                     |
| Individually evaluated<br>for impairment                | <u>\$ 198</u>  | <u>\$ —</u>                  | <u>\$ 517</u>                     | <u>\$ —</u>                        | <u>\$ 13</u>                   | <u>\$ 201</u>     | <u>\$ 929</u>       |
| Collectively evaluated<br>for impairment                | <u>\$ 3,973</u>  | <u>\$ 5,101</u>              | <u>\$ 23,570</u>                  | <u>\$ 2,940</u>                    | <u>\$ 1,306</u>                | <u>\$ 1,814</u>   | <u>\$ 38,704</u>    |
| Loans acquired and<br>accounted for under<br>ASC 310-30 | <u>\$ 168</u>  | <u>\$ 52</u>                 | <u>\$ 247</u>                     | <u>\$ 136</u>                      | <u>\$ 36</u>                   | <u>\$ 22</u>      | <u>\$ 661</u>       |
| <b>Loans</b>  |  |                              |                                   |                                    |                                |                   |                     |
| Individually evaluated<br>for impairment                | <u>\$ 2,960</u>  | <u>\$ —</u>                  | <u>\$ 4,020</u>                   | <u>\$ —</u>                        | <u>\$ 1,286</u>                | <u>\$ 2,001</u>   | <u>\$ 10,267</u>    |
| Collectively evaluated<br>for impairment                | <u>\$ 554,450</u>  | <u>\$ 866,006</u>            | <u>\$ 1,490,152</u>               | <u>\$ 1,363,292</u>                | <u>\$ 325,112</u>              | <u>\$ 315,561</u> | <u>\$ 4,914,573</u> |
| Loans acquired and<br>accounted for under<br>ASC 310-30 | <u>\$ 74,562</u>   | <u>\$ 5,334</u>              | <u>\$ 29,158</u>                  | <u>\$ 3,606</u>                    | <u>\$ 3,356</u>                | <u>\$ 11,190</u>  | <u>\$ 127,206</u>   |

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**December 31, 2018**

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

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, 2020 and 2019, was 4.29% and 4.97%, 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, 2020, was \$462.7 million, consisting of \$308.4 million of commercial loan participations sold to other financial institutions and \$154.3 million of residential mortgage loans sold. 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

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million of residential mortgage loans sold. In addition, available lines of credit on these loans were \$46.1 million and \$102.1 million at December 31, 2020 and 2019, 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, 2020, 2019 and 2018:

|  | December 31, 2020   |                                |                       | Year Ended<br>December 31, 2020               |                                  |
|--|---------------------|--------------------------------|-----------------------|---|----------------------------------|
|  | Recorded<br>Balance | Unpaid<br>Principal<br>Balance | Specific<br>Allowance | Average<br>Investment<br>in Impaired<br>Loans | Interest<br>Income<br>Recognized |
|  | (In Thousands)      |                                |                       |   |                                  |
| One- to four-family residential construction       | \$ —                | \$ —                           | \$ —                  | \$ —  | \$ —                             |
| Subdivision construction                           | 20                  | 20                             | —                     | 115   | 3                                |
| Land development                                   | —                   | —                              | —                     | —   | —                                |
| Commercial construction                            | —                   | —                              | —                     | —   | —                                |
| Owner occupied one- to four-family residential     | 3,457               | 3,776                          | 90                    | 2,999   | 169                              |
| Non-owner occupied one- to four-family residential | 69                  | 106                            | —                     | 309   | 18                               |
| Commercial real estate                             | 3,438               | 3,472                          | 445                   | 3,736   | 135                              |
| Other residential                                  | —                   | —                              | —                     | —   | —                                |
| Commercial business                                | 166                 | 551                            | 14                    | 800   | 34                               |
| Industrial revenue bonds                           | —                   | —                              | —                     | —   | —                                |
| Consumer auto                                      | 865                 | 964                            | 140                   | 932   | 91                               |
| Consumer other                                     | 403                 | 552                            | 19                    | 298   | 47                               |
| Home equity lines of credit                        | <u>630</u>          | <u>668</u>                     | <u>5</u>              | <u>550</u>                                    | <u>36</u>                        |
| Total  | <u>\$ 9,048</u>     | <u>\$ 10,109</u>               | <u>\$ 713</u>         | <u>\$ 9,739</u>                               | <u>\$ 533</u>                    |

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|  | December 31, 2019   |                                |                       | Year Ended<br>December 31, 2019               |                                  |
|--|---------------------|--------------------------------|-----------------------|---|----------------------------------|
|  | Recorded<br>Balance | Unpaid<br>Principal<br>Balance | Specific<br>Allowance | Average<br>Investment<br>in Impaired<br>Loans | Interest<br>Income<br>Recognized |
| (In Thousands)                                     |                     |                                |                       |   |                                  |
| One- to four-family residential construction       | \$ —                | \$ —                           | \$ —                  | \$ —  | \$ —                             |
| Subdivision construction                           | 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                        | <u>528</u>          | <u>548</u>                     | <u>4</u>              | <u>362</u>                                    | <u>37</u>                        |
| Total  | <u>\$ 10,267</u>    | <u>\$ 11,435</u>               | <u>\$ 929</u>         | <u>\$ 12,487</u>                              | <u>\$ 839</u>                    |

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

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At December 31, 2020, \$4.8 million of impaired loans had specific valuation allowances totaling \$713,000. 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. For impaired loans which were non-accruing, interest of approximately \$579,000, \$761,000 and \$1.0 million would have been recognized on an accrual basis during the years ended December 31, 2020, 2019 and 2018, 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, 2020, 2019 and 2018 by type of modification:

|                                   | <b>2020</b>           |               |                    |                           |
|-----------------------------------|-----------------------|---------------|--------------------|---------------------------|
|                                   | <b>Interest Only</b>  | <b>Term</b>   | <b>Combination</b> | <b>Total Modification</b> |
|                                   | <b>(In Thousands)</b> |               |                    |                           |
| Residential one-to-four family    | \$ —                  | \$ —          | \$ 1,030           | \$ 1,030                  |
| Commercial real estate            | —                     | —             | 559                | 559                       |
| Commercial business               | —                     | —             | 22                 | 22                        |
| Consumer                          | —                     | 16            | 1,951              | 1,967                     |
|                                   | <u>\$ —</u>           | <u>\$ 16</u>  | <u>\$ 3,562</u>    | <u>\$ 3,578</u>           |
|                                   | <b>2019</b>           |               |                    |                           |
|                                   | <b>Interest Only</b>  | <b>Term</b>   | <b>Combination</b> | <b>Total Modification</b> |
|                                   | <b>(In Thousands)</b> |               |                    |                           |
| Consumer                          | \$ —                  | \$ 136        | \$ —               | \$ 136                    |
|                                   | <u>\$ —</u>           | <u>\$ 136</u> | <u>\$ —</u>        | <u>\$ 136</u>             |
|                                   | <b>2018</b>           |               |                    |                           |
|                                   | <b>Interest Only</b>  | <b>Term</b>   | <b>Combination</b> | <b>Total Modification</b> |
|                                   | <b>(In Thousands)</b> |               |                    |                           |
| Residential one-to-four family    | \$ 1,348              | \$ —          | \$ —               | \$ 1,348                  |
| Construction and land development | —                     | 31            | —                  | 31                        |
| Commercial construction           | —                     | —             | 106                | 106                       |
| Consumer                          | —                     | 535           | —                  | 535                       |
|                                   | <u>\$ 1,348</u>       | <u>\$ 566</u> | <u>\$ 106</u>      | <u>\$ 2,020</u>           |

At December 31, 2020, the Company had \$3.3 million of loans that were modified in troubled debt restructurings and impaired, as follows: \$20,000 of construction and land development loans, \$1.9 million of single family residential mortgage loans, \$646,000 of commercial real estate loans, \$127,000 of commercial business loans and \$629,000 of consumer loans. Of the total troubled debt restructurings at December 31, 2020, \$2.4 million were accruing interest and \$1.6 million were classified as substandard using the Company's internal grading system



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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, 2020. 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, 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. During the year ended December 31, 2020, borrowers with loans designated as troubled debt restructurings totaling \$372,000, all of which consisted of residential one-to-four family loans, met the criteria for placement back on accrual status. This criteria generally includes a minimum of six months of consistent and timely payment performance under original or modified terms.

At December 31, 2020, the Company had remaining 65 modified commercial loans with an aggregate principal balance outstanding of \$233 million and 581 modified consumer and mortgage loans with an aggregate principal balance outstanding of \$18 million. The loan modifications are within the guidance provided by the CARES Act (and its amending legislation), the federal banking regulatory agencies, the Securities and Exchange Commission and the Financial Accounting Standards Board; therefore, they are not considered troubled debt restructurings.

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, 2020 and 2019 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.

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The loan grading system is presented by loan class below:

|   | December 31, 2020   |                  |                    |                 |             | Total               |
|---|---------------------|------------------|--------------------|-----------------|-------------|---------------------|
|   | Satisfactory        | Watch            | Special<br>Mention | Substandard     | Doubtful    |                     |
|   | (In Thousands)      |                  |                    |                 |             |                     |
| One- to four-family residential construction                        | \$ 41,428           | \$ 1,365         | \$ —               | \$ —            | \$ —        | \$ 42,793           |
| Subdivision construction  | 30,874              | —                | —                  | 20              | —           | 30,894              |
| Land development  | 54,010              | —                | —                  | —               | —           | 54,010              |
| Commercial construction   | 1,212,837           | —                | —                  | —               | —           | 1,212,837           |
| Owner occupied one- to-four-family residential                      | 467,855             | 216              | —                  | 2,365           | —           | 470,436             |
| Non-owner occupied one- to-four-family residential                  | 114,176             | 324              | —                  | 69              | —           | 114,569             |
| Commercial real estate  | 1,498,031           | 52,208           | —                  | 3,438           | —           | 1,553,677           |
| Other residential   | 1,017,648           | 3,497            | —                  | —               | —           | 1,021,145           |
| Commercial business   | 363,681             | 7,102            | —                  | 115             | —           | 370,898             |
| Industrial revenue bonds  | 14,003              | —                | —                  | —               | —           | 14,003              |
| Consumer auto   | 85,657              | 5                | —                  | 511             | —           | 86,173              |
| Consumer other  | 40,514              | 2                | —                  | 246             | —           | 40,762              |
| Home equity lines of credit   | 114,049             | 39               | —                  | 601             | —           | 114,689             |
| Loans acquired and accounted for under ASC 310-30, net of discounts | <u>98,633</u>       | <u>—</u>         | <u>—</u>           | <u>10</u>       | <u>—</u>    | <u>98,643</u>       |
| Total   | <u>\$ 5,153,396</u> | <u>\$ 64,758</u> | <u>\$ —</u>        | <u>\$ 7,375</u> | <u>\$ —</u> | <u>\$ 5,225,529</u> |

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|   | December 31, 2019          |                         |                    |                        |                    | Total                      |
|---|----------------------------|-------------------------|--------------------|------------------------|--------------------|----------------------------|
|   | Satisfactory               | Watch                   | Special<br>Mention | Substandard            | Doubtful           |                            |
|   | (In Thousands)             |                         |                    |                        |                    |                            |
| 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 | <u>127,192</u>             | <u>—</u>                | <u>—</u>           | <u>14</u>              | <u>—</u>           | <u>127,206</u>             |
| <b>Total</b>  | <b><u>\$ 5,005,765</u></b> | <b><u>\$ 37,368</u></b> | <b><u>\$ —</u></b> | <b><u>\$ 8,913</u></b> | <b><u>\$ —</u></b> | <b><u>\$ 5,052,046</u></b> |

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

Certain directors and executive officers of the Company and the Bank, 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, 2020 and 2019, loans outstanding to these directors and executive officers, and their related interests, are summarized as follows:

|                            | 2020             | 2019             |
|----------------------------|------------------|------------------|
|                            | (In Thousands)   |                  |
| Balance, beginning of year | \$ 15,240        | \$ 29,017        |
| New loans                  | 901              | 15,062           |
| Payments                   | <u>(2,673)</u>   | <u>(28,839)</u>  |
| Balance, end of year       | <u>\$ 13,468</u> | <u>\$ 15,240</u> |

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**Note 4: FDIC-Acquired Loans and Loss Sharing Agreements**

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 related loss sharing agreement was terminated early, effective April 26, 2016, by mutual agreement of Great Southern Bank and the FDIC. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded.

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 related loss sharing agreement was terminated early, effective April 26, 2016, by mutual agreement of Great Southern Bank and the FDIC. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded.

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 related loss sharing agreement was terminated early, effective April 26, 2016, by mutual agreement of Great Southern Bank and the FDIC. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded.

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 related loss sharing agreement was terminated early, effective June 9, 2017, by mutual agreement of Great Southern Bank and the FDIC. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded.

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.

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The following table presents the balances of the acquired loans related to the various FDIC-assisted transactions at December 31, 2020 and December 31, 2019.

|   | <b>TeamBank</b>       | <b>Vantus<br/>Bank</b> | <b>Sun<br/>Security<br/>Bank</b> | <b>InterBank</b> | <b>Valley Bank</b> |
|---|-----------------------|------------------------|----------------------------------|------------------|--------------------|
|   | <b>(In Thousands)</b> |                        |                                  |                  |                    |
| <b>December 31, 2020</b>  |                       |                        |                                  |                  |                    |
| Gross loans receivable  | \$ 5,393              | \$ 8,052               | \$ 13,395                        | \$ 44,215        | \$ 31,515          |
| Balance of accretable discount due to change in expected losses | (97)                  | (35)                   | (180)                            | (1,079)          | (612)              |
| Net carrying value of loans receivable                          | <u>(5,266)</u>        | <u>(8,004)</u>         | <u>(13,111)</u>                  | <u>(42,057)</u>  | <u>(30,204)</u>    |
| Expected loss remaining   | <u>\$ 30</u>          | <u>\$ 13</u>           | <u>\$ 104</u>                    | <u>\$ 1,079</u>  | <u>\$ 699</u>      |
| <b>December 31, 2019</b>  |                       |                        |                                  |                  |                    |
| Gross loans receivable  | \$ 7,304              | \$ 9,899               | \$ 17,906                        | \$ 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                          | <u>(7,118)</u>        | <u>(9,797)</u>         | <u>(17,392)</u>                  | <u>(54,442)</u>  | <u>(38,452)</u>    |
| Expected loss remaining   | <u>\$ 27</u>          | <u>\$ 13</u>           | <u>\$ 140</u>                    | <u>\$ 845</u>    | <u>\$ 777</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. Improvements in expected cash flows related to the acquired loan portfolios have resulted in adjustments to the accretable yield to be spread over the estimated remaining lives of the loans on a level-yield basis. The amounts of these adjustments during the years ended December 31, 2020, 2019, and 2018 were as follows:

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|  | Year Ended December 31, |           |          |
|--|-------------------------|-----------|----------|
|  | 2020                    | 2019      | 2018     |
|  | (In Thousands)          |           |          |
| Increase in accretable yield due to increased cash flow expectations | \$ —                    | \$ 12,323 | \$ 5,202 |

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

|  | Year Ended December 31, |          |          |
|--|-------------------------|----------|----------|
|  | 2020                    | 2019     | 2018     |
|  | (In Thousands)          |          |          |
| Interest income and net impact to pre-tax income | \$ 5,574                | \$ 7,431 | \$ 5,134 |

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).

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, 2020, the remaining accretable yield adjustment that will affect interest income was \$2.0 million. Of the remaining adjustments affecting interest income, we expect to recognize \$1.5 million of interest income during 2021. As of January 1, 2021, we have adopted the new accounting standard related to accounting for credit losses. With the adoption of this standard, there will be no further reclassification of discounts from non-accretable to accretable subsequent to December 31, 2020. All adjustments made prior to January 1, 2021 will continue to be accreted to interest income.

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Changes in the accretable yield for acquired loan pools were as follows for the years ended December 31, 2020, 2019 and 2018:

|   | <u>TeamBank</u> | <u>Vantus Bank</u> | <u>Sun<br/>Security Bank</u><br>(In Thousands) | <u>InterBank</u> | <u>Valley Bank</u> |
|---|-----------------|--------------------|--|------------------|--------------------|
| Balance, January 1, 2018                                      | \$ 2,071        | \$ 1,850           | \$ 2,901                                       | \$ 5,074         | \$ 2,695           |
| Accretion   | (1,042)         | (1,196)            | (1,667)  | (8,349)          | (3,892)            |
| Reclassification from nonaccretable difference <sup>(1)</sup> | <u>327</u>      | <u>778</u>         | <u>1,008</u>                                   | <u>8,269</u>     | <u>4,260</u>       |
| Balance, December 31, 2018                                    | 1,356           | 1,432              | 2,242  | 4,994            | 3,063              |
| Accretion   | (955)           | (1,006)            | (1,562)  | (8,798)          | (4,302)            |
| Reclassification from nonaccretable difference <sup>(1)</sup> | <u>756</u>      | <u>697</u>         | <u>1,268</u>                                   | <u>12,081</u>    | <u>5,817</u>       |
| Balance, December 31, 2019                                    | 1,157           | 1,123              | 1,948  | 8,277            | 4,578              |
| Accretion   | (479)           | (831)              | (1,046)  | (6,791)          | (3,005)            |
| Reclassification from nonaccretable difference <sup>(1)</sup> | <u>198</u>      | <u>451</u>         | <u>493</u>                                     | <u>2,219</u>     | <u>2,764</u>       |
| Balance, December 31, 2020                                    | <u>\$ 876</u>   | <u>\$ 743</u>      | <u>\$ 1,395</u>                                | <u>\$ 3,705</u>  | <u>\$ 4,337</u>    |

- (1) Represents increases in estimated cash flows expected to be received from the acquired loan pools, primarily due to lower estimated credit losses. The numbers also include changes in expected accretion of the loan pools for TeamBank, Vantus Bank, Sun Security Bank, InterBank and Valley Bank for the year ended December 31, 2020, totaling \$198,000, \$451,000, \$493,000, \$2.2 million and \$2.8 million, respectively; 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; and 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.

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

Major classifications of other real estate owned at December 31, 2020 and 2019, were as follows:

|  | <b>2020</b>           | <b>2019</b>     |
|--|-----------------------|-----------------|
|  | <b>(In Thousands)</b> |                 |
| Foreclosed assets held for sale and repossessions                |                       |                 |
| One- to four-family construction                                 | \$ —                  | \$ —            |
| Subdivision construction   | 263                   | 689             |
| Land development   | 250                   | 1,816           |
| Commercial construction  | —                     | —               |
| One- to four-family residential                                  | 111                   | 601             |
| Other residential  | —                     | —               |
| Commercial real estate   | —                     | —               |
| Commercial business  | —                     | —               |
| Consumer   | <u>153</u>            | <u>545</u>      |
|  | 777                   | 3,651           |
| <br>   |                       |                 |
| Foreclosed assets related to FDIC acquisitions, net of discounts | <u>446</u>            | <u>1,003</u>    |
| <br>   |                       |                 |
| Foreclosed assets held for sale and repossessions, net           | 1,223                 | 4,654           |
| <br>   |                       |                 |
| Other real estate owned not acquired through foreclosure         | <u>654</u>            | <u>871</u>      |
| <br>   |                       |                 |
| Other real estate owned and repossessions                        | <u>\$ 1,877</u>       | <u>\$ 5,525</u> |

At December 31, 2020, other real estate owned not acquired through foreclosure included seven properties all of which were branch locations that were closed and held for sale. During the year ended December 31, 2020, one former branch location was added to this category for \$80,000 and was under contract at December 31, 2020. The sale was completed in February 2021, resulting in a small gain. During the year ended December 31, 2020, valuation write-downs of \$286,000 were recorded on branch locations that were closed and held for sale.

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, 2020, residential mortgage loans totaling \$602,000 were in the process of foreclosure, \$518,000 of which were acquired loans related to FDIC-assisted transactions. 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 related to FDIC-assisted transactions.



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Expenses applicable to other real estate owned and repossessions for the years ended December 31, 2020, 2019 and 2018, included the following:

|   | 2020           | 2019     | 2018       |
|---|----------------|----------|------------|
|   | (In Thousands) |          |            |
| Net gains on sales of other real estate owned and repossessions | \$ (480)       | \$ (750) | \$ (2,522) |
| Valuation write-downs   | 1,320          | 926      | 3,897      |
| Operating expenses, net of rental income                        | 1,183          | 2,008    | 3,544      |
|   | \$ 2,023       | \$ 2,184 | \$ 4,919   |

**Note 6: Premises and Equipment**

Major classifications of premises and equipment at December 31, 2020 and 2019, stated at cost, were as follows:

|                                     | 2020           | 2019       |
|-------------------------------------|----------------|------------|
|                                     | (In Thousands) |            |
| Land                                | \$ 40,652      | \$ 40,632  |
| Buildings and improvements          | 100,187        | 96,959     |
| Furniture, fixtures and equipment   | 59,226         | 56,986     |
| Operating leases right of use asset | 8,536          | 8,668      |
|                                     | 208,601        | 203,245    |
| Less accumulated depreciation       | 69,431         | 61,337     |
|                                     | \$ 139,170     | \$ 141,908 |

**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 15 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 as of January 1, 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, 2020, the lease right of use asset value was \$8.5 million and the corresponding lease liability was \$8.7 million. 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

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use of hindsight, a practical expedient which permits the use of information available after lease inception to 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 \$275,000 and \$286,000 for the years ended December 31, 2020 and December 31, 2019, respectively.

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 0.8 years to 17.9 years with a weighted-average lease term of 8.3 years. The weighted-average discount rate was 3.24%.

|  | <b>At or For the Year Ended</b> |                          |
|--|---------------------------------|--------------------------|
|  | <b>December 31, 2020</b>        | <b>December 31, 2019</b> |
|  | <b>(In Thousands)</b>           |                          |
| <u>Statement of Financial Condition</u>  |                                 |                          |
| Operating leases right of use asset  | \$ 8,536                        | \$ 8,668                 |
| Operating leases liability   | \$ 8,661                        | \$ 8,747                 |
| <u>Statement of Income</u>   |                                 |                          |
| Operating lease costs classified as occupancy and equipment expense (includes short-term lease costs and amortization of right of use asset) | \$ 1,572                        | \$ 1,460                 |
| <u>Supplemental Cash Flow Information</u>  |                                 |                          |
| Cash paid for amounts included in the measurement of lease liabilities:  |                                 |                          |
| Operating cash flows from operating leases   | \$ 1,526                        | \$ 1,381                 |
| Right of use assets obtained in exchange for lease obligations:  |                                 |                          |
| Operating leases   | \$ 972                          | \$ 9,538                 |

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For the years ended December 31, 2020 and 2019, lease expense was \$1.6 million and \$1.5 million, respectively. At December 31, 2020, future expected lease payments for leases with terms exceeding one year were as follows (in thousands):

|   |    |                     |
|---|----|---------------------|
| 2021                                    | \$ | 1,119               |
| 2022                                    |    | 1,116               |
| 2023                                    |    | 1,088               |
| 2024                                    |    | 1,005               |
| 2025                                    |    | 979                 |
| Thereafter                              |    | <u>4,926</u>        |
| Future lease payments expected          |    | 10,233              |
| Less interest portion of lease payments |    | <u>(1,572)</u>      |
| Lease liability                         | \$ | <u><u>8,661</u></u> |

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, 2020 and 2019, income recognized from these lease agreements was \$1.2 million and \$1.1 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, 2020 the Company had 16 such investments, with a net carrying value of \$20.4 million. At December 31, 2019 the Company had 15 such investments, with a net carrying value of \$22.8 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 2030 were \$22.1 million as of December 31, 2020, 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 \$20.4 million, assuming all projects currently under construction are completed and funded as planned. The Company's usage of federal affordable housing tax credits approximated \$6.6 million, \$8.0 million and \$6.6 million during 2020, 2019 and 2018, respectively. Investment amortization amounted to \$5.5 million, \$5.8 million and \$5.0 million for the years ended December 31, 2020, 2019 and 2018, 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, 2020 the Company had one such investment, with a net carrying value of \$567,000. At December 31, 2019, the Company had no such investment.

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Due to the Company's inability to exercise any significant influence over any of the investments in qualified Community Development Entities, they are all accounted for using the cost method. Each of the partnerships provides federal New Market Tax Credits over a seven-year credit allowance period. In each of the first three years, credits totaling five percent of the original investment are allowed on the credit allowance dates and for the final four years, credits totaling six percent of the original investment are allowed on the credit allowance dates. Each of the partnerships must be invested in a qualified Community Development Entity on each of the credit allowance dates during the seven-year period to utilize the tax credits. If the Community Development Entities cease to qualify during the seven-year period, the credits may be denied for any credit allowance date and a portion of the credits previously taken may be subject to recapture with interest. The investments in the Community Development Entities cannot be redeemed before the end of the seven-year period.

The Company's usage of federal New Market Tax Credits approximated \$100,000, \$480,000 and \$480,000 during 2020, 2019 and 2018, respectively. Investment amortization amounted to \$80,000, \$365,000 and \$575,000 for the years ended December 31, 2020, 2019 and 2018, respectively.

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

From time to time, the Company has invested in certain limited partnerships that were formed to provide certain federal rehabilitation/historic tax credits. At December 31, 2020 the Company had one such investments, with a net carrying value of \$863,000. 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, 2020 and 2019, are summarized as follows:

|  | <b>Weighted Average<br/>Interest Rate</b> | <b>2020</b>         | <b>2019</b>         |
|--|---|---------------------|---------------------|
| <b>(In Thousands, Except<br/>Interest Rates)</b> |   |                     |                     |
| Noninterest-bearing accounts                     | —   | \$ 984,798          | \$ 687,068          |
| Interest-bearing checking and savings accounts   | 0.22% and 0.55%                           | <u>2,141,313</u>    | <u>1,551,929</u>    |
|  |   | <u>3,126,111</u>    | <u>2,238,997</u>    |
| Certificate accounts                             | 0% - 0.99%                                | 803,737             | 122,649             |
|  | 1% - 1.99%                                | 425,061             | 523,816             |
|  | 2% - 2.99%                                | 143,417             | 1,053,914           |
|  | 3% - 3.99%                                | 18,148              | 19,849              |
|  | 4% and above                              | 429                 | 881                 |
|  |   | <u>1,390,792</u>    | <u>1,721,109</u>    |
|  |   | <u>\$ 4,516,903</u> | <u>\$ 3,960,106</u> |

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The weighted average interest rate on certificates of deposit was 1.00% and 2.09% at December 31, 2020 and 2019, respectively.

The aggregate amount of certificates of deposit originated by the Bank in denominations greater than \$250,000 was approximately \$123.1 million and \$153.1 million at December 31, 2020 and 2019, respectively. The aggregate amount of certificates of deposit originated by the Bank in denominations greater than \$100,000 was approximately \$762.9 million and \$830.8 million at December 31, 2020 and 2019, respectively. The Bank utilizes brokered deposits as an additional funding source. The aggregate amount of brokered deposits was approximately \$158.7 million and \$371.7 million at December 31, 2020 and 2019, respectively.

At December 31, 2020, scheduled maturities of certificates of deposit were as follows:

|            | <b>Retail</b>         | <b>Brokered</b> | <b>Total</b> |
|------------|-----------------------|-----------------|--------------|
|            | <b>(In Thousands)</b> |                 |              |
| 2021       | \$ 995,934            | \$ 91,345       | \$ 1,087,279 |
| 2022       | 175,913               | 13,751          | 189,664      |
| 2023       | 30,898                | 42,448          | 73,346       |
| 2024       | 14,647                | 11,200          | 25,847       |
| 2025       | 13,743                | —               | 13,743       |
| Thereafter | 913                   | —               | 913          |
|            | \$ 1,232,048          | \$ 158,744      | \$ 1,390,792 |

A summary of interest expense on deposits for the years ended December 31, 2020, 2019 and 2018, is as follows:

|                               | <b>2020</b>           | <b>2019</b> | <b>2018</b> |
|-------------------------------|-----------------------|-------------|-------------|
|                               | <b>(In Thousands)</b> |             |             |
| Checking and savings accounts | \$ 7,096              | \$ 7,971    | \$ 5,982    |
| Certificate accounts          | 25,453                | 37,723      | 22,149      |
| Early withdrawal penalties    | (118)                 | (124)       | (174)       |
|                               | \$ 32,431             | \$ 45,570   | \$ 27,957   |

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

At December 31, 2020 and 2019, there were no outstanding term advances from the Federal Home Loan Bank of Des Moines. At December 31, 2019, 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 other pledges, liens and encumbrances as collateral for outstanding advances. No investment securities were specifically pledged as collateral for advances at December 31, 2020 and 2019. Loans with carrying values of approximately \$1.63 billion and \$1.60 billion were pledged as collateral for outstanding advances at December 31, 2020 and 2019, respectively. The Bank had potentially available \$1.07 billion remaining on its line of credit under a borrowing arrangement with the FHLB of Des Moines at December 31, 2020.

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**Note 10: Short-Term Borrowings**

Short-term borrowings at December 31, 2020 and 2019, are summarized as follows:

|  | 2020           | 2019       |
|--|----------------|------------|
|  | (In Thousands) |            |
| Notes payable – Community Development Equity Funds   | \$ 1,518       | \$ 1,267   |
| Other interest-bearing liabilities                   | —              | 30,890     |
| Overnight borrowings from the Federal Home Loan Bank | —              | 196,000    |
| Securities sold under reverse repurchase agreements  | 164,174        | 84,167     |
|  | \$ 165,692     | \$ 312,324 |

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 consisted 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 0.02% and 1.25% at December 31, 2020 and 2019, respectively. Short-term borrowings averaged approximately \$183.5 million and \$260.0 million for the years ended December 31, 2020 and 2019, respectively. The maximum amounts outstanding at any month end were \$318.7 million and \$346.9 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, 2020 and 2019:

|  | 2020                        | 2019                        |
|--|-----------------------------|-----------------------------|
|  | Overnight and<br>Continuous | Overnight and<br>Continuous |
|  | (In Thousands)              |                             |
| Mortgage-backed securities – GNMA, FNMA, FHLMC | \$ 164,174                  | \$ 84,167                   |

**Note 11: Federal Reserve Bank Borrowings**

At December 31, 2020 and 2019, the Bank had \$436.4 million and \$367.8 million, respectively, available under a line-of-credit borrowing arrangement with the Federal Reserve Bank. The line is secured primarily by consumer and commercial loans. There were no amounts borrowed under this arrangement at December 31, 2020 or 2019.

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**Note 12: Subordinated Debentures Issued to Capital Trusts**

In November 2006, Great Southern Capital Trust II (Trust II), a statutory trust formed by the Company for the purpose of issuing the securities, issued a \$25.0 million aggregate liquidation amount of floating rate cumulative trust preferred securities. The Trust II securities bear a floating distribution rate equal to 90-day LIBOR plus 1.60%. The Trust II securities became redeemable at the Company's option in February 2012, and if not sooner redeemed, mature on February 1, 2037. The Trust II securities were sold in a private transaction exempt from registration under the Securities Act of 1933, as amended. The gross proceeds of the offering were used to purchase Junior Subordinated Debentures from the Company totaling \$25.8 million and bearing an interest rate identical to the distribution rate on the Trust II securities. The initial interest rate on the Trust II debentures was 6.98%. The interest rate was 1.81% and 3.51% at December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, subordinated debentures issued to capital trusts are summarized as follows:

|                         | 2020           | 2019      |
|-------------------------|----------------|-----------|
|                         | (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 of approximately \$1.5 million were deferred and are being amortized over the expected life of the notes, which is five years.

On June 10, 2020, the Company completed the public offering and sale of \$75.0 million of its subordinated notes. The notes are due June 15, 2030, and have a fixed interest rate of 5.50% until June 15, 2025, at which time the rate becomes floating at a rate expected to be equal to three-month term Secured Overnight Financing Rate (SOFR) plus 5.325%. The Company may call the notes at par beginning on June 15, 2025, 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 of approximately \$1.5 million were deferred and are being amortized over the expected life of the notes, which is five years.

Amortization of the debt issuance costs during the years ended December 31, 2020 and 2019, totaled \$608,000 and \$434,000, respectively, and is included in interest expense on subordinated notes in the consolidated statements of income, resulting in an imputed interest rate of 5.84% and 5.89%, respectively.

At December 31, 2020 and 2019, subordinated notes are summarized as follows:

|                                       | 2020           | 2019      |
|---------------------------------------|----------------|-----------|
|                                       | (In Thousands) |           |
| Subordinated notes                    | \$ 150,000     | \$ 75,000 |
| Less: unamortized debt issuance costs | 1,603          | 724       |
|                                       | \$ 148,397     | \$ 74,276 |

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**Note 14: Income Taxes**

The Company files a consolidated federal income tax return. As of December 31, 2020 and 2019, 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, 2020 and 2019, respectively.

During the years ended December 31, 2020, 2019 and 2018, the provision for income taxes included these components:

|                                 | <u>2020</u>      | <u>2019</u>      | <u>2018</u>      |
|---------------------------------|------------------|------------------|------------------|
|                                 | (In Thousands)   |                  |                  |
| Taxes currently payable         | \$ 25,259        | \$ 15,375        | \$ 19,291        |
| Deferred income taxes (benefit) | <u>(11,480)</u>  | <u>1,074</u>     | <u>(4,450)</u>   |
| Income taxes                    | <u>\$ 13,779</u> | <u>\$ 16,449</u> | <u>\$ 14,841</u> |

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

|   | <u>December 31,</u> |                   |
|---|---------------------|-------------------|
|   | <u>2020</u>         | <u>2019</u>       |
|   | (In Thousands)      |                   |
| Deferred tax assets                                     |                     |                   |
| Allowance for loan losses                               | \$ 12,711           | \$ 9,188          |
| Interest on nonperforming loans                         | 142                 | 161               |
| Accrued expenses  | 894                 | 821               |
| Write-down of foreclosed assets                         | 131                 | 185               |
| Write-down of fixed assets                              | 114                 | 50                |
| Income recognized for tax in excess of book             | 8,830               | —                 |
| Partnership tax credits                                 | 11                  | 732               |
| Deferred income   | 885                 | 509               |
| Difference in basis for acquired assets and liabilities | <u>1,532</u>        | <u>2,540</u>      |
|   | <u>25,250</u>       | <u>14,186</u>     |
| Deferred tax liabilities                                |                     |                   |
| Tax depreciation in excess of book depreciation         | (5,988)             | (5,986)           |
| FHLB stock dividends                                    | (368)               | (817)             |
| Prepaid expenses  | (898)               | (891)             |
| Unrealized gain on available-for-sale securities        | (6,869)             | (2,671)           |
| Unrealized gain on cash flow derivatives                | (8,830)             | (6,853)           |
| Other   | <u>(258)</u>        | <u>(233)</u>      |
|   | <u>(23,211)</u>     | <u>(17,451)</u>   |
| Net deferred tax asset (liability)                      | <u>\$ 2,039</u>     | <u>\$ (3,265)</u> |



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

|                                   | <b>2020</b> | <b>2019</b> | <b>2018</b> |
|-----------------------------------|-------------|-------------|-------------|
| Tax at statutory rate             | 21.0%       | 21.0%       | 21.0%       |
| Nontaxable interest and dividends | (0.5)       | (0.5)       | (0.8)       |
| Tax credits                       | (3.8)       | (3.6)       | (3.4)       |
| State taxes                       | 1.4         | 1.3         | 1.1         |
| Other                             | 0.8         | 0.1         | 0.2         |
|                                   | 18.9%       | 18.3%       | 18.1%       |

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, 2016 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.
- 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.

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Financial instruments are broken down 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, 2020 and 2019:

|  | Fair Value | Fair Value Measurements Using   |  |  |
|--|------------|---|--|--|
|  |            | Quoted Prices<br>in Active<br>Markets<br>for Identical<br>Assets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| (In Thousands)                               |            |   |  |  |
| <u>December 31, 2020</u>                     |            |   |  |  |
| Agency mortgage-backed securities            | \$ 169,940 | \$ —  | \$ 169,940                                 | \$ —   |
| Agency collateralized mortgage obligations   | 176,621    | —   | 176,621                                    | —  |
| States and political subdivisions securities | 47,325     | —   | 47,325                                     | —  |
| Small Business Administration securities     | 21,047     | —   | 21,047                                     | —  |
| Interest rate derivative asset               | 5,062      | —   | 5,062                                      | —  |
| Interest rate derivative liability           | (5,454)    | —   | (5,454)                                    | —  |
| <u>December 31, 2019</u>                     |            |   |  |  |
| Agency mortgage-backed securities            | \$ 165,042 | \$ —  | \$ 165,042                                 | \$ —   |
| Agency collateralized mortgage obligations   | 151,950    | —   | 151,950                                    | —  |
| States and political subdivisions securities | 35,125     | —   | 35,125                                     | —  |
| Small Business Administration securities     | 22,058     | —   | 22,058                                     | —  |
| Interest rate derivative asset               | 31,476     | —   | 31,476                                     | —  |
| Interest rate derivative liability           | (1,547)    | —   | (1,547)                                    | —  |

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, 2020 and 2019, 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, 2020.

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**Available-for-Sale Securities**

Investment securities available for sale are recorded at fair value on a recurring basis. The fair values used by the Company are obtained from an independent pricing service, which represent either quoted market prices for the identical asset or fair values determined by pricing models, or other model-based valuation techniques, that consider observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market makers and live trading systems. Recurring Level 1 securities include exchange traded equity securities. There were no recurring Level 1 securities at December 31, 2020 or 2019. 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, 2020 or 2019.

**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, 2020 and 2019:

|                                 | <b>Fair Value Measurements Using</b> |   |  |  |
|---------------------------------|--------------------------------------|---|--|--|
|                                 | <b>Fair Value</b>                    | <b>Quoted Prices<br/>in Active<br/>Markets<br/>for Identical<br/>Assets<br/>(Level 1)</b> | <b>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| (In Thousands)                  |                                      |   |  |  |
| <u>December 31, 2020</u>        |                                      |   |  |  |
| Impaired loans                  | \$ 1,759                             | \$ —  | \$ —   | \$ 1,759   |
| Foreclosed assets held for sale | \$ 945                               | \$ —  | \$ —   | \$ 945   |
| <u>December 31, 2019</u>        |                                      |   |  |  |
| Impaired loans                  | \$ 635                               | \$ —  | \$ —   | \$ 635   |
| Foreclosed assets held for sale | \$ 1,112                             | \$ —  | \$ —   | \$ 1,112   |

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

**Loans Held for Sale**

Mortgage loans held for sale are recorded at the lower of carrying value or fair value. The fair value of mortgage loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Company classifies mortgage loans held for sale as Nonrecurring Level 2. Write-

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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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, 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.

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

The carrying amount approximates fair value.

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***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.

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|  | December 31, 2020  |               |                    | December 31, 2019  |               |                    |
|--|--------------------|---------------|--------------------|--------------------|---------------|--------------------|
|  | Carrying<br>Amount | Fair<br>Value | Hierarchy<br>Level | Carrying<br>Amount | Fair<br>Value | Hierarchy<br>Level |
| (Dollars in Thousands)   |                    |               |                    |                    |               |                    |
| Financial assets   |                    |               |                    |                    |               |                    |
| Cash and cash equivalents  | \$ 563,729         | \$ 563,729    | 1                  | \$ 220,155         | \$ 220,155    | 1                  |
| Mortgage loans held for sale                                     | 17,780             | 17,780        | 2                  | 9,242              | 9,242         | 2                  |
| Loans, net of allowance for<br>loan losses                       | 4,296,804          | 4,303,909     | 3                  | 4,153,982          | 4,129,984     | 3                  |
| Accrued interest receivable                                      | 12,793             | 12,793        | 3                  | 13,530             | 13,530        | 3                  |
| Investment in FHLB stock and<br>other assets                     | 9,806              | 9,806         | 3                  | 13,473             | 13,473        | 3                  |
| Financial liabilities  |                    |               |                    |                    |               |                    |
| Deposits   | 4,516,903          | 4,523,586     | 3                  | 3,960,106          | 3,963,875     | 3                  |
| Short-term borrowings  | 165,692            | 165,692       | 3                  | 312,324            | 312,324       | 3                  |
| Subordinated debentures  | 25,774             | 25,774        | 3                  | 25,774             | 25,774        | 3                  |
| Subordinated notes   | 148,397            | 157,032       | 2                  | 74,276             | 76,875        | 2                  |
| Accrued interest payable   | 2,594              | 2,594         | 3                  | 4,250              | 4,250         | 3                  |
| Unrecognized financial instruments<br>(net of contractual value) |                    |               |                    |                    |               |                    |
| Commitments to originate loans                                   | —                  | —             | 3                  | —                  | —             | 3                  |
| Letters of credit  | 84                 | 84            | 3                  | 109                | 109           | 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. 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.

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As part of the Valley Bank FDIC-assisted acquisition, the Company acquired certain 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. The notional amount of the two remaining Valley swaps was \$584,000 at December 31, 2020. At December 31, 2020, excluding the Valley Bank swaps, the Company had 19 interest rate swaps totaling \$142.8 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, 2020, the Company had four participation loans purchased totaling \$27.7 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, 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. During the years ended December 31, 2020, 2019 and 2018, the Company recognized net gains (losses) of \$(264,000), \$(104,000) and \$25,000, 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 was \$400 million with a termination date of October 6, 2025. Under the terms of the swap, the Company received a fixed rate of interest of 3.018% and paid a floating rate of interest equal to one-month USD-LIBOR. The floating rate reset monthly and net settlements of interest due to/from the counterparty also occurred monthly. To the extent that the fixed rate of interest exceeded one-month USD-LIBOR, the Company received net interest settlements which were recorded as loan interest income. If USD-LIBOR exceeded the fixed rate of interest in future periods, the Company was required to pay net settlements to the counterparty and recorded those net payments as a reduction of interest income on loans. The Company recorded interest income of \$7.7 million and \$3.1 million on this interest rate swap during the years ended December 31, 2020 and 2019, 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, 2020 and 2019, the Company recognized no noninterest income related to changes in the fair value of this derivative.

On March 2, 2020, the Company and its swap counterparty mutually agreed to terminate the swap, effective on that date. 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, was reflected in the Company's stockholders' equity as Accumulated Other Comprehensive Income and a portion of it is being accreted to interest income on loans monthly through the original contractual termination date of October 6, 2025. This has the effect of reducing Accumulated Other Comprehensive Income and increasing Net Interest Income and Retained Earnings over the period. In each quarterly period, commencing with the quarter ended June 30, 2020, until the original contract termination date, the Company expects to record loan interest income related to this swap transaction of approximately \$2.0 million, based on the termination value of the swap.

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

|  | Location in<br>Consolidated Statements<br>of Financial Condition | Fair Value            |                       |
|--|--|-----------------------|-----------------------|
|  |  | December 31,<br>2020  | December 31,<br>2019  |
| (In Thousands)   |  |                       |                       |
| <b>Derivatives designated as hedging instruments</b>     |  |                       |                       |
| Interest rate swap                                       | Prepaid expenses and other assets                                | \$ <u>          —</u> | \$ <u>  30,056</u>    |
| Total derivatives designated as hedging instruments      |  | \$ <u>          —</u> | \$ <u>  30,056</u>    |
| <b>Derivatives not designated as hedging instruments</b> |  |                       |                       |
| <u>Derivative Assets</u>                                 |  |                       |                       |
| Interest rate products                                   | Prepaid expenses and other assets                                | \$ <u>      5,062</u> | \$ <u>      1,420</u> |
| Total derivatives not designated as hedging instruments  |  | \$ <u>      5,062</u> | \$ <u>      1,420</u> |
| <u>Derivative Liabilities</u>                            |  |                       |                       |
| Interest rate products                                   | Accrued expenses and other liabilities                           | \$ <u>      5,454</u> | \$ <u>      1,547</u> |
| Total derivatives not designated as hedging instruments  |  | \$ <u>      5,454</u> | \$ <u>      1,547</u> |

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

| Cash Flow Hedges                        | 2020                  | Amount of Gain<br>Recognized in AOCI<br>Year Ended December 31 |                       |
|---|-----------------------|--|-----------------------|
|   |                       | 2019   | 2018                  |
| (In Thousands)                          |                       |  |                       |
| Interest rate swap, net of income taxes | \$ <u>      6,691</u> | \$ <u>     13,857</u>  | \$ <u>      9,345</u> |



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

| <b>Cash Flow Hedges</b>                 | <b>Year Ended December 31</b> |                             |                            |                             |                            |                             |
|---|-------------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|
|   | <b>2020</b>                   |                             | <b>2019</b>                |                             | <b>2018</b>                |                             |
|   | <b>Interest<br/>Income</b>    | <b>Interest<br/>Expense</b> | <b>Interest<br/>Income</b> | <b>Interest<br/>Expense</b> | <b>Interest<br/>Income</b> | <b>Interest<br/>Expense</b> |
|   | <b>(In Thousands)</b>         |                             |                            |                             |                            |                             |
| Interest rate swap, net of income taxes | \$ <u>7,676</u>               | \$ <u>—</u>                 | \$ <u>3,082</u>            | \$ <u>—</u>                 | \$ <u>673</u>              | \$ <u>—</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, 2020, 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 \$391,000. Additionally, the Company's activity with two 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 \$5.3 million to the derivative counterparties to satisfy the loan level agreements. If the Company had breached any of these provisions at December 31, 2020 or December 31, 2019, it could have been required to settle its obligations under the agreements at the termination value. 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. At December 31, 2019, other interest-bearing liabilities consisted 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. Effective March 2, 2020, the Company and its swap counterparty mutually agreed to terminate the Company's interest rate swap, eliminating the cash collateral held.

**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.

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## Notes to Consolidated Financial Statements

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At December 31, 2020 and 2019, the Bank had outstanding commitments to originate loans and fund commercial construction loans aggregating approximately \$46.6 million and \$92.4 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 \$85.9 million and \$69.3 million at December 31, 2020 and 2019, 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 \$16.1 million and \$26.3 million at December 31, 2020 and 2019, respectively, with no letters of credit having terms over five years.

#### **Lines of Credit**

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

At December 31, 2020, the Bank had granted unused lines of credit to borrowers aggregating approximately \$1.0 billion and \$164.5 million for commercial lines and open-end consumer lines, respectively. 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.

#### **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 \$804.1 million and \$725.0 million at December 31, 2020 and 2019, 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.

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**Note 18: Additional Cash Flow Information**

|   | 2020           | 2019      | 2018      |
|---|----------------|-----------|-----------|
|   | (In Thousands) |           |           |
| <b>Noncash Investing and Financing Activities</b>         |                |           |           |
| Real estate acquired in settlement of loans               | \$ 1,707       | \$ 12,729 | \$ 12,044 |
| Sale and financing of foreclosed assets                   | 625            | 1,340     | 2,578     |
| Conversion of premises and equipment to foreclosed assets | 80             | 1,135     | —         |
| Dividends declared but not paid                           | 4,676          | 4,849     | 4,528     |
| <b>Additional Cash Payment Information</b>                |                |           |           |
| Interest paid   | 42,221         | 53,922    | 37,091    |
| Income taxes paid   | 18,755         | 5,719     | 2,569     |

**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, 2020, 2019 and 2018, were approximately \$2.1 million, \$1.8 million and \$1.3 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, 2020 and 2019, was 92.5% and 93.7%, respectively. The funded status was calculated by taking the market value of plan assets, which reflected contributions received through June 30, 2020 and 2019, 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, 2020, 2019 and 2018, were approximately \$1.6 million, \$1.4 million and \$1.4 million, respectively.

**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, 2020, 31,591 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, 2020, 384,866 options were outstanding under the 2013 Plan.

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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, 2020, 554,650 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.

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

|                                   | <b>Available to<br/>Grant</b> | <b>Shares Under<br/>Option</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> |
|-----------------------------------|-------------------------------|--------------------------------|--|
| Balance, January 1, 2018          | 77,512                        | 682,799                        | \$ 38.860                                      |
| Granted from 2013 Plan            | (1,000)                       | 1,000                          | 52.500   |
| Exercised                         | —                             | (81,940)                       | 27.597   |
| Forfeited from 2013 Plan          | 13,773                        | (13,773)                       | 45.692   |
| Termination of 2013 Plan          | <u>(90,285)</u>               | <u>—</u>                       |  |
|                                   | —                             | 588,086                        |  |
| Available to grant from 2018 Plan | 800,000                       | —                              |  |
| Granted from 2018 Plan            | (185,750)                     | 185,750                        | 55.297   |
| Forfeited from current plan(s)    | <u>600</u>                    | <u>(600)</u>                   | 55.000   |
| Balance, December 31, 2018        | 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)    | <u>8,450</u>                  | <u>(8,450)</u>                 | 55.000   |
| Balance, December 31, 2019        | 436,900                       | 807,868                        | 49.139   |
| Granted from 2018 Plan            | (196,350)                     | 196,350                        | 41.740   |
| Exercised                         | —                             | (21,436)                       | 33.805   |
| Forfeited from terminated plan(s) | —                             | (6,875)                        | 38.849   |
| Forfeited from current plan(s)    | <u>4,800</u>                  | <u>(4,800)</u>                 | 57.513   |
| Balance, December 31, 2020        | <u>245,350</u>                | <u>971,107</u>                 | \$ 48.079                                      |

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

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

The fair value of each option award is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions for the years ended December 31, 2020, 2019 and 2018:

|  | <b>2020</b> | <b>2019</b> | <b>2018</b> |
|--|-------------|-------------|-------------|
| Expected dividends per share                               | \$ 1.36     | \$ 1.36     | \$ 1.27     |
| Risk-free interest rate                                    | 0.35%       | 1.59%       | 2.86%       |
| Expected life of options                                   | 5 years     | 5 years     | 5 years     |
| Expected volatility  | 29.32%      | 25.15%      | 17.61%      |
| Weighted average fair value of options granted during year | \$ 7.30     | \$ 11.20    | \$ 8.30     |

Expected volatilities are based on the historical volatility of the Company's stock, based on the monthly closing stock price. The expected life 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, 2020:

|  | <b>Options</b>  | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term</b> |
|--|-----------------|--|--|
| Options outstanding, January 1, 2020   | 807,868         | \$ 49.139  | 7.54 years   |
| Granted                                | 196,350         | 41.740   |  |
| Exercised                              | (21,436)        | 30.805   |  |
| Forfeited                              | <u>(11,675)</u> | 46.523   |  |
| Options outstanding, December 31, 2020 | <u>971,107</u>  | 48.079   | 7.23 years   |
| Options exercisable, December 31, 2020 | <u>363,695</u>  | 42.583   | 4.95 years   |

For the years ended December 31, 2020, 2019 and 2018, options granted were 196,350, 186,400, and 186,750, 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, 2020, 2019 and 2018, was \$371,000, \$3.1 million and \$2.2 million, respectively. Cash received from the exercise of options for the years ended December 31, 2020, 2019 and 2018, was \$661,000, \$4.2 million and \$2.2 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled \$257,000, \$2.7 million and \$1.6 million for the years ended December 31, 2020, 2019 and 2018, respectively. The total intrinsic value of options outstanding at December 31, 2020, 2019 and 2018, was \$4.5 million, \$11.5 million and \$4.7 million, respectively. The total intrinsic value of options exercisable at December 31, 2020, 2019 and 2018, was \$2.9 million, \$6.6 million and \$3.9 million, respectively.

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The following table presents the activity related to nonvested options under all plans for the year ended December 31, 2020.

|                                      | <b>Options</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</b> |
|--------------------------------------|----------------|--|---|
| Nonvested options, January 1, 2020   | 552,377        | \$ 54.610  | \$ 9.509  |
| Granted                              | 196,350        | 41.740   | 7.296   |
| Vested this period                   | (134,140)      | 50.441   | 8.662   |
| Nonvested options forfeited          | <u>(7,175)</u> | 54.655   | 9.501   |
| Nonvested options, December 31, 2020 | <u>607,412</u> | 51.370   | 8.981   |

At December 31, 2020, there was \$4.6 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 2025, with the majority of this expense recognized in 2021 and 2022.

The following table further summarizes information about stock options outstanding at December 31, 2020:

| <b>Range of<br/>Exercise Prices</b> | <b>Options Outstanding</b>    |  |  | <b>Options Exercisable</b>    |  |
|-------------------------------------|-------------------------------|--|--|-------------------------------|--|
|                                     | <b>Number<br/>Outstanding</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Number<br/>Exercisable</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> |
| \$16.810 to 29.640                  | 64,043                        | 2.16 years   | \$25.598   | 64,043                        | \$25.598   |
| \$32.590 to 38.610                  | 62,056                        | 3.62 years   | 33.001   | 61,181                        | 32.921   |
| \$41.300 to 47.800                  | 282,357                       | 8.56 years   | 41.613   | 59,816                        | 41.335   |
| \$50.710 to 52.500                  | 204,251                       | 6.11 years   | 51.656   | 133,496                       | 51.415   |
| \$55.000 to 60.150                  | <u>358,400</u>                | 8.35 years   | 57.762   | <u>45,159</u>                 | 55.306   |
|                                     | <u>971,107</u>                | 7.23 years   | 48.079   | <u>363,695</u>                | 42.583   |

**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*. 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.

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**Note 22: Accumulated Other Comprehensive Income**

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

|  | <b>2020</b>           | <b>2019</b> |
|--|-----------------------|-------------|
|  | <b>(In Thousands)</b> |             |
| Net unrealized gain on available-for-sale securities         | \$ 30,126             | \$ 11,715   |
| Net unrealized gain on derivatives used for cash flow hedges | 38,724                | 30,056      |
|  | 68,850                | 41,771      |
| Tax effect   | (15,699)              | (9,525)     |
| Net-of-tax amount  | \$ 53,151             | \$ 32,246   |

Amounts reclassified from AOCI and the affected line items in the statements of income during the years ended December 31, 2020, 2019 and 2018, were as follows:

|  | <b>Amounts Reclassified<br/>from AOCI</b> |             |             | <b>Affected Line Item in the<br/>Statements of Income</b>  |
|--|---|-------------|-------------|--|
|  | <b>2020</b>                               | <b>2019</b> | <b>2018</b> |  |
|  | <b>(In Thousands)</b>                     |             |             |  |
| Unrealized gains/(losses) on available-for-sale securities | \$ 78                                     | \$ (62)     | \$ 2        | Net realized gains on available-for-sale securities (total reclassified amount before tax)                 |
| Change in fair value of cash flow hedge                    | 6,764                                     | —           | —           | Amortization of realized gain on termination of cash flow hedge (total reclassification amount before tax) |
| Income taxes   | (1,559)                                   | 14          | —           | Tax (expense) benefit  |
| Total reclassifications out of AOCI                        | \$ 5,283                                  | \$ 48       | \$ 2        |  |

**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.

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, 2020) 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

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believes, as of December 31, 2020, that the Bank met all capital adequacy requirements to which it was then subject.

As of December 31, 2020, 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, 2020, 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, 2020 and 2019, 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 capital rules include a capital conservation buffer, under which a banking organization must have Common Equity Tier 1 capital more than 2.5% above each of its minimum risk-based capital ratios in order to avoid restrictions on paying dividends, repurchasing shares, and paying certain discretionary bonuses. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.



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

|                               | Actual     |       | For Capital Adequacy Purposes |       | To Be Well Capitalized Under Prompt Corrective Action Provisions |       |
|-------------------------------|------------|-------|-------------------------------|-------|--|-------|
|                               | Amount     | Ratio | Amount                        | Ratio | Amount   | Ratio |
| <b>(Dollars In Thousands)</b> |            |       |                               |       |  |       |
| As of December 31, 2020       |            |       |                               |       |  |       |
| Total capital                 |            |       |                               |       |  |       |
| Great Southern Bancorp, Inc.  | \$ 800,388 | 17.2% | \$ 373,132                    | 8.0%  | N/A  | N/A   |
| Great Southern Bank           | \$ 694,047 | 14.9% | \$ 373,058                    | 8.0%  | \$ 466,322   | 10.0% |
| Tier I capital                |            |       |                               |       |  |       |
| Great Southern Bancorp, Inc.  | \$ 594,645 | 12.7% | \$ 279,849                    | 6.0%  | N/A  | N/A   |
| Great Southern Bank           | \$ 638,304 | 13.7% | \$ 279,793                    | 6.0%  | \$ 373,058   | 8.0%  |
| Tier I leverage capital       |            |       |                               |       |  |       |
| Great Southern Bancorp, Inc.  | \$ 594,645 | 10.9% | \$ 217,223                    | 4.0%  | N/A  | N/A   |
| Great Southern Bank           | \$ 638,304 | 11.8% | \$ 217,170                    | 4.0%  | \$ 271,463   | 5.0%  |
| Common equity Tier I capital  |            |       |                               |       |  |       |
| Great Southern Bancorp, Inc.  | \$ 569,645 | 12.2% | \$ 209,887                    | 4.5%  | N/A  | N/A   |
| Great Southern Bank           | \$ 638,304 | 13.7% | \$ 209,845                    | 4.5%  | \$ 303,109   | 6.5%  |
| 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%  |
| 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%  |

**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.

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**Note 25: Summary of Unaudited Quarterly Operating Results**

Following is a summary of unaudited quarterly operating results for the years 2020, 2019 and 2018:

|   | <b>2020</b>                                  |                |                     |                    |
|---|--|----------------|---------------------|--------------------|
|   | <b>Three Months Ended</b>                    |                |                     |                    |
|   | <b>March 31</b>                              | <b>June 30</b> | <b>September 30</b> | <b>December 31</b> |
|   | <b>(In Thousands, Except Per Share Data)</b> |                |                     |                    |
| Interest income                                     | \$ 57,474                                    | \$ 54,011      | \$ 53,599           | \$ 52,619          |
| Interest expense                                    | 12,536                                       | 10,556         | 9,431               | 8,042              |
| Provision for loan losses                           | 3,871  | 6,000          | 4,500               | 1,500              |
| Net realized gains on available-for-sale securities | —  | 78             | —                   | —                  |
| Noninterest income                                  | 7,367  | 8,261          | 9,466               | 9,956              |
| Noninterest expense                                 | 30,815                                       | 29,349         | 31,988              | 31,073             |
| Provision for income taxes                          | 2,751  | 3,164          | 3,692               | 4,172              |
| Net income available to common shareholders         | 14,868                                       | 13,203         | 13,454              | 17,788             |
| Earnings per common share – diluted                 | 1.04   | 0.93           | 0.96                | 1.28               |

|  | <b>2019</b>                                  |                |                     |                    |
|--|--|----------------|---------------------|--------------------|
|  | <b>Three Months Ended</b>                    |                |                     |                    |
|  | <b>March 31</b>                              | <b>June 30</b> | <b>September 30</b> | <b>December 31</b> |
|  | <b>(In Thousands, Except Per Share Data)</b> |                |                     |                    |
| Interest income  | \$ 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               |

|   | <b>2018</b>                                  |                |                     |                    |
|---|--|----------------|---------------------|--------------------|
|   | <b>Three Months Ended</b>                    |                |                     |                    |
|   | <b>March 31</b>                              | <b>June 30</b> | <b>September 30</b> | <b>December 31</b> |
|   | <b>(In Thousands, Except Per Share Data)</b> |                |                     |                    |
| Interest income                                     | \$ 46,882                                    | \$ 49,943      | \$ 52,982           | \$ 56,142          |
| Interest expense                                    | 7,444  | 8,731          | 9,997               | 11,585             |
| Provision for loan losses                           | 1,950  | 1,950          | 1,300               | 1,950              |
| Net realized gains on 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               |

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020, 2019 and 2018**

**Note 26: Condensed Parent Company Statements**

The condensed statements of financial condition at December 31, 2020 and 2019, and statements of income, comprehensive income and cash flows for the years ended December 31, 2020, 2019 and 2018, for the parent company, Great Southern Bancorp, Inc., were as follows:

|   | <b>December 31,</b>   |                   |
|---|-----------------------|-------------------|
|   | <b>2020</b>           | <b>2019</b>       |
|   | <b>(In Thousands)</b> |                   |
| <b>Statements of Financial Condition</b>        |                       |                   |
| <b>Assets</b>                                   |                       |                   |
| Cash  | \$ 111,250            | \$ 58,726         |
| Investment in subsidiary bank                   | 698,398               | 650,329           |
| Deferred and accrued income taxes               | 157                   | 111               |
| Prepaid expenses and other assets               | 883                   | 868               |
|   | <u>\$ 810,688</u>     | <u>\$ 710,034</u> |
| <b>Liabilities and Stockholders' Equity</b>     |                       |                   |
| Accounts payable and accrued expenses           | \$ 6,776              | \$ 6,918          |
| Subordinated debentures issued to capital trust | 25,774                | 25,774            |
| Subordinated notes                              | 148,397               | 74,276            |
| Common stock                                    | 138                   | 143               |
| Additional paid-in capital                      | 35,004                | 33,510            |
| Retained earnings                               | 541,448               | 537,167           |
| Accumulated other comprehensive income          | 53,151                | 32,246            |
|   | <u>\$ 810,688</u>     | <u>\$ 710,034</u> |

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020, 2019 and 2018**

|   | <u>2020</u>      | <u>2019</u>      | <u>2018</u>      |
|---|------------------|------------------|------------------|
|   | (In Thousands)   |                  |                  |
| <b>Statements of Income</b>   |                  |                  |                  |
| Income  |                  |                  |                  |
| Dividends from subsidiary bank  | \$ 40,000        | \$ 32,000        | \$ 34,000        |
| Other income  | 5                | —                | —                |
| Loss on other investments   | <u>—</u>         | <u>(23)</u>      | <u>—</u>         |
|   | <u>40,005</u>    | <u>31,977</u>    | <u>34,000</u>    |
| Expense   |                  |                  |                  |
| Operating expenses  | 2,197            | 2,044            | 1,793            |
| Interest expense  | <u>7,459</u>     | <u>5,397</u>     | <u>5,050</u>     |
|   | <u>9,656</u>     | <u>7,441</u>     | <u>6,843</u>     |
| Income before income tax and<br>equity in undistributed earnings<br>of subsidiaries | 30,349           | 24,536           | 27,157           |
| Credit for income taxes   | <u>(1,800)</u>   | <u>(1,381)</u>   | <u>(1,204)</u>   |
| Income before equity in earnings<br>of subsidiaries                                 | 32,149           | 25,917           | 28,361           |
| Equity in undistributed earnings of<br>subsidiaries                                 | <u>27,164</u>    | <u>47,695</u>    | <u>38,748</u>    |
| Net income  | <u>\$ 59,313</u> | <u>\$ 73,612</u> | <u>\$ 67,109</u> |

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020, 2019 and 2018**

|  | <u>2020</u>       | <u>2019</u>      | <u>2018</u>      |
|--|-------------------|------------------|------------------|
|  | (In Thousands)    |                  |                  |
| <b>Statements of Cash Flows</b>  |                   |                  |                  |
| <b>Operating Activities</b>  |                   |                  |                  |
| Net income   | \$ 59,313         | \$ 73,612        | \$ 67,109        |
| Items not requiring (providing) cash   |                   |                  |                  |
| Equity in undistributed earnings of subsidiary                                       | (27,164)          | (47,695)         | (38,748)         |
| Compensation expense for stock option grants   | 1,153             | 922              | 737              |
| Amortization of interest rate derivative and<br>deferred costs on subordinated notes | 608               | 434              | 154              |
| Loss on other investments  | —                 | 23               | —                |
| Changes in   |                   |                  |                  |
| Prepaid expenses and other assets  | (15)              | (3)              | 13               |
| Accounts payable and accrued expenses  | 31                | 226              | 182              |
| Income taxes   | (46)              | 300              | (278)            |
| Net cash provided by operating activities  | <u>33,880</u>     | <u>27,819</u>    | <u>29,169</u>    |
| <b>Investing Activities</b>  |                   |                  |                  |
| Return of principal - other investments  | <u>—</u>          | <u>2</u>         | <u>—</u>         |
| Net cash provided by investing activities  | <u>—</u>          | <u>2</u>         | <u>—</u>         |
| <b>Financing Activities</b>  |                   |                  |                  |
| Purchases of the Company's common stock  | (22,104)          | (849)            | (903)            |
| Proceeds from issuance of subordinated notes   | 73,513            | —                | —                |
| Dividends paid   | (33,426)          | (29,052)         | (15,819)         |
| Stock options exercised  | 661               | 4,158            | 2,224            |
| Net cash provided by (used in) financing activities                                  | <u>18,644</u>     | <u>(25,743)</u>  | <u>(14,498)</u>  |
| <b>Increase in Cash</b>  | 52,524            | 2,078            | 14,671           |
| <b>Cash, Beginning of Year</b>   | <u>58,726</u>     | <u>56,648</u>    | <u>41,977</u>    |
| <b>Cash, End of Year</b>   | <u>\$ 111,250</u> | <u>\$ 58,726</u> | <u>\$ 56,648</u> |
| <b>Additional Cash Payment Information</b>   |                   |                  |                  |
| Interest paid  | \$ 7,349          | \$ 5,424         | \$ 5,001         |

**Great Southern Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020, 2019 and 2018**

|   | <b>2020</b>           | <b>2019</b> | <b>2018</b> |
|---|-----------------------|-------------|-------------|
|   | <b>(In Thousands)</b> |             |             |
| <b>Statements of Comprehensive Income</b> |                       |             |             |
| <b>Net Income</b>                         | \$ 59,313             | \$ 73,612   | \$ 67,109   |
| Comprehensive income of subsidiaries      | 20,905                | 22,619      | 8,114       |
| <b>Comprehensive Income</b>               | \$ 80,218             | \$ 96,231   | \$ 75,223   |

**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 substantially all branch-related real estate, fixed assets and ATMs. The Company recorded a pre-tax gain (excluding transaction expenses of \$165,000) of \$7.4 million on the sale based on the contractual deposit premium and the sales price of the branch assets.



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